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South Carolina Senate  
V. C. Summer Nuclear Project Review Committee  
October 11, 2017

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CHAIRMAN SETZLER: Good morning, and welcome to this meeting of the V. C. Summer Nuclear Project Review Committee. The co-chair, Senator Massey, is currently driving back from Charleston, and we anticipate his arrival any time, and he has asked and approved for us to go ahead and proceed in order to save time.

I welcome each one of you. Thank the committee members for being here. We will continue the process that we've been going through in the previous meetings. Before we start, I want to take a point and say congratulations to Heather. Heather left on vacation single and came back married, so let's give her a round of applause. Congratulations. Hope the honeymoon lasts forever.

HEATHER: It almost could.

CHAIRMAN SETZLER: Okay, first item on the agenda is Santee Cooper oversight presentation. Lonnie, are you coming, and who's coming with you, if anyone? How about let -- hold on a minute. Mr. Carter, I didn't mean to call you Lonnie. Let us get it turned on, please, sir.

1 MR. CARTER: I go by Lonnie much  
2 easier than I do Mr. Carter.

3 CHAIRMAN SETZLER: Okay. All  
4 right. Go right ahead, please, sir.

5 MR. CARTER: Thank you, sir.  
6 First, again --

7 CHAIRMAN SETZLER: And you have  
8 already been sworn in, so you are under oath  
9 already.

10 FEMALE SPEAKER: Can you close  
11 the --

12 MR. CARTER: I turned it off?  
13 Okay. So it's got to be up. Okay. well, let's  
14 see if I can -- all right. This could be a  
15 little precarious, but we'll see. Thank you  
16 again for the opportunity to talk to the  
17 committee. My understanding is you'd like an  
18 overview of Santee Cooper's operations?

19 CHAIRMAN SETZLER: That is the  
20 first thing we want, correct.

21 MR. CARTER: Yes, sir.

22 CHAIRMAN SETZLER: And I think  
23 you will have numerous expansive questions --

24 MR. CARTER: Okay.

25 CHAIRMAN SETZLER: -- of you and

1           whoever else you want to present.

2                           MR. CARTER:   Anyway, of course,  
3           Santee Cooper's mission is to improve the  
4           quality of life for the people of South  
5           Carolina.  Of course, we do that primarily by  
6           providing low-cost, reliable electricity and  
7           also water -- potable water, which I'll touch on  
8           -- with great customer service.  Of course, we  
9           are state-owned, state-based, and, as I like to  
10          say, state-focused.

11                           This, again, is a list of our  
12          board members and the areas from which they are  
13          appointed.  Certainly, there are 12 of them.  
14          They represent each Congressional district, the  
15          three counties we serve directly, and two at-  
16          large members.  So it's a statewide board of  
17          appointment.

18                           I'm going to pause for a minute  
19          and introduce the rest of the executive  
20          management team, if you will.  I'm going to ask  
21          them to stand as I introduce them.  Marc Tye is  
22          our current -- he's our executive vice president  
23          of markets and generation.  He was just promoted  
24          Friday by the board to be chief operating  
25          officer.  He has 35 years with Santee Cooper,

1 and he has an electrical engineering degree from  
2 The Citadel and an MBA, and he is a registered  
3 South Carolina electrical engineer; or  
4 professional engineer, I should say.

5 Jeff Armfield, he's our chief  
6 financial officer, senior vice president. He  
7 has 34 years of experience. He has a business  
8 degree from The Citadel and an MBA from The  
9 Citadel and is a certified public accountant.

10 Mike Baxley is our senior vice  
11 president and general counsel. He has three  
12 years with Santee Cooper. He has a BS degree in  
13 political science from Clemson, and he also has  
14 his JD degree from the University of South  
15 Carolina and, of course, is admitted to the bar  
16 in South Carolina.

17 Michael Crosby, who -- I think a  
18 name you're familiar with. He's our senior vice  
19 president and nuclear energy person. He has 32  
20 years' experience. He has a BS in electrical  
21 engineering from the University of South  
22 Carolina and an MBA from The Citadel and is also  
23 a registered professional engineer in South  
24 Carolina.

25 Arnold Singleton is our senior

1 vice president for power delivery. He has 25  
2 years' experience in the utility business. How  
3 many with us, Arnold, four?

4 MR. SINGLETON: Four years.

5 MR. CARTER: Four years with  
6 Santee Cooper. He has a BS in electrical  
7 engineering from The Citadel and a master's  
8 degree in human resources from Central Michigan  
9 university, and he is also a registered South  
10 Carolina professional engineer and I believe  
11 registered in Georgia also.

12 MR. SINGLETON: Yes, sir, and in  
13 four other states.

14 MR. CARTER: Four other states?

15 MR. SINGLETON: Yes, sir.

16 MR. CARTER: An overachiever.  
17 He's worked around a bit in the industry.

18 Pamela Williams is our senior  
19 vice president of corporate services. She has  
20 16 years with -- thank you, Pam. I'm having  
21 trouble finding where they are. She has 16  
22 years' experience with Santee Cooper. She has a  
23 BS in economics from the College of Charleston,  
24 and then she has her JD degree from the  
25 University of Virginia, and she's admitted to

1 the bar here in South Carolina and in  
2 California, where she practiced some years  
3 before deciding to return to her home state.

4 And then finally, we have  
5 Dominick Maddalone as our senior vice president  
6 of information systems and our chief information  
7 officer. He's been with us a year. He has a  
8 bachelor of science degree in computer science  
9 from Drake University, a master's of information  
10 systems from the University of Colorado, and  
11 also an MBA from the University of Colorado.  
12 And he is a certified Six Sigma Black Belt, so  
13 he is familiar with that as well.

14 So you can see Santee Cooper has  
15 a, I guess, a very well-seasoned and diverse  
16 group with diverse backgrounds as its leadership  
17 team. Of course, we have a number of employees  
18 --

19 CHAIRMAN SETZLER: Mr. Carter, of  
20 those folks you just introduced, is -- was V. C.  
21 Summer under the direct supervision of Crosby?  
22 Is that who it would have been under? Is that  
23 --

24 MR. CARTER: Yes, sir.

25 CHAIRMAN SETZLER: Okay. I just

1 want to be sure I interpreted that correctly.

2 MR. CARTER: Yes, sir. Of  
3 course, we also -- I've got to learn this  
4 system. We also have a number of employees --  
5 nobody -- no even group of seven people or eight  
6 people could run a company as large as Santee  
7 Cooper. We currently have 1794 full-time and  
8 part-time employees. Our employees work --  
9 report to work locations in 17 counties, and our  
10 annual payroll is about \$134 million at the  
11 present time.

12 Our employees also, of course,  
13 live around the state. They live in 36 -- if  
14 you look at where their home addresses are, they  
15 live in 36 of the state's 46 counties, just to  
16 give an idea of where they come from.

17 I'm going to move now into a  
18 little bit of an operational overview. Santee  
19 Cooper's transmission system covers what I like  
20 to say is about the eastern two-thirds or three-  
21 fourths of the state. It's a robust and  
22 reliable transmission system. There are over  
23 5,000 miles of it crisscrossing the state and  
24 mostly delivering power in the rural parts of  
25 the state. That's why it's so expensive and

1 long. And I'll talk a little bit more about it  
2 later with some operating statistics.

3 CHAIRMAN SETZLER: Yes, sir.

4 SENATOR CAMPBELL: Lonnie --

5 CHAIRMAN SETZLER: Senator.

6 SENATOR CAMPBELL: -- how much of  
7 the transmission system is owned by Santee  
8 Cooper and how much owned by other parties? Is  
9 this all totally owned by Santee Cooper?

10 MR. CARTER: The Electric  
11 Cooperatives own a piece of it of which we  
12 operate, and I believe later in this  
13 presentation I may have the number of miles. I  
14 think I've got it somewhere. If I don't come to  
15 it, I'm sure some of this team can look it up  
16 for us. But it's -- the largest piece of it is  
17 owned by Santee Cooper.

18 SENATOR CAMPBELL: Thank you.

19 MR. CARTER: And it's operated as  
20 an integrated system, meaning that we operate  
21 and maintain it.

22 You can see from this chart where  
23 our generating facilities are located. Our big  
24 base load generating facilities are located in  
25 Berkeley, Georgetown, Fairfield -- of course,

1           that being where the existing nuclear unit is --  
2           and Anderson Counties. We have renewables  
3           scattered about the state, all the way from up  
4           in Anderson down to Hilton Head and then over  
5           into Horry County, and I will touch on the  
6           renewables a little bit more later.

7                           CHAIRMAN SETZLER: Same question:  
8           Does anybody own any of the generation other  
9           than you?

10                           MR. CARTER: Yes, sir. Let's see  
11           if I can get that all correctly. Most of what's  
12           on here -- there's one up here called Buzzard's  
13           Roost. That's actually a small hydro facility  
14           on Lake Greenwood that we were asked to take  
15           over the operation of after Duke decided it was  
16           not economical and in their interest to operate,  
17           so we tried to work with Greenwood -- I guess  
18           it's Greenwood County that actually owns the  
19           facility, and we operate it and conduct the  
20           maintenance for them. That contract is up for  
21           renewal. Let's see -- then, there are a couple  
22           of -- I believe everything else on this chart is  
23           actually owned by Santee Cooper, if I'm right.

24                           MALE SPEAKER: Except for V. C.

25                           MR. CARTER: well, and, of

1 course, V. C. Summer, we jointly own a piece of  
2 Unit 1, a third of it.

3 CHAIRMAN SETZLER: Okay, so  
4 stopping right there. That is the percentage  
5 you own of Number 1, is a third?

6 MR. CARTER: Yes, sir, one third.

7 CHAIRMAN SETZLER: Okay.

8 MR. CARTER: And then from this  
9 chart, you can see where our generation comes  
10 from. While we're still predominantly coal, 52  
11 percent of our energy last year coming from  
12 coal, that is down substantially from a few  
13 years ago, where it was over 80 percent.

14 I also want to draw your  
15 attention to one other thing on this chart, and  
16 I think I have the colors right from up there,  
17 but you see the 13.11 percent and the 20.40.  
18 The 20.40 is our gas-fired generation, as you  
19 can see over in the chart, and then you see the  
20 purchases, and as we say, net purchases of 13  
21 percent. A vast majority of those 13 percent  
22 purchases are going to be natural gas purchases  
23 that we make from other facilities, natural gas  
24 being the cheaper fuel source now. I just want  
25 to point that out so if you -- when I look at

1 that chart, I generally think of it as being 33  
2 percent gas because when we purchase, that's  
3 where most of it's coming from, most of it fired  
4 from gas.

5 This chart -- I said I would come  
6 back to renewables. Santee Cooper has been the  
7 state's leader with renewables. We brought on  
8 the first renewable generation to the grid in  
9 2001 in Horry County with a landfill gas site.  
10 You can see the sites. I'm not going to read  
11 all this information. I'm sure you've got it in  
12 front of you and can refer to it as you like to,  
13 but just a couple of years ago, in, I think,  
14 August of 2015, we actually reached a point  
15 where we had generated over a million megawatt  
16 hours of renewable generation.

17 We also started the state's first  
18 solar farm, or what I would call utility-scale  
19 solar farm, in Colleton County, what we refer to  
20 as the Colleton Solar Farm, and that was done  
21 jointly with the Electric Cooperatives and  
22 specifically with Coastal Electric Cooperative's  
23 help because that's their -- it's in the end of  
24 their service territory. And we do most of our  
25 renewables in partnership either with the

1 Electric Cooperatives or, in a few cases, with  
2 the cities that we serve.

3 CHAIRMAN SETZLER: Mr. Carter, if  
4 you would, go back to the chart before that,  
5 please, sir, the Energy Sales by Fuel Type.

6 MR. CARTER: Yes, sir.

7 CHAIRMAN SETZLER: The purchases,  
8 the 13.11 percent, who are those from and how  
9 long are the contracts, if I'm understanding  
10 what you're telling us?

11 MR. CARTER: Some of those  
12 contracts would be -- long-term contracts with  
13 the Southeastern Power Administration would be  
14 in that number. I want to confirm that, but  
15 most of them, I believe, at this point -- in  
16 2016, we didn't have any long-term contracts.  
17 Do we have any long-term -- I didn't think we  
18 had any in that year. Sometimes we do;  
19 sometimes we don't.

20 It would be from a myriad of  
21 other people that provide power in the wholesale  
22 market, so it could be what we would refer to as  
23 independent power producers in some cases or  
24 marketers, as referred in our industry, or it  
25 could be from other utilities. We could get you

1 a list of them, but it would be a long list.

2 CHAIRMAN SETZLER: So in essence,  
3 you're not -- excuse me -- not generating enough  
4 and having to buy it on the market.

5 MR. CARTER: Actually, it's  
6 because it's cheaper for us to. We have enough  
7 generation. We have enough facilities at any  
8 given time that we could generate all of the  
9 power we need. It's a question of -- and the  
10 industry operates this way. The whole industry  
11 operates this way.

12 In other words, if you can buy  
13 something cheaper than running your own unit,  
14 then you simply don't run it that day or that  
15 week or whenever, and you buy it from somebody  
16 else, and it's bought on a market-based system.  
17 So it's just a way to make sure that in the  
18 entire grid, the cheapest resource is running.  
19 Does that make sense? So it's -- economics is  
20 what drives it, outside of the SEPA.

21 CHAIRMAN SETZLER: Senator  
22 Campbell.

23 SENATOR CAMPBELL: On the  
24 Southeastern Power, that's what's on the  
25 Savannah River? Is that what that is?

1                   MR. CARTER: Yes, sir. All of  
2                   our power -- it would either be ours, the  
3                   cooperatives, or the cities that we serve.  
4                   That's -- the Southeastern Power  
5                   Administration's a federal power marketing  
6                   agency, and public power and co-ops are what  
7                   they call preference customers, and so all of  
8                   that energy flows into public power utilities,  
9                   and so --

10                  SENATOR CAMPBELL: Would that be  
11                  mostly hydro? Is that --

12                  MR. CARTER: It would be all  
13                  hydro.

14                  SENATOR CAMPBELL: That's what I  
15                  thought, okay.

16                  MR. CARTER: It would be all  
17                  hydro, and it's energy-limited hydro as you  
18                  know, Senator Campbell. It's a small piece of  
19                  our business, about 1 percent or less of the  
20                  generation. Are you ready to go forward? I  
21                  think we've covered renewables.

22                  CHAIRMAN SETZLER: Yes, sir,  
23                  Senator from Richland.

24                  SENATOR SCOTT: As we unravel the  
25                  different sources of utilities or power sources

1 generated and try to separate what the co-ops  
2 actually use and the co-ops' commitment to  
3 expanding transmission lines and others, because  
4 what I received from them in another meeting,  
5 that there were long-term commitments to -- as  
6 long as Santee Cooper was operating, they're  
7 part of the services. They had long-term  
8 commitment to also help pay for transmission  
9 lines and some other things out there.

10 Can you talk a little bit about  
11 that? Because in my mind, I'm trying to -- you  
12 made a statement a second ago that they own  
13 parts, and I'm trying -- if I've got a  
14 commitment to pay for something, how do I  
15 separate the difference of the two?

16 MR. CARTER: Yes, sir, and that's  
17 taking care -- and I'm going to cover a little  
18 bit of that in just a few minutes, but we do  
19 jointly plan the system together. They own  
20 fairly small pieces of it, mostly what in our  
21 industry we would refer to as radials. I think  
22 most of it's radials going to specific delivery  
23 points. And we can cover that in a minute.

24 SENATOR SCOTT: Okay.

25 MR. CARTER: We operate an

1 integrated system.

2 SENATOR SCOTT: Right.

3 MR. CARTER: And I know that's a  
4 big word, but it really is the best one that  
5 describes it. It operates together as one  
6 system.

7 Let's see. Let's talk a little  
8 bit about our customers because that will take  
9 me pretty quick to the question that you have.  
10 We actually have one electric customer when it  
11 comes to the Electric Cooperatives, and that's  
12 called Central Electric Cooperative, which is  
13 headquartered just right outside of town here,  
14 going west on I-26, and they have 20 -- the 20  
15 distribution Electric Cooperatives are members  
16 of Central, and we provide them their power.  
17 And I'll touch a little bit more -- I have a  
18 slide specifically on them next, I believe.

19 we also serve three  
20 municipalities with -- and they're down there  
21 under long-term contracts that are what we call  
22 full requirements contracts, and that's a term  
23 of art in our industry. That means that we're  
24 responsible to plan for and meet their power  
25 requirements and serve all of them. So there's

1 nobody else serving them.

2 Now, in a minute -- so those  
3 three fall into that category. Georgetown,  
4 Bamberg, and Seneca falls into that also under a  
5 long-term contract. The Seneca arrangement is  
6 done through Blue Ridge Electric Cooperative.  
7 There's also not listed here an arrangement  
8 that's been in place for a number of years with  
9 Marlboro Co-op actually serving the City of  
10 Bennettsville.

11 So just, again, to make clear and  
12 full, so there are five cities actually, if I'm  
13 counting that right -- excuse me -- four cities  
14 that get their power from Santee Cooper as all  
15 requirements customers, two of them through  
16 Electric Cooperatives, two of them directly,  
17 Bamberg and Georgetown directly, and have been  
18 customers for a long time.

19 we also have three other  
20 long-term wholesale contracts: AMEA, which is  
21 the Alabama Municipal Electric Authority. It's  
22 a -- what, in our industry, we refer to as a  
23 joint action agency, and that's just where a  
24 number of cities have gotten together -- much  
25 like the cooperatives did, to create Central,

1 they get together an organization that provides  
2 them services, either generation services or  
3 transmission or the like. They actually buy  
4 base load power from us, a small amount.

5 Then there's the Piedmont  
6 Municipal Power Agency. That's also a joint-  
7 action agency formed here in South Carolina  
8 under the laws of South Carolina. You can see  
9 the ten cities that are members of PMPA. PMPA  
10 is a partial requirements contract, meaning we  
11 provide their needs beyond the generation that  
12 they have from others, and I can talk more about  
13 that if you want to know. And then we also have  
14 a contract to sell wholesale power to the Town  
15 of Waynesville, North Carolina.

16 And then we also have just short  
17 of 180,000 retail customers in Horry and  
18 Georgetown and Berkeley Counties. We have 26  
19 large industrial customers and serve Charleston  
20 Air Force Base as well. So all in all, about 2  
21 million people in South Carolina are dependent  
22 on Santee Cooper for --

23 SENATOR SCOTT: Mr. Chairman.

24 CHAIRMAN SETZLER: Senator Scott.

25 SENATOR SCOTT: Before you leave

1 that, which brings to the long laundry I've had.  
2 I'm glad you got to the point. Tell me the  
3 impact if -- and there's a lot of conversation  
4 about Santee Cooper being sold, and I'm not sold  
5 on that yet. But tell me the impact on rural  
6 farmers, these corporate customers, these  
7 municipalities, and others because Santee  
8 Cooper, along with those co-ops, produce a  
9 cheaper rate and cost associated with those  
10 services.

11 More important is the farmers  
12 with the water along with utilities and others  
13 that you -- other services in that area, even  
14 solar that you're providing for that area. What  
15 would be the costs associated for them to have  
16 to pay the standard ongoing rate like other  
17 utilities if they were not involved in a co-op?

18 MR. CARTER: Senator Scott, that  
19 would take a significant study, but -- and I can  
20 simply say this, that our -- and I'm going to  
21 touch on that a little bit. Our rates certainly  
22 are competitive and lower, and I've got a slide  
23 in here that will show that. But our -- and  
24 I'll touch on a little bit as I go through this.  
25 Our business model has a lower cost of capital.

1 That's probably the most significant --

2 SENATOR SCOTT: Right.

3 MR. CARTER: -- advantage that  
4 Santee Cooper has, if you will, as a public  
5 power entity. I believe that will become a  
6 little clearer as I go through all this. If it  
7 isn't, I'll be glad to come back to it if that  
8 helps. But you would have to estimate what that  
9 impact would be.

10 SENATOR SCOTT: Well, that's very  
11 important because when we look along Horry,  
12 Georgetown, Beaufort, Jasper, tourism is so  
13 important to South Carolina, and looking at that  
14 cost being passed on to those customers that you  
15 have, the hotels, motels, and other service  
16 components in those areas, that cost is then  
17 passed on to the consumer. And so I'm concerned  
18 rather not in a sale such as that, that a major  
19 company coming into South Carolina and they do  
20 rates along with everybody else, what would  
21 actually be the impact -- and also the loss of  
22 revenue to this state because of that, and  
23 especially in the rural -- and the rural  
24 farmers.

25 will that cause goods and

1 services to actually go up? And so that is an  
2 important piece to me as it relates to the  
3 maintaining of Santee Cooper along with the co-  
4 ops having somebody they can work with and pass  
5 on those savings to our -- to the constituency  
6 of South Carolina.

7 MR. CARTER: Yes, sir, there --  
8 as I've indicated, there are about 2 million --  
9 about half of the state's generation comes from  
10 Santee Cooper. Again, I believe that an  
11 objective analysis will show that we bring  
12 value, and part of that value would be through  
13 lower electric rates, and, again, that's  
14 primarily driven by our capital structure, and I  
15 think as we go through this, you'll see some of  
16 what I'm talking about.

17 You know, an investor-owned  
18 utility, it's just a different business model.  
19 As I've testified before either to this  
20 committee or the House committee, it's just a  
21 different business model. It's not -- it  
22 doesn't make one right or wrong. It's just what  
23 it produces. And we're more heavily leveraged.  
24 We can use tax-exempt debt or taxable bonds, and  
25 you'll see that in a minute.

1                   Investor-owned utility, investors  
2           invest in it, and they expect a return, and that  
3           return generally is higher than what you can  
4           issue bonds for. So it's just inherently  
5           different. And that's something that, as the  
6           General Assembly considers the future of Santee  
7           Cooper, it needs to be factored into it. I know  
8           this body knows that. I'm probably repeating  
9           the obvious. Let's see.

10                   CHAIRMAN MASSEY: Mr. Carter,  
11           Senator from Berkeley had a question.

12                   SENATOR CAMPBELL: Just another  
13           question, Lonnie, if you don't mind, on the co-  
14           ops. You have 20 co-ops. You have a five-year  
15           -- I mean, five co-ops in the Upstate that buy  
16           directly from Duke in the North Carolina; is  
17           that correct?

18                   MR. CARTER: I'll touch on that  
19           in a minute. Yes, sir, they -- still some of  
20           that load comes from us, but it will all be off  
21           by 2020 -- 2019.

22                   SENATOR CAMPBELL: So that's a  
23           thousand megawatts, I believe, isn't it?

24                   MR. CARTER: Roughly a thousand  
25           megawatts at -- from the entire period from 2013

1 to 2019, but I'm going to touch a little bit  
2 more on the Central agreement in just a minute,  
3 and if, again -- I'll try to speed it up and get  
4 to some of these questions.

5 This will just give you an idea  
6 of where the kilowatt hours go by class. You  
7 can see that Central is certainly -- the  
8 Electric Cooperatives are by far the largest  
9 purchaser, followed by the military and  
10 industrial. And then our -- what we call our  
11 retail customers -- that's our residential and  
12 commercial customers -- follow up. You can see  
13 the percentages there.

14 CHAIRMAN SETZLER: So residential  
15 is only 8 percent of your sales; is that what I  
16 understand?

17 MR. CARTER: Yes, sir, directly,  
18 that buy directly and get a Santee Cooper bill.

19 CHAIRMAN SETZLER: Okay.

20 MR. CARTER: Now, the Electric  
21 Cooperatives and the cities that we serve would  
22 be mostly residential, small commercial  
23 businesses. They do have -- cooperatives have  
24 done a pretty good job of recruiting a number of  
25 industrial customers, and that's something else

1 I'll talk about because that's something we've  
2 partnered on.

3 CHAIRMAN SETZLER: Yes, sir,  
4 Senator.

5 SENATOR CAMPBELL: Of the  
6 military and large industrial, I know that Mount  
7 Holly and Nucor make a big part of that. What  
8 percent of that 19 percent would just those two  
9 customers be?

10 MR. CARTER: They would be at  
11 least half of it. Does anybody know the exact  
12 percentages?

13 MALE SPEAKER: I don't. At least  
14 half is probably --

15 MR. CARTER: Half is pretty good.

16 SENATOR CAMPBELL: About half of  
17 it is just two plants.

18 MR. CARTER: Yes, sir.

19 SENATOR CAMPBELL: The two  
20 operations.

21 MR. CARTER: The two of them,  
22 with Nucor being the larger.

23 SENATOR CAMPBELL: Right, now.

24 MR. CARTER: Yes, sir.

25 CHAIRMAN SETZLER: Senator from

1           Dorchester.

2                           SENATOR BENNETT: Mr. Carter,  
3           when you mentioned that the co-ops have done a  
4           good job of recruiting some industry, are those  
5           numbers split up in your military-industrial, or  
6           are they still in Central?

7                           MR. CARTER: They're in  
8           Central.

9                           SENATOR BENNETT: Okay. Thank  
10          you.

11                          MR. CARTER: And the cities.  
12          we've done some work with some of the cities as  
13          well.

14                          SENATOR BENNETT: Thank you.

15                          MR. CARTER: And I'm going to  
16          touch on that because that's been a joint  
17          effort, you know, not just by us and them but  
18          also the Department of Commerce, economic  
19          development alliances. It's a lot of people,  
20          including the General Assembly and the  
21          Governor's Office. I mean, that's been a good  
22          team effort, I would say, in the state, and then  
23          we'll touch on that.

24                          And then this is a chart that  
25          shows where the revenues come from. And just to

1 give you an idea of where our revenues come from  
2 last year, our revenues were a little over \$1.7  
3 billion, but again, Central, the Electric  
4 Cooperatives being the largest portion of that  
5 revenue.

6 This is a chart that's used just  
7 to give you some idea of where the Electric  
8 Cooperatives are located within the state.  
9 They're in all 46 counties. We've had a  
10 partnership with some or all of them that dates  
11 all the way back into the '40s, and as was  
12 indicated earlier, Senator Scott, we just  
13 extended our agreement with them through 2058.

14 And so just a little bit more  
15 background on our contract with the Electric  
16 Cooperatives because they are very important to  
17 Santee Cooper because they're such a large piece  
18 of our revenue stream. And so when New York  
19 looks at us, they look pretty hard at the  
20 Electric Cooperatives as well -- or Wall Street  
21 looks at us.

22 So under that arrangement, it was  
23 entered into originally in the -- at the end of  
24 1980. The agreement that we currently -- it was  
25 amended in 1988. You'll see that sometimes

1 referred to as the 1988 amendment. And then, of  
2 course, it was amended again at the end of two  
3 thousand -- or in the middle of 2013, I should  
4 say, and it provided to extend their termination  
5 rights all the way through 2058. So the  
6 contract runs now through 2058. That was  
7 necessary -- that's necessary in order to be  
8 able to issue bonds long-term for that revenue  
9 stream.

10 It's a full requirements  
11 contract, and what that means is that for the  
12 load and the delivery points that are assigned  
13 to us, which I'll mention, then we're required  
14 to plan for and make sure that the power's  
15 there. That's our obligation. We do that  
16 jointly with them. That's why there's a joint  
17 planning and joint operating committees that  
18 plan for both future resources and transmission  
19 resources.

20 The contract is what we refer to  
21 in this industry as a cost of service-type  
22 arrangement. A formula rate is another way to  
23 think of it. That contract specifies what  
24 costs, how they're divvied up, and how they pay  
25 them. And that contract each year then looks

1 at, after they've been billed over the course of  
2 the year, with some projections at the end of  
3 the year, it's trued up to actual. So they pay  
4 our actual costs based on that formula.

5 The other thing I think that's  
6 worth noting, again, in the economic development  
7 space, is that under that agreement, Central has  
8 a right to use any industrial rate or menu or  
9 any energy efficiency program that Santee Cooper  
10 offers.

11 SENATOR CAMPBELL: Mr. Chairman.

12 CHAIRMAN SETZLER: Yes, sir.

13 SENATOR CAMPBELL: The ability of  
14 the five Upstate co-ops to buy power from North  
15 Carolina Duke, does that run co -- does that go  
16 through 2058, too, or what's the term on that  
17 agreement?

18 MR. CARTER: I believe you should  
19 probably get that answer from the Electric  
20 Cooperatives, but my understanding is it runs  
21 through 2030.

22 SENATOR CAMPBELL: 2030, okay.

23 CHAIRMAN MASSEY: Mr. Carter,  
24 what -- you told us about the -- that Central  
25 agreed to extend its rights through 2058. What

1 are the termination provisions?

2 MR. CARTER: Well, I don't  
3 believe there are any terminations provisions.  
4 I believe they have to take power through 2058.  
5 There are some provisions --

6 CHAIRMAN MASSEY: Does Santee  
7 Cooper have an option to terminate?

8 MR. CARTER: Sir?

9 CHAIRMAN MASSEY: What if Santee  
10 Cooper were wanting to terminate?

11 MR. CARTER: We do not have an  
12 option to terminate it either until -- I think  
13 there's a ten-year notice provision ahead of  
14 that 2058.

15 CHAIRMAN MASSEY: So you're  
16 bound.

17 MR. CARTER: We're bound, and  
18 they're bound.

19 CHAIRMAN MASSEY: Through 2058,  
20 and do the co-ops have a provision that allows  
21 for termination?

22 MR. CARTER: No, sir. What they  
23 -- there are some options as we look at and plan  
24 for the future for future generation. They  
25 could bring some of their own generation to the

1 table, but that provision or provisions similar  
2 to that have always been in the agreement.

3 CHAIRMAN MASSEY: And so what  
4 would happen if, theoretically, Santee Cooper  
5 were sold?

6 MR. CARTER: I believe the  
7 contract contains a provision -- I'm looking  
8 back here at the folks that negotiated it, but I  
9 believe it has a provision that they can  
10 terminate that agreement with 90 days' notice is  
11 what they're saying.

12 CHAIRMAN MASSEY: Who can  
13 terminate it?

14 MR. CARTER: Central can if  
15 Santee Cooper is sold.

16 CHAIRMAN MASSEY: Central has the  
17 option to terminate with 90 day notice if Santee  
18 Cooper is sold.

19 MR. CARTER: Yes, sir. That's  
20 what I'm hearing, yes, sir.

21 CHAIRMAN MASSEY: All right.

22 MR. CARTER: I know it has that  
23 termination provision, and I'm hearing 90 days,  
24 yes, sir.

25 CHAIRMAN MASSEY: Okay, and what

1 are -- does Central have contractual rights as  
2 to the sale itself?

3 MR. CARTER: I don't believe that  
4 they do. I don't believe there are any in  
5 there, are they?

6 MALE SPEAKER: They would have  
7 the right to buy a pro rata share.

8 CHAIRMAN SETZLER: Hold on.

9 MR. CARTER: They're saying --

10 CHAIRMAN SETZLER: Mr. Carter,  
11 anybody that's going to help you -- how about  
12 let's all stand and be sworn in, please, sir.  
13 Everybody stand and raise your right hand.

14 CHAIRMAN MASSEY: Got the whole  
15 front row there.

16 CHAIRMAN SETZLER: Yeah, they've  
17 already been there, so --

18 MR. CARTER: They're all the  
19 executives.

20 CHAIRMAN SETZLER: Do you swear  
21 the testimony you're about to give will be the  
22 whole truth and nothing but the truth, so help  
23 you God?

24 SANTEE COOPER EXECUTIVES: I do.

25 CHAIRMAN SETZLER: Okay. Now

1 proceed.

2 CHAIRMAN MASSEY: Everybody said,  
3 "I do," just for the record.

4 MR. CARTER: And --

5 CHAIRMAN MASSEY: Okay, yeah.

6 MALE SPEAKER: They've got the  
7 right to buy the pro rata share of the system.

8 MR. CARTER: He's saying they  
9 have a right to buy the pro rata share of the  
10 system, and I -- that's probably correct. I  
11 would not have any reason to differ with that.

12 CHAIRMAN MASSEY: Central has the  
13 right to buy a pro rata share, which is --  
14 what's the pro rata share?

15 MR. CARTER: They would be --  
16 well, based on these numbers, let's say roughly  
17 60, 61 percent. You'd have to decide how that  
18 would be done. I think -- I don't know how  
19 specific those provisions are. I don't believe  
20 they're very specific.

21 CHAIRMAN MASSEY: And that is --  
22 there's a 90-day time frame in there? What's  
23 the trigger on the 90 days?

24 MR. CARTER: I think the trigger  
25 is simply that they could terminate the -- in

1 order to purchase, I think that's a longer, more  
2 complicated arrangement.

3 CHAIRMAN MASSEY: But -- and here  
4 -- my more specific question is can they veto?  
5 Can they --

6 MR. CARTER: I don't think they  
7 -- they don't have a right -- no, sir. I don't  
8 believe they have a right to veto.

9 CHAIRMAN MASSEY: Does Central  
10 have a contractual right to prevent a sale of  
11 Santee Cooper?

12 MR. CARTER: No, sir, I do not  
13 believe that, and I'll look back here at my  
14 colleagues, but I don't know of any reason that  
15 they have a right to veto. They have certain  
16 rights under that agreement that they can  
17 exercise, to terminate their agreement, or to  
18 own. If you think of it in terms of, you know,  
19 they're sitting here, paying along and along for  
20 these assets that we're talking about, and so  
21 they would want a right to, if we were sold, to  
22 be able to buy their assets.

23 CHAIRMAN MASSEY: All right, so  
24 then if the General Assembly were to agree -- if  
25 the General Assembly were to pass legislation,

1 and I want to emphasize, if the General Assembly  
2 makes the decision --

3 MR. CARTER: Yes, sir.

4 CHAIRMAN MASSEY: -- to sell  
5 Santee Cooper, but if the General Assembly makes  
6 a decision to sell Santee Cooper, then once that  
7 legislation is passed, the -- Central would have  
8 a 90-day time period to decide whether they want  
9 to come in and buy a part of it? Is that how it  
10 would work?

11 MR. CARTER: I don't know, Marc.

12 CHAIRMAN MASSEY: I'm just trying  
13 to figure out when this 90-day trigger starts.

14 MR. TYE: No, sir, that's a good  
15 question, and to be honest --

16 CHAIRMAN SETZLER: If you would,  
17 identify yourself for the record, please, sir.  
18 I'm sorry.

19 MR. TYE: I'm Marc Tye, executive  
20 VP, competitive markets and generation.  
21 Senator, that's a good question. I don't  
22 remember the exact provision, so I don't  
23 remember exactly what triggers it, but there's  
24 essentially 90 days from some notice and I'm  
25 assuming that notice would be that a sale has

1           been struck or something like that. But I am  
2           not absolutely positive.

3                       MR. CARTER: But why don't we  
4           agree that we'll provide clarification on that.  
5           The agreement would speak for itself.

6                       CHAIRMAN SETZLER: Why don't we  
7           agree that you provide us the agreement?

8                       MR. CARTER: I believe you have  
9           it.

10                      MR. TYE: Yes, sir.

11                      MR. CARTER: We can get it. We  
12           certainly can get it if you don't.

13                      CHAIRMAN SETZLER: Okay.

14                      MR. CARTER: We certainly can  
15           provide it.

16                      MR. TYE: Yeah.

17                      CHAIRMAN MASSEY: Okay. I  
18           understand, Mr. Chairman, we've got it.

19                      CHAIRMAN SETZLER: Okay.

20                      CHAIRMAN MASSEY: I haven't seen  
21           it yet, but --

22                      CHAIRMAN SETZLER: I haven't seen  
23           it either.

24                      CHAIRMAN MASSEY: -- I understand  
25           staff has a copy of it. Senator --

1 MR. CARTER: I do think, if I  
2 might -- excuse me. I'm sorry.

3 CHAIRMAN MASSEY: No, go ahead,  
4 finish.

5 MR. CARTER: I would just -- I do  
6 think that -- and there are going to be a couple  
7 of other items that are going to come up in this  
8 presentation. Santee Cooper can be sold, and  
9 that authority has already been clarified by  
10 you, Senator Massey, Mr. Chairman, that it rests  
11 with the General Assembly. It can be done, but  
12 there are some complications with it that simply  
13 would have to be dealt with, that being one of  
14 them, and we'll touch on a couple of others.

15 CHAIRMAN MASSEY: I mean, well,  
16 that makes sense. I mean, you know, another  
17 point in that area is, I mean, when was Santee  
18 Cooper founded?

19 MR. CARTER: That's -- 1934, I  
20 think, is when the legislation took place.

21 CHAIRMAN MASSEY: It's a New Deal  
22 era-type thing, right?

23 MR. CARTER: Yes, sir.

24 CHAIRMAN MASSEY: So there -- you  
25 know, you're -- over an 80-year period, you're

1 going to have complications, so, yeah, it's not  
2 an easy, quick thing that you can just decide to  
3 do. I mean, I think there are lots of  
4 consequences that have to be considered, and I  
5 think that's one of the big things that we've  
6 got to do here is to look at -- and this is  
7 probably more commentary than necessary at this  
8 point, but I mean, a lot of the conversation so  
9 far has been on what the value of Santee Cooper  
10 is, and we'll get into that some later on, and I  
11 think that's extremely important. But I think  
12 there are a whole lot of other considerations  
13 besides just the value of the assets,  
14 particularly what's going on with customers.

15 MR. CARTER: Yes, sir.

16 CHAIRMAN MASSEY: And those  
17 things, those additional consequences come into  
18 play because we've owned it for 80 years, right?  
19 But in any event, I appreciate you answering  
20 that. Senator from Richland had a question, and  
21 then the Senator from Berkeley.

22 SENATOR SCOTT: Let me --

23 SENATOR CAMPBELL: My  
24 understanding -- or whichever. I'll yield to  
25 you. Go ahead, John.

1                   CHAIRMAN MASSEY: Senator from  
2 Richland.

3                   SENATOR SCOTT: You're the senior  
4 member. Please, sir.

5                   SENATOR CAMPBELL: I -- you said,  
6 I think -- Mr. Tye said that they would have a  
7 right to buy generation capacity. How would  
8 that be done? would they buy specific  
9 generation? Could they pick the plant that  
10 they're going to buy? I mean, I don't know  
11 what's in the contract. It may be clear in the  
12 contract.

13                  MR. CARTER: I think it's a pro  
14 rata share, Senator Campbell, if my  
15 recollection, now that they bring it up --

16                  SENATOR CAMPBELL: They would buy  
17 a pro rata share of the system.

18                  MR. CARTER: Let us get that  
19 document and let's look and let the document  
20 speak for itself.

21                  SENATOR CAMPBELL: Thank you,  
22 sir.

23                  MR. CARTER: It would be a  
24 complication.

25                  SENATOR CAMPBELL: Okay. Okay.

1 MR. CARTER: As has been said.

2 SENATOR SCOTT: You mentioned  
3 earlier about bond indebtedness, how much bond  
4 indebtedness that you have in looking at the  
5 separation of the system, along with which your  
6 co-ops have agreed to make sure that debt gets  
7 paid as well. Tell me a little bit about how  
8 much debt you've got and how do you, in a sale  
9 such as that, how do you fix that part, and also  
10 with the investments those co-ops have made in  
11 paying toward that debt, either for  
12 reimbursement or for a proportional share  
13 because of the debt?

14 MR. CARTER: Senator Scott, I'm  
15 going to -- that is another issue that will have  
16 to be dealt with, and I'm going to get to that  
17 in just a few minutes and give those answers  
18 specifically.

19 SENATOR SCOTT: Okay.

20 MR. CARTER: But that is a very  
21 good question.

22 CHAIRMAN SETZLER: Mr. Carter,  
23 let's go back to the potential sale and the co-  
24 ops taking out a pro rata share. Do you believe  
25 the co-ops agree with that position, or do you

1 think they believe they have a veto power over  
2 the sale?

3 MR. CARTER: I -- Senator Setzler  
4 -- or Mr. Chairman, excuse me. I would --

5 CHAIRMAN SETZLER: That's fine.

6 MR. CARTER: I'm sorry. I  
7 wouldn't -- I don't know. I -- that -- it would  
8 -- you'd need to ask them.

9 CHAIRMAN SETZLER: Okay.

10 MR. CARTER: I think -- I would  
11 say, let's let the agreement speak for itself  
12 from a Santee Cooper perspective, but I don't --  
13 I can't say I know what somebody believes.

14 CHAIRMAN SETZLER: But isn't that  
15 an important question, if you're talking about  
16 negotiating with somebody for the sale, or  
17 whether it's the executive branch or the  
18 legislative branch is exploring the sale of  
19 Santee Cooper, to know exactly what your rights  
20 are? You don't know if -- Santee Cooper doesn't  
21 know what their rights are?

22 MR. CARTER: Again, with all due  
23 respect, Mr. Chairman, Santee Cooper is not  
24 authorized to sell Santee Cooper.

25 CHAIRMAN SETZLER: I understand

1           that.

2                           MR. CARTER: (INDISTINCT) yield  
3           to the General Assembly, so I think -- my  
4           understanding was, that's part of why we were  
5           brought here today was to try to provide some  
6           information, and that's what I'm trying to do  
7           today, about some of the complexities that would  
8           have to be addressed in order to sell Santee  
9           Cooper. I'm not saying it -- I want to be -- I  
10          want to repeat, it can be done. It's just these  
11          things will have to be addressed and dealt with.

12                          CHAIRMAN SETZLER: Well, let me  
13          ask you this. Did Santee Cooper or the board of  
14          Santee Cooper discuss that provision of this  
15          agreement with anybody in the General Assembly  
16          before they executed that agreement,  
17          specifically the President Pro Tem, the Speaker  
18          of the House, or the Chairman of Ways and Means  
19          or the Chairman of Senate Finance?

20                          MR. CARTER: I don't know whether  
21          that took place or not, Mr. Chairman. I don't.

22                          CHAIRMAN SETZLER: Okay. Proceed  
23          on.

24                          MR. CARTER: Okay. This chart is  
25          simply what Central paid on a cents-per-

1 kilowatt-hour basis. I want to emphasize, this  
2 is simply taking their total revenues, dividing  
3 it by their total kilowatt hour sales. Their  
4 contract actually has components that they pay  
5 for generation capacity, for energy, fuel,  
6 transmission, and other components, so it's made  
7 up of multiple components. This would simply be  
8 taking the total, minus any credits, and  
9 dividing it by the kilowatt hours that they  
10 purchase. And you can see the prices remain,  
11 for the last three years, fairly steady.

12 Turning now to our water systems  
13 and our lakes, Santee Cooper, of course, got its  
14 start, as was just indicated earlier, as a  
15 hydroelectric project out of the '30s, out of  
16 the New Deal era. Interestingly, it got formed  
17 by a grant and a -- a federal grant and a  
18 federal loan, so the State investment in this  
19 was to put together Santee Cooper to receive  
20 that loan and grant and to proceed with what we  
21 know as developing Lake Marion and Lake  
22 Moultrie, ultimately, and making electricity  
23 through hydroelectric generation.

24 Those lakes encompass about a  
25 156,000 acres of water. That's a -- so they're

1 large lakes, a large part of the state, and I'm  
2 told there are 756 billion gallons of water in  
3 those lakes. That's a lot of water in them as  
4 well. What's interesting about that watershed  
5 is, it's the second largest watershed east of  
6 the Mississippi River. The confluence of the  
7 Congaree and Wateree Rivers sort of mark the  
8 headwaters, if you will, of Lake Marion, the  
9 upper part, so you can get a sense of how far  
10 they do extend up into the middle of the state.  
11 The lakes are impounded by 41 miles of dams and  
12 dikes.

13 we have one major spillway up on  
14 Lake Marion, which empties -- it's about a half  
15 a mile long. It empties into the Santee River,  
16 and it contains 62 flood control gates, which is  
17 how we actually control water coming into the  
18 system from floods and whatnot. We operate that  
19 facility under a license, a federal license from  
20 the Federal Energy Regulatory Commission. I'll  
21 touch on some of its requirements in a minute,  
22 but again, Mr. Chairman, that is another issue  
23 that would have to be addressed and dealt with  
24 also. We are in the middle of relicensing that  
25 facility.

1 SENATOR HUTTO: Mr. Chairman.

2 CHAIRMAN SETZLER: Yes, sir.  
3 Senator from Orangeburg.

4 SENATOR HUTTO: And you may be  
5 about to get to this, but if Santee Cooper was  
6 sold, can you sell that license, that FERC  
7 license?

8 MR. CARTER: It would all have to  
9 be dealt with -- that's a regulatory issue that  
10 would have to be dealt with and transferred,  
11 yes, sir. And there are a number of safety  
12 issues that come with our dams because most of  
13 them are earthen dams.

14 SENATOR HUTTO: And a lot of  
15 economic development -- I mean, a private power  
16 company could decide to generate electricity all  
17 through one mechanism. They may decide they  
18 don't want to run the hydro system, but there's  
19 a lot of people that rely on those lakes for  
20 reasons other than electric generations, and so  
21 if you sold the power portion of Santee Cooper,  
22 would there still be a mission for Santee Cooper  
23 beyond the production of power that would be the  
24 maintenance of these lakes?

25 MR. CARTER: Yeah, and I believe

1 -- because that rests with this body -- and I'm  
2 not trying to be elusive, but I, you know, I  
3 would say that decisions like that would rest  
4 with the General Assembly, who would be making  
5 the decision about what to sell and how to sell  
6 it and, to a certain extent, the regulators that  
7 regulate this lake as well, this license.

8 SENATOR HUTTO: But the money  
9 that you get -- would it be fair to say that the  
10 money that you get to regulate the lakes and  
11 keep the water controlled and everything that  
12 goes along with the management of these lakes,  
13 that that money comes from the generation of  
14 electricity?

15 MR. CARTER: It comes from the  
16 revenues of Santee Cooper, everything that we do  
17 that generates revenue.

18 SENATOR HUTTO: We make no State  
19 appropriation to you to manage those lakes.

20 MR. CARTER: No, sir, you do not.

21 SENATOR HUTTO: All right. So  
22 that is one huge thing that would have to be  
23 discussed as we discuss the sale is, what  
24 happens to those lakes? Because there's more to  
25 the lakes than just electric generation. would

1           you agree with that?

2                       MR. CARTER: Yes, sir, a lot  
3 more, and I'm going to touch on that.

4                       SENATOR HUTTO: Okay.

5                       MR. CARTER: I like to tell  
6 people, I get as many calls or more about the  
7 lakes than I do about the 180,000 retail  
8 customers. It's just -- there's a lot of  
9 interest in these lakes. And let's talk about  
10 the first one.

11                      But before I leave that, let me  
12 back and say one thing that's important also.  
13 Another thing that would have to be dealt with,  
14 up in this -- you can see a place over in the  
15 right-hand -- almost middle, of a site called  
16 St. Stephens Hydro Facility. That is a hydro  
17 facility that was built by the Corps of  
18 Engineers to divert water back out of our lake  
19 system that would have gone into the Cooper  
20 River and put it back into the Santee River.

21                      The Corps currently owns and  
22 operates that facility. We get all of the -- we  
23 actually operate it, technically. We get all of  
24 the power out of it, they maintain it, and that  
25 contract has a provision that shifts the

1 ownership of that facility to Santee Cooper, I  
2 believe, in 2034. I got the right date on that?  
3 Yes, sir, 2034. That's another federal  
4 contract, long-term contract that has some  
5 provisions in it, again, that would need to be  
6 dealt with. Not saying it can't be dealt with,  
7 but it would have to be addressed.

8 CHAIRMAN SETZLER: What is your  
9 approximate revenue from the water side per  
10 year?

11 MR. CARTER: From the generation  
12 of electricity?

13 CHAIRMAN SETZLER: Yeah.

14 MR. CARTER: It's about 1 percent  
15 -- anywhere from 1 to 1 1/2 percent of our  
16 generation. I think that's a pretty good number  
17 to give you an idea of the amount. That would  
18 be a pretty good number from this facility, but  
19 then we also, as I'm going to touch on, we also  
20 sell potable water, wholesale potable water,  
21 which is what I'm coming to here.

22 SENATOR CAMPBELL: One question  
23 that --

24 CHAIRMAN SETZLER: Senator from  
25 --

1                   SENATOR CAMPBELL: Mr. Carter,  
2 St. Stephens, as you said, is owned by the Corps  
3 of Engineers? How much power does it generate?

4                   MR. CARTER: It is a -- it has an  
5 84 megawatt capacity in three units.

6                   SENATOR CAMPBELL: 84 megawatts.

7                   MR. CARTER: Yes, sir.

8                   SENATOR HUTTO: Mr. Chairman.

9                   MR. CARTER: Jefferies --

10                  CHAIRMAN SETZLER: Senator from  
11 Orangeburg.

12                  SENATOR HUTTO: One other thing.  
13 How does the generation of electricity by  
14 hydroelectric compare to coal or to gas?

15                  MR. CARTER: It would -- you  
16 know, it doesn't have a fuel cost, but it  
17 depends on -- and there's a debate often in the  
18 industry, and sometimes even in our office, what  
19 should go into the cost of the hydroelectricity  
20 because of all the stuff that you've alluded to  
21 earlier.

22                  SENATOR HUTTO: The maintenance  
23 of the dams and everything?

24                  MR. CARTER: How much of it is  
25 recreation, and that's a debate that goes on in

1           this industry about how much should we charge  
2           for having a boat landing that has to be kept up  
3           or shoreline that has to be kept up or dams that  
4           have to be -- you know, there's -- it's a  
5           debate, but the fact of the matter is, we own  
6           it. We have a license. We have to maintain it  
7           and get the best use out of it that we can.

8                           The good thing about hydro is,  
9           from a generation perspective, I would argue  
10          that it's more valuable than, let's say, what  
11          I'll call conventional coal-fired or gas-fired  
12          generation, fuel-fired generation. It's because  
13          it starts very quickly. You open the gates and  
14          roll the water across the turbine, and it makes  
15          electricity quick. These units will start up in  
16          minutes. So they're --

17                          SENATOR HUTTO: As reliable as  
18          green? I mean, there's a lot to be said for it,  
19          but if I asked you was it efficient, would be  
20          your answer to that be yes?

21                          MR. CARTER: It is a great -- I'm  
22          going to say this. Our hydro is a good  
23          resource. It's a great resource to have.  
24          Efficiency is -- we don't always -- we use it to  
25          benefit the system the most and make it as

1 reliable as possible, so to answer your  
2 question, it would be more efficient because  
3 there's more head at the Jefferies facility to  
4 run more water out of Jefferies, but because of  
5 this contract that restricts the water flow into  
6 the Cooper River, we run it out of St. Stephens.  
7 It has a lower head. It has less fall;  
8 therefore, it's less efficient. That is the  
9 reason for my pause in answering you.

10 So the contractual arrangements  
11 also drive how we have to operate this facility.  
12 Again, another thing that's important that  
13 Santee Cooper has to deal with as a State  
14 entity, to fulfill obligations that either the  
15 federal government or the state government have  
16 required.

17 SENATOR CAMPBELL: What's the  
18 total generation out of -- excuse me, Mr. Carter  
19 -- out of the Pinopolis dam?

20 MR. CARTER: Its capacity is 128  
21 megawatts. Two of those units have just  
22 recently -- we finished rebuilding because,  
23 remember, they first came online in 1942, so  
24 they've been around a long time. And so two of  
25 those units have just been rebuilt, but there

1 are five units there and 128 megawatts of  
2 capacity.

3 SENATOR CAMPBELL: Do you  
4 generate any power out of the Santee Dam and  
5 spillway?

6 MR. CARTER: Yes, sir, about two  
7 megawatts, I believe, is about what we get out  
8 of the spillway-dam facility.

9 SENATOR CAMPBELL: What's your  
10 total hydro generation versus the rest of the  
11 system? How much of your total generation is  
12 hydro? What's your total system generation?

13 MR. CARTER: Let's see.

14 SENATOR CAMPBELL: At full  
15 capacity.

16 MR. CARTER: All of our megawatts  
17 together, about 6,000, a little less than 6,000?  
18 A little less than 6,000.

19 SENATOR CAMPBELL: And you're  
20 looking at 200 or so --

21 MR. CARTER: And so if you add  
22 that up -- but the important thing, and again,  
23 y'all -- if y'all want me to move on from this  
24 -- but listen, I love this business, and I'll --  
25 y'all are talking about stuff I've spent a

1 career doing, so I love it.

2 The amount of water that we have  
3 in these lakes is limited, so the contractual  
4 limits -- I believe you'll even remember this,  
5 Senator Campbell -- is at Jefferies, because the  
6 flow is so limited there, you can run all of the  
7 water out over that capacity in just a couple of  
8 hours

9 SENATOR CAMPBELL: Yeah.

10 MR. CARTER: I think about three.  
11 And so because the water coming into the lakes  
12 is a limited resource -- sometimes we have  
13 droughts, and you don't any, so St. Stephens can  
14 sit up there for months and never operate, and  
15 then at other times, you have more water than  
16 you can handle, and so you're running it wide  
17 open.

18 SENATOR CAMPBELL: Got you.

19 MR. CARTER: And that, again,  
20 gets at Senator's Hutto's question about  
21 efficiency. There are a lot of things that go  
22 into how we operate that system to meet all of  
23 the various requirements that we have to meet in  
24 stakeholder needs. If it were easy, I like to  
25 say, I'd do it by myself and wouldn't need these

1 seven smart people that I introduced to you.

2 Our water system -- let's talk  
3 about -- we have two water systems, one on each  
4 lake, the Lake Moultrie water system being the  
5 older. We sell wholesale water to the Lake  
6 Moultrie Water Agency at cost, and then they  
7 serve it to these members. So the Summerville,  
8 Goose Creek, Moncks Corner, and Berkeley County  
9 are the members, the governmental entities that  
10 make up the Lake Moultrie Water Agency. They've  
11 experienced significant growth. Of course,  
12 those entities are in the Charleston  
13 metropolitan area, which is growing  
14 significantly, and so they've experienced 19  
15 percent growth in the last five years, so  
16 significant growth going on in the water system.

17 That system currently is at 28  
18 million gallons a day capacity and is being  
19 expanded to 40 million gallons a day, and that  
20 expansion should finish up, as you see here,  
21 this year. To give you some idea of the rates,  
22 we benchmark against the American Water Works  
23 Association, and an average O&M medium -- this  
24 is for operation and maintenance -- is \$2.76 a  
25 thousand. So you can see, competitive.

1                   One of the things I like to talk  
2                   about, though, I live in Moncks Corner, so I get  
3                   Santee Cooper water through the town of Moncks  
4                   Corner. It has won the Best Tasting Water from  
5                   the Rural Water Association for two out of the  
6                   last three years. It is -- you know, if you get  
7                   to use it, it's good water. I would say it  
8                   rivals New York City water. It's good water  
9                   also.

10                   Then there's the upper Lake  
11                   Marion. That regional system is not as old, but  
12                   it's basically the same setup. The Town of  
13                   Santee, Orangeburg, Dorchester County, Calhoun  
14                   County, and Berkeley County have output from  
15                   that facility. They currently only use about a  
16                   tenth of the capacity of that facility. Like I  
17                   say, it's fairly new, so it has come on -- but  
18                   it is key because it's also -- there's a line,  
19                   as you can see, being extended down into  
20                   Dorchester and Berkeley Counties that will serve  
21                   the Camp Hall site, which is where Volvo is.  
22                   That's important to making sure that that  
23                   customer gets its needs met.

24                   It has experienced significant  
25                   growth, although it's much smaller, 47 percent

1 growth in the last five years, but that's mainly  
2 because as we are connecting new folks -- and we  
3 would expect that growth to be over 200 percent  
4 in the next five years and that system builds  
5 out. And again, if you remember, the \$2.76 is  
6 the average operating cost for -- operation and  
7 maintenance cost, and again, those costs compare  
8 favorably. Here -- the numbers you see here are  
9 -- the total is the all-in cost which would  
10 include capital as well.

11 Both of these systems meet -- not  
12 -- go beyond just meeting the normal DHEC  
13 standards for water. They participate in  
14 programs that are more stringent and go beyond  
15 the standard requirements for potable water.

16 If I might, I'm going to turn my  
17 attention now to property and property  
18 management. Santee Cooper has a number of  
19 property holdings, and I'm going to use this as  
20 opportunity to go at and try to explain the  
21 other parts of managing Santee Cooper's lakes.  
22 As you can see from this chart, there are a  
23 number of things that we have to do.

24 we do flood control, vector  
25 control. Vector's a big work for, we spray for

1       mosquitoes. We're required to do -- as you can  
2       bet, at the time when this facility was  
3       initiated, managing malaria and mosquitoes was a  
4       health issue for sure. We still have that  
5       obligation and duty and a group of people that  
6       spray for mosquitoes around the lakes in these  
7       areas to manage them. And other, I guess,  
8       vectors, as they would say.

9                        We have to manage the aquatic  
10       weeds. Aquatic weeds have become a big issue  
11       in the lakes in my career, certainly in the last  
12       10 or 20 years. I'm sure if you live around  
13       those lakes, you've probably gotten a call about  
14       managing weeds in the lake. We have to do  
15       forest management for the forests that are  
16       around those lakes. I can touch on that.

17                      Besides water quality, lake  
18       management, all of that, and then, of course,  
19       recreation. While we're looking at this chart,  
20       I want to draw your attention to the red lines.  
21       The red lines -- I know they're not the easiest  
22       to see, but the important thing about those red  
23       lines is the property inside toward the water is  
24       -- that's marking the FERC boundary, that's  
25       marking the Federal Energy Regulatory Boundary

1 where the license applies, and I'll touch on  
2 that for just a second.

3 So that license requires a number  
4 of things. It requires us to provide public  
5 access and recreational opportunities. It  
6 requires us to manage the shoreline. It  
7 requires us to maintain the water quality and  
8 habitat. And of course, we have to maintain the  
9 dams and dikes and have emergency action plans  
10 and safety plans that are tabletop tested each  
11 year and have a major test every five years.  
12 There are 450 miles of shoreline. There are 268  
13 square miles that you're dealing with.

14 So this is a large asset that has  
15 to be dealt with. The recreational and tourism  
16 benefits -- really, opportunities -- are  
17 significant in five rural counties: Berkeley --  
18 remember, this is in upper Berkeley County.  
19 Lower Berkeley County probably can't qualify to  
20 be rural anymore, but Clarendon, certainly,  
21 Calhoun, Orangeburg, and Sumter.

22 SENATOR ALEXANDER: Can I ask a  
23 question?

24 CHAIRMAN SETZLER: Yes, sir.  
25 Senator from Oconee.

1                   SENATOR ALEXANDER: Thank you,  
2 Mr. Chairman. On those that you're managing  
3 from a recreation standpoint, do you have any  
4 agreements with any counties or the State,  
5 county parks, state parks that are a part of  
6 that, or do you management all of that from a  
7 recreational standpoint?

8                   MR. CARTER: We did have a state  
9 park at one time, and I don't know about the  
10 Santee. Does anybody -- Pamela, where are you?

11                  MS. WILLIAMS: Yeah, Santee State  
12 Park, and there's a National wildlife Refuge.

13                  SENATOR ALEXANDER: I'm sorry.  
14 Could you repeat that answer?

15                  MR. CARTER: Why don't you come  
16 tell them?

17                  MS. WILLIAMS: Mr. Chairman, my  
18 name is Pamela Williams. I am senior vice  
19 president for corporate services at Santee  
20 Cooper. So we do -- there is a state park at  
21 Santee, right outside of Santee, South Carolina.  
22 There is also a National wildlife Refuge on the  
23 lakes. The other -- there are areas that we  
24 lease, and Mr. Carter will get into this in a  
25 minute. We lease to commercial operators to

1 provide public access to the lakes, so those  
2 might be campgrounds, fishing, accommodations,  
3 those sorts of things. But we do have some swim  
4 areas and boat ramps that we maintain ourselves.

5 SENATOR ALEXANDER: You maintain  
6 it, not the counties. You don't have any county  
7 parks as a part of that.

8 MS. WILLIAMS: I don't know of  
9 any county parks, Senator, that are within the  
10 FERC boundary on our property.

11 SENATOR ALEXANDER: Thank you.  
12 Outside the FERC boundary?

13 MS. WILLIAMS: well, they  
14 wouldn't be on the lake, but there might be some  
15 parks that operate on our property. Camp Bob  
16 Cooper is an example that I can think of that  
17 Clemson University operates. It's not on the  
18 lake, but it's on our property.

19 SENATOR ALEXANDER: Thank you.

20 MR. CARTER: That about it?

21 CHAIRMAN SETZLER: Keep --

22 MR. CARTER: Yes, sir. So back  
23 to FERC boundary that I showed you on the  
24 earlier picture, within that boundary, there are  
25 some 2,000 what we call residential lease lots

1 that are along the shoreline. There are also  
2 the commercial leases that Ms. Williams just  
3 mentioned to you. We also maintain boat ramps  
4 and swimming areas that we, of course, pick up  
5 the bill for. And we also have to invest some  
6 in those subdivisions where people lease, and  
7 that requires us to maintain inspections and  
8 maintenance in those as well.

9 we also -- moving down into the  
10 center part of this chart, we also hold a number  
11 of large parcels for economic development. Of  
12 course, the best known one is Camp Hall right  
13 now. It will be a unique commerce park that's  
14 being worked on. Again, Ms. Williams is leading  
15 the effort to do that. It will be adjacent to  
16 the new Volvo manufacturing facility because  
17 that's how we ended up acquiring that property.

18 That was our role in helping  
19 recruit Volvo here and to bring those, again,  
20 jobs and capital investment. It will certainly  
21 bring additional jobs and capital investment.  
22 Roughly, to give you an idea at that facility,  
23 there are about 4,000 acres left. Volvo took  
24 about 2,000. There are about 4,000 left, and  
25 about two of that is developable or high land.

1           It's not wetlands or whatever.

2                           In fact, we will also do some  
3 work -- I'm proud of, again, Ms. Williams and  
4 her group and Santee Cooper. Some of that area  
5 can be restored as, I guess, more productive and  
6 better wetlands. And, of course, years ago, a  
7 lot of pine timber was created by, you know,  
8 putting in some drainage ditches and draining  
9 low areas in some of our Carolina bays and  
10 whatnot. Some of that, we will restore by  
11 stopping that drainage, and all that's being  
12 worked on coordinating with DHEC and the other  
13 stakeholders that have been involved in that  
14 process. There's a whole stakeholder group I  
15 should reference that we could tell you about.

16                           In addition to Camp Hall, you can  
17 see the others. Ascot Valley is a property that  
18 we -- it was a former industrial site up in  
19 rural Horry County near Loris, sort of between  
20 Conway and Loris. Had a facility on it that had  
21 a good bit of asbestos in it, and we acquired  
22 that property and have cleaned up that site.  
23 Otherwise, it was not going to get redeveloped.  
24 We did that in conjunction with Horry County and  
25 their economic development folks.

1                   And then, of course, we have the  
2                   two generation sites with is Grainger, which is  
3                   at Conway, Jefferies right there at the hydro  
4                   facility in Moncks Corner, that are being  
5                   basically redeveloped. They will be what  
6                   generally will be referred to as brownfield  
7                   sites. I always hate to call them that because  
8                   if you look at the Grainger site, it's got a  
9                   nice, green, grassy field on it right now.

10                   And then, of course, there's 3600  
11                   acres that we manage in forestry that's  
12                   undeveloped. Again, much of that would be  
13                   around the lakes as well. A lot of that, or  
14                   most of that, is wildlife management areas,  
15                   including the future generating sites, which  
16                   I'll show you in just a minute on another chart,  
17                   and those areas are dedicated to public hunting  
18                   and recreation, and most of that is managed by  
19                   the Department of Natural Resources for us.  
20                   It's a joint agreement, again, with that agency.

21                   CHAIRMAN SETZLER: Mr. Carter,  
22                   you have not mentioned in all of that wampee or  
23                   Sunset.

24                   MR. CARTER: Somerset.

25                   CHAIRMAN SETZLER: Somerset.

1 where are those, and what does that involve?  
2 where do they fall in what you're talking about?

3 MR. CARTER: well, they really  
4 aren't in this. They are -- if we back up -- of  
5 course, they're both on the end of the peninsula  
6 there. Where you see "hydro generation,"  
7 there's a peninsula that sticks out into the  
8 lake. Both are there. Somerset would be on one  
9 side of the point, I guess on the western side  
10 of the point, and it is a recreation facility  
11 for employees and retirees and their guests. On  
12 the other side is Wampee, as you referred to,  
13 and that's the training and conference center  
14 that's there.

15 CHAIRMAN SETZLER: So how much  
16 acreage is with Wampee, what is the buildings  
17 there, and how many full-time employees you got  
18 working at Wampee? And the same for Somerset.

19 MR. CARTER: well, the  
20 maintenance is dealt with by people that  
21 maintain all of our property, so grass cutting  
22 or whatever, fixing something that's broken or  
23 whatever, and then I believe there are -- does  
24 anybody know the number of staff people at --

25 MS. WILLIAMS: There are seven or

1 eight.

2 MR. CARTER: Seven or eight. We  
3 can get you an exact number of the people that  
4 actually work or the -- what I'd call the cooks  
5 and the chef and whatnot that are at Wampee.

6 CHAIRMAN SETZLER: And who uses  
7 Wampee?

8 MR. CARTER: Wampee is used by a  
9 multitude of folks. State agencies use it.  
10 Certainly Santee Cooper uses it. Our board  
11 meets there for many -- almost -- most of our  
12 board meetings are there. Also it's used by  
13 counties and cities, particularly those --

14 CHAIRMAN SETZLER: Do you charge  
15 them, or you let them use it free?

16 MR. CARTER: Most people are  
17 charged a fee to use it. It's a nominal fee.  
18 It's not -- we're not out there in the business  
19 of running a conference center. It's mainly to  
20 cover the cost of the people and the stuff that  
21 we -- that's consumed, so food and to clean it  
22 up. And I think -- I'm looking back here at  
23 people that have run it before, so we could get  
24 you the exact rates we charge. There's a list.

25 CHAIRMAN SETZLER: And what about

1 Somerset?

2 MR. CARTER: Somerset, only if  
3 you rent one of the facilities there; otherwise,  
4 it's free access. So there are, I think, five  
5 cabins. There is a rental fee that would cover  
6 the cost to clean it, and the same thing you pay  
7 a -- I believe you pay a fee -- you don't pay  
8 for the picnic sheds, but there's a building at  
9 Somerset that you can rent.

10 CHAIRMAN SETZLER: Okay. How  
11 much land is with the two of them, each one of  
12 them?

13 MR. CARTER: Thirty acres?

14 MS. WILLIAMS: (INDISTINCT)

15 MR. CARTER: I would guess about  
16 30 acres, but we can get you an exact number if  
17 you want an exact number. But I'd say about 30  
18 acres. That sounds about right too.

19 CHAIRMAN SETZLER: Do your  
20 employees have access to either one or both?

21 MR. CARTER: They have access.  
22 Employees and retirees have access to Somerset,  
23 and, of course, if -- you know, for functions,  
24 yes, sir. I mean, it's a business facility.

25 CHAIRMAN SETZLER: Okay. we'll

1           come back to that. Go ahead.

2                         MR. CARTER: It is gated to  
3           protect it. Both are gated.

4                         To -- I think I can wrap up here  
5           on property and -- I know this is hard to see,  
6           but I felt like in order to give you a full  
7           understanding of where our property is, there  
8           are -- and you have to look hard to see this,  
9           but the orange on this, there's about 9,000  
10          acres that Santee Cooper owns that current  
11          generating facilities occupy and sit on. You  
12          have to have -- you know, they're fairly large  
13          facilities. If they burn a fuel, they have to  
14          have buffers associated with them. So again,  
15          about 9,000 acres for the existing generating  
16          fleet, and then in the purple, there are about  
17          4,000 acres held for future generating sites.

18                        To give you an idea of those,  
19          there's one down in -- I'm sorry. I've got a  
20          different chart than y'all do. You've got a  
21          different one at your place as well, I believe.  
22          Let me see. I'll work off of this chart. That  
23          current is the orange, and then the future  
24          that's got 11,000 acres in it, that's been  
25          broken down between -- I can break that down

1       between -- future sites is 7500 acres -- or  
2       7500 acres of that is future economic  
3       development sites, and 4,000 of it is power  
4       plants, is what I was trying to break down, and  
5       the green portion that's up here, that 11,000,  
6       is correct on your charts that are in front of  
7       you. I believe that's correct. Where's Mr.  
8       Geiser (PHONETIC)? I think that's right.

9                       And then the other piece -- of  
10       course, the blue piece is the lakes themselves,  
11       but you can see that there are a number of  
12       properties scattered about the state that Santee  
13       Cooper also has and has to maintain.

14                      Now I'm going to talk a little  
15       bit -- try to give a financial overview. First,  
16       Santee Cooper is supported by what I would call  
17       a favorable rate structure and commitment to  
18       recover our costs through rates, and that has  
19       historically generated strong financial metrics.  
20       And I'm going to try to cover that as best I can  
21       here.

22                      So if you look at these graphs,  
23       if you look at the first set of graphs, which  
24       would be on your right -- excuse me, your left  
25       as you look at it up here, on the left is the

1 debt service coverage. That's probably the  
2 metric that's most used in our industry to  
3 measure utilities, public power utilities like  
4 us. That's the one you hear about the most.  
5 Santee Cooper historically stays about a 1.4  
6 times coverage.

7           That that means is that our  
8 revenues are sufficient to pay all of our costs  
9 and then all of our debt plus -- one time, and  
10 then four-tenths of a time again, is what it's  
11 measuring. Please keep in mind that when we put  
12 this metric up and measure it, there actually  
13 includes a couple of payments that are  
14 subordinated to our bonds. So technically, the  
15 commercial paper that we have is in that  
16 calculation, but it is issued subordinate to our  
17 bonds.

18           SENATOR SCOTT: So in essence --

19           MR. CARTER: Meaning that -- what  
20 that means is, we would have to pay the bond  
21 holders before we would have to pay the  
22 commercial paper. The other one that would be  
23 very important to this group is, the payment to  
24 the State is also included in here, and I'll  
25 show the amount in just a minute. It's included

1 in this calculation as part of what's taken out  
2 to come up with the 1.4 times. But again, that  
3 payment is actually subordinate to paying the  
4 bonds.

5 CHAIRMAN SETZLER: Senator from  
6 Richland.

7 SENATOR SCOTT: So in essence,  
8 the \$1.7 billion you talked about was gross  
9 revenue. Now you're digging into what -- how  
10 you actually spent the \$1.7 billion. Early on,  
11 the earlier presentation, you showed a \$1.7  
12 billion.

13 MR. CARTER: That's revenue, yes,  
14 sir.

15 SENATOR SCOTT: Revenue, so you  
16 you're going to show us -- how much is the  
17 actual annual amount for the bonds? And I know  
18 at some other previous meetings, I think what  
19 y'all have been sending to the General Assembly  
20 each year, that's -- it's been probably staying  
21 constant. I don't think it's increased that  
22 much.

23 MR. CARTER: I don't believe in  
24 this presentation I have the annual debt  
25 service, but y'all have that. We can get it to

1       you. But the \$1.7 billion represents Santee  
2       Cooper's -- and I'm going to cover that a little  
3       bit more here in detail right now. Our  
4       requirement to recover -- our revenues have to  
5       at least be sufficient to cover all of our  
6       costs, and we'll talk about those costs a little  
7       bit more in a minute because our revenues are  
8       what is pledged to support the issuance of  
9       bonds, and I'll -- we don't pledge assets. We  
10      pledge our revenue stream. And I think that's  
11      important and another thing that needs to be --

12                   CHAIRMAN SETZLER: Senator from  
13      Lancaster.

14                   SENATOR GREGORY: Mr. Carter, as  
15      far as the debt service coverage, how does  
16      Santee Cooper compare to the industry standard  
17      or what would be average for the industry or,  
18      say, Duke or Southern?

19                   MR. CARTER: I wouldn't -- I  
20      don't know that you can say that there's an  
21      industry standard, so if you're a utility that's  
22      more wholesale, we probably would be near what  
23      you would expect to see, which is what we are.  
24      If you are a utility that's more retail -- so if  
25      you're a city or somebody that serves almost all

1 retail, you would likely see higher. That  
2 number is, as I'll talk about in just a minute,  
3 goes directly at what your credit rating agency  
4 is going to say about you as well, so it has a  
5 lot to do with your credit rating as well.

6 SENATOR SCOTT: How much -- Mr.  
7 Chairman --

8 CHAIRMAN SETZLER: Senator from  
9 Richland.

10 SENATOR SCOTT: How much is the  
11 annual payment back to the General Assembly each  
12 year?

13 MR. CARTER: I'm going to show  
14 you a chart in just a minute, Senator Scott.  
15 You -- I'm just not fast enough for you today,  
16 am I? I'm going to get to it. I promise you I  
17 am. And that's a good -- it's good -- you're  
18 asking questions that are relevant, and that's  
19 why, hopefully, we'll get to them.

20 Again, on your far right is  
21 liquidity. Santee Cooper maintains strong  
22 liquidity so that we can pay our bills, which  
23 we're required to do and something, again, that  
24 the rating agencies would look at. These  
25 metrics that we're looking at, they would look

1 at all three of these metrics also, liquidity  
2 being one.

3 And then we show on the bottom a  
4 long list of where we've -- where we have what's  
5 called debt/equity, so how much debt do you have  
6 to equity. This gets at what I was trying to  
7 say earlier, that we are a heavily leveraged  
8 utility. That's what public power does. That's  
9 one of the ways that we bring benefit and value  
10 to the state. So you can see we're back up  
11 around 80 percent debt/equity. It has been  
12 higher than that historically. I can tell you  
13 it's been -- if you go back even further, it was  
14 much higher, and you can see that it's been  
15 lower.

16 CHAIRMAN SETZLER: So in simple  
17 terms, that's 80 percent debt on the worth --  
18 100 percent of the worth of Santee Cooper. Is  
19 that a fair way to say it?

20 MR. CARTER: Yes, sir, and Mr.  
21 Chairman, not the -- and I want to be careful  
22 here not -- I don't want this to sound like I'm  
23 mixing words, but when you say the word "worth,"  
24 these are based on accounting standards and the  
25 way that the books are kept.

1                   CHAIRMAN SETZLER: Well, if  
2                   somebody -- get somebody up there that can  
3                   because I've asked four people up here, and  
4                   nobody understands this chart, and it appears to  
5                   be important if you're telling us that 80  
6                   percent of Santee Cooper is leveraged and is  
7                   debt.

8                   MR. CARTER: Yes, sir, that's  
9                   true, and that's -- but what you -- and I -- you  
10                  used the word "worth," and that makes me tend to  
11                  think about what something's value is. This is  
12                  -- a book -- this is using accounting  
13                  principles, standard accounting principles,  
14                  certified, audited by, you know, our auditors,  
15                  our external auditors, and signed off on. So  
16                  these are accounting numbers, but if you want to  
17                  know the value, it's what somebody will pay for  
18                  it.

19                 CHAIRMAN SETZLER: Well, I want  
20                 -- you got somebody out there that can explain  
21                 that chart better than that to us?

22                 MR. CARTER: I mean, I -- well --

23                 CHAIRMAN SETZLER: With what you  
24                 call accounting terms?

25                 MR. CARTER: Well, it's -- well,

1        what I'm trying to say to you, the distinction  
2        I'm drawing is that these are what we paid for  
3        them. So the -- you know, you book assets, you  
4        depreciate them, so there are accounting  
5        mechanisms and uses that we use to come up with  
6        it, to come up with these numbers. They're  
7        standard. They're what's used by the industry.  
8        There's no smoke and mirrors here, but you use  
9        the word "worth" when you asked me that question  
10       --

11                    CHAIRMAN SETZLER: I've heard you  
12        twice on that. I got that, but I -- we still  
13        want to understand what this 80 percent debt  
14        means --

15                    MR. CARTER: So in accounting  
16        terms --

17                    CHAIRMAN SETZLER: -- in simple,  
18        plain English.

19                    MR. CARTER: In simple accounting  
20        terms, it means that our debt is 80 percent of  
21        our book value, which we can --

22                    CHAIRMAN SETZLER: Okay.

23                    MR. CARTER: which you can see  
24        better here. Maybe we could talk about it from  
25        here, Mr. Chairman?

1                   CHAIRMAN SETZLER: That's fine.

2                   MR. CARTER: So if you look at  
3 the assets, which are on your left on this  
4 chart, these are the assets and -- as they are  
5 depreciated. That's what I was trying to get at  
6 earlier. And so if you look on the right, you  
7 start out with the revenue obligations, which  
8 that first line is the bonds that we have  
9 outstanding, commercial paper being next. All  
10 the other liabilities are listed there, and then  
11 you see the capital contributions, or the equity  
12 that's in the company, which is the 2.1 billion.  
13 But that's how that --

14                   CHAIRMAN SETZLER: All right, so  
15 I may have been reading and not paying as much  
16 attention. What is the current assets, \$2  
17 billion, what makes that up?

18                   MR. CARTER: Twelve billion?

19                   CHAIRMAN SETZLER: Two billion.

20                   MR. CARTER: Two billion, that is  
21 your capital contributions. That's the equity,  
22 as most people would think of it.

23                   CHAIRMAN SETZLER: And what is  
24 deferred debits?

25                   MR. CARTER: The regulatory

1 assets -- and we may need -- well, you can get  
2 ready because you're probably going to have to  
3 -- our CFO is probably going to have to answer  
4 this. But this is what it boils down to. In  
5 our business, we charge our customers, remember,  
6 cost, and part of that cost is the principle  
7 payments on bonds. When we depreciate assets,  
8 we depreciate them over standard asset  
9 depreciating mechanisms, and that depreciation  
10 and those principle payments don't always match  
11 up. In fact, they don't.

12 So early on, your depreciation  
13 would be higher, but your principle payments are  
14 pretty flat over the issuance of debt. You with  
15 me so far? And so that item, the majority of  
16 that item is an accounting recognition that you  
17 will recover that difference over the life of  
18 the bonds. It's a way to match up the  
19 depreciation and the fact that you're paying  
20 principle and interest on your bonds.

21 CHAIRMAN SETZLER: Okay. So on  
22 the other side, on the liabilities, how about  
23 explain to us this unamortized debt, other  
24 current liabilities, and other noncurrent  
25 liabilities, those three lines.

1                   MR. CARTER: Okay, the  
2                   unamortized debt, the premiums and the  
3                   discounts, that is basically, when you issue  
4                   debt, you have the cost of issuance. You have  
5                   premiums, sometimes, that you pay. And  
6                   sometimes you -- when we call bonds, we also  
7                   have those same things, so that's -- the way to  
8                   look at that is, that's a debt.

9                   CHAIRMAN SETZLER: Okay.

10                  MR. CARTER: In short terms --  
11                  I'm going to look at my CFO, but I would --  
12                  that's just debt that would -- is effectively  
13                  what that is. Current liabilities are, you  
14                  know, payables, things that where somebody's  
15                  delivered something, we haven't paid them yet,  
16                  that type of thing, what you would expect to  
17                  see. And then the other noncurrent liabilities  
18                  are liabilities that we have that may be longer  
19                  term but that aren't due in the current year,  
20                  and if you need a better definition than that,  
21                  Jeff you can give some -- you want to give him  
22                  some ideas of what's in that? I know one of the  
23                  big ones, but.

24                  MR. ARMFIELD: My name's Jeff  
25                  Armfield. I serve as CFO. So in the noncurrent

1 liabilities, you would have a number of things  
2 such as pension and benefit costs for employees.  
3 we'll be happy to get you some detail on what  
4 makes up all of this.

5 MR. CARTER: There's more detail  
6 in the financials anyway.

7 MR. ARMFIELD: Yes.

8 MR. CARTER: This is just -- Mr.  
9 Chairman, this was summarized just to try to  
10 make it simple to look at, but that -- you have  
11 the detailed accounting statements from Santee  
12 Cooper. It does include -- I do know in the 11  
13 -- the 1.2 billion, let's say, it includes a  
14 recognition of \$313 million of unfunded state  
15 pension liability. The accounting rules  
16 required us to start recording that on our books  
17 in the last year or two, so that's also in that  
18 number.

19 CHAIRMAN SETZLER: All right, so  
20 from his perspective, if he would come back just  
21 a minute. Try to educate us. Liability would  
22 always be a debt or would not always be a debt?

23 MR. ARMFIELD: Liability would be  
24 a liability, so when you say a "debt," it's  
25 something you owe, either in a current term or

1 in a future term.

2 CHAIRMAN SETZLER: So in the  
3 difference in the debt on page 28 of 8 billion,  
4 122, versus the total liabilities of nine, 941  
5 on page 27 --

6 MR. ARMFIELD: There are other  
7 liabilities besides just pure debt.

8 CHAIRMAN SETZLER: Okay. That's  
9 what I thought. I just wanted to be sure.  
10 Thank you.

11 MR. ARMFIELD: Yes, sir.

12 MR. CARTER: Thank you, Jeff. So  
13 as has been alluded to earlier, you know, Santee  
14 Cooper's capital contributions, you know, either  
15 came from the original grant from the federal  
16 government, and then, of course, since has come  
17 from contributions from our electric customers,  
18 and some of it from water, but the vast majority  
19 of it. And of course, those dollars are  
20 invested back into Santee Cooper to lower future  
21 costs.

22 This next chart gives you a more  
23 detailed breakdown. I understood there was a  
24 request to provide that, and if I may, Mr.  
25 Chairman, I'll try to walk through that fairly

1 quickly. First, each of the columns: There are  
2 -- Santee Cooper as a state entity is able to  
3 issue tax-exempt bonds, meaning they're tax  
4 exempt from both state and federal income. The  
5 interest earned by the holder of that bond does  
6 not have to pay federal income tax or state  
7 income tax on that. And most states give us  
8 reciprocity on that. Do we have any that do not  
9 that you're aware of?

10 MR. ARMFIELD: None that I know  
11 of.

12 MR. CARTER: I don't know of  
13 anybody -- I don't know of any state that  
14 doesn't, meaning that, also, if you're in a  
15 state that has a state income tax, generally  
16 they honor that same exemption. It's my  
17 understanding.

18 So tax-exempt debt means you get  
19 a better interest rate for it than you can if  
20 you look over, then, at taxable debt. You might  
21 ask, well, if you get a better interest rate,  
22 why in the world would you issue any taxable  
23 debt? A wonderful question, and the answer is,  
24 it's the federal income tax laws, and they are  
25 complicated around the subject, extremely

1 complicated, and what it boils down to is under  
2 certain circumstances, mostly for our large  
3 industrial customers, because we have fixed  
4 rates -- a portion of their rate is fixed -- we  
5 have to issue taxable debt to cover that and  
6 some other entities like that.

7 In other words, in its broadest  
8 terms, what the federal government is trying to  
9 do is keep people from using their tax-exempt  
10 status to benefit a private party, a private  
11 industry. That was the idea behind it. And we  
12 -- electric utilities got caught up in it, the  
13 truth be known. And that's been around a while.  
14 So we issue both taxable and tax exempt. You  
15 can see by far, the lion's share of our debt is  
16 issued as tax-exempt debt, and we'll issue as  
17 much of that as we can within what the law or  
18 the regulatory environment allows us to do.

19 Then if we start going down, you  
20 can see, then, going down the left-hand side of  
21 the column, you see the nuclear generation debt  
22 that's there. Nuclear CAPI is nuclear  
23 capitalized interest. That's interest that we  
24 paid with bonds that was accrued once we issued  
25 bonds for the project. You can see we broke out

1           separately the nuclear transmission piece.  
2           Those were transmission lines. A lot of power  
3           was going to be coming out of that facility. It  
4           needed to come back to the east, and so a lot of  
5           lines were being built back to the east, 210  
6           million for that, and then all other projects,  
7           all other projects within the system, all of the  
8           revenue bonds, you can see the amount that was  
9           issued there.

10                        The stuff below, you can see the  
11           nuclear capital interest that was paid for --  
12           paid by commercial paper. Commercial paper is  
13           just another short-term borrowing mechanism that  
14           you can borrow from. So generally, in our  
15           system, generally we would use it to borrow  
16           short term, and then, as I would say, bond it  
17           out when we had enough together and it was  
18           economical to go into the bond market.

19                        And so that's a quick overview of  
20           our debt. As you can see there, again, 80  
21           percent of our balance sheet is taken up in  
22           debt, as we just talked about.

23                        Now if I may, this is what I  
24           alluded to earlier. And so Santee Cooper, when  
25           it sells -- we sell revenue bonds, and that's

1 standard in this industry, in the public power  
2 industry. So our revenues are what is pledged  
3 to support and pay for the bonds. We do not  
4 pledge assets. So when we borrow money, and we  
5 just got through saying that -- I'm going to  
6 back up one chart. When we give you this chart,  
7 we're telling you where we spent the money.  
8 This is where we applied it and spent it.

9 But when we borrow it from the  
10 bondholder, we tell them that we're going to --  
11 we pledge our revenues to pay you back, not the  
12 asset that we're going to spend it on. We tell  
13 them the laundry list of assets that we might  
14 and could spend it on, including nuclear, but we  
15 don't pledge any of those assets. So why -- so  
16 how can we do that and how does that work? And  
17 this is used -- this is the predominant way in  
18 our industry, again, our industry being public  
19 power entities like us.

20 We do that through two  
21 mechanisms, and I call them overarching  
22 covenants, effectively, that are made. One  
23 mechanism is this rate covenant that is in the  
24 bond resolutions that Santee Cooper's board  
25 authorizes and approves. Santee Cooper's board

1 -- only Santee Cooper's board has the authority  
2 to indebt or tie up those -- that revenue  
3 stream, so this is a board function always.

4           So in that document, we pledge,  
5 as indicated here, we pledge that we will set  
6 rates at least sufficient to cover these items.  
7 So as you can see, that's principle and interest  
8 payments, that's the revenue bond obligations  
9 themselves, and it's also our expenses to  
10 operate the company. We have to be able to  
11 operate the company.

12           If, in that same document, if we  
13 were not -- if the board does not set rates that  
14 are at least sufficient, then if 25 percent of  
15 the outstanding bondholders petition the  
16 trustee, the trustee can petition a court to  
17 direct us, direct the Santee Cooper board, to  
18 set rates at least sufficient to cover the cost  
19 and to pay the bonds. That's under the bond  
20 document.

21           So the next piece of this is how  
22 the State has covenanted it, and you can see  
23 the, if you want to go look at the statute, but  
24 effectively, what it says is, The State pledges  
25 it won't do anything to alter Santee Cooper's

1 ability -- Santee Cooper or the authority of the  
2 board -- ability to alter it so that it can't  
3 collect enough money to recover those costs.  
4 That's how Santee Cooper's bonds are covered.

5 And that's important because it  
6 goes back to this issue -- this is another one  
7 of those things that has to be dealt with as you  
8 look at selling Santee Cooper because as you can  
9 imagine, a bondholder now is going to be  
10 concerned about anything that's done that might  
11 impair their revenue stream, and as I understand  
12 from the people, the lawyers that practice in  
13 this area, I've dealt with them enough over my  
14 career, that there's a lot of well-established  
15 case law over this that, you know, these  
16 provision will be upheld. So it's likely that  
17 if you materially impact -- I'm not practicing  
18 law here, but it's likely that if you materially  
19 impact the revenue stream in any way, then you  
20 will likely have to call all of the bonds.

21 CHAIRMAN MASSEY: So what you're  
22 telling us, Mr. Carter, is that we can't  
23 legislatively make y'all reduce your rates.

24 MR. CARTER: No, sir, because  
25 you've pledged that you won't, and you would be

1 changing an existing statute where you pledged  
2 you wouldn't.

3 SENATOR SCOTT: Mr. Chairman.

4 CHAIRMAN SETZLER: Senator from  
5 Richland.

6 SENATOR SCOTT: And am I also  
7 hearing that if there is a new buyer, that new  
8 buyer needs another check for \$8 billion to pay  
9 that bond off or another way to refinance the  
10 bond because the revenue part would only work on  
11 a public entity and not on a private company?

12 MR. CARTER: Yes, sir. If it's a  
13 private company, they will have --

14 SENATOR SCOTT: They need the  
15 check.

16 MR. CARTER: well, not -- it's  
17 even -- yes, sir.

18 SENATOR SCOTT: One way or the  
19 other, they either need to borrow the money, or  
20 they need to pay it -- they got to --

21 MR. CARTER: They would likely  
22 have some borrowing and some equity, some  
23 stockholder equity is how they would likely fund  
24 it. That's generally the way that it's done.  
25 But the other piece -- why that's important and

1           why I just mentioned it, again, I'm trying to  
2           convey information, which is what I --

3                         SENATOR SCOTT: I understand.

4                         MR. CARTER: -- understood, so if  
5           it's more than you want to know, Mr. Chairman,  
6           I'll move on. But because if you do do that,  
7           then if all the bonds have to be -- there are  
8           premiums associated with that. We have an  
9           estimate -- a most recent estimate is about \$1  
10          1/2 billion. It's the cost to call the debt,  
11          besides what's already outstanding; again, an  
12          issue that would have to get taken care of.

13                        CHAIRMAN MASSEY: Mr. Carter, 80  
14          percent seems high to me. Is that consistent  
15          with what other public utilities have?

16                        MR. CARTER: Let me answer it  
17          this way with this chart. There are other  
18          utilities that do have higher -- that have it,  
19          and we've had higher than that before. We were  
20          -- when I came to work there in the '80s, it was  
21          at 90 percent. I don't recommend 90 percent,  
22          but, yes, sir, some -- for -- in our business,  
23          it would not be uncommon to see 70, 80 percent  
24          debt/equity ratios because, remember, our debt  
25          is cheap. Our capital cost is cheap, so you

1 want to be leveraged, and because we're a  
2 government entity with these types of  
3 provisions, you can be heavily leveraged and  
4 still have a good credit rating.

5 CHAIRMAN MASSEY: And the bonds  
6 that Santee Cooper have issued have varying  
7 terms on them, right?

8 MR. CARTER: Yes, sir.

9 CHAIRMAN MASSEY: As far as  
10 duration?

11 MR. CARTER: Yes, sir. They have  
12 varying maturity dates, interest rates, yes,  
13 sir.

14 CHAIRMAN MASSEY: And various,  
15 not only duration and interest rates, but also  
16 amounts.

17 MR. CARTER: Amounts, call  
18 provisions, yes, sir.

19 CHAIRMAN MASSEY: And tell me why  
20 would the bonds be issued like that in such  
21 various degrees?

22 MR. CARTER: Because you borrowed  
23 as you needed the money. We only borrow money  
24 when we need money. And so what, at the time,  
25 you use --

1                   CHAIRMAN MASSEY: You've got some  
2 low denominations and some higher denominations,  
3 right?

4                   MR. CARTER: We have two types of  
5 bonds we issue. We issue what I would call  
6 standard or what's typically issued using wall  
7 Street investment bankers. Those are larger  
8 denomination bonds.

9                   CHAIRMAN MASSEY: And generally,  
10 what type -- when you say a larger denomination,  
11 what are we talking about?

12                  MR. CARTER: Oh, they are at  
13 least \$5,000, but most of them would even be  
14 higher, \$100,000 bond, those types of things.  
15 But -- because most of there, you're talking  
16 about your large investors, your very large  
17 investors. We also have and have run in the  
18 state what we call a mini-bond program where  
19 people can invest in Santee Cooper for as little  
20 as \$200 a bond. You can either buy them in \$200  
21 increments or \$500 increments, and I believe you  
22 can buy up to \$50,000 each time we issue. And  
23 the reason we put that cap on is, if you can get  
24 above \$50,000, just go ahead and -- you know,  
25 you can get into big bond market if you want to

1 hold Santee Cooper paper, or bonds. So that's  
2 why we do that. That's what the cap is there  
3 for.

4 CHAIRMAN MASSEY: Yeah, I --

5 MR. CARTER: Because it's more  
6 efficient to issue the big ones than it is the  
7 smaller because it's a lot -- it's a fair amount  
8 of work to issue local debt, but it gives people  
9 in the state an opportunity to be part of the  
10 investment and take advantage of this type of  
11 investment opportunity.

12 CHAIRMAN MASSEY: It also seems  
13 to me that the way that some of that -- some of  
14 those bonds have been issued is kind of self-  
15 protective, right? I mean, the way that debt is  
16 structured makes it -- is another complicating  
17 factor for us or for any General Assembly, I  
18 mean, isn't it? I mean, it --

19 MR. CARTER: I would --

20 CHAIRMAN MASSEY: Doesn't that  
21 help protect Santee Cooper's existing status?

22 MR. CARTER: I'm going to answer  
23 you with a yes and a no. It's put in there  
24 actually to protect the bondholder and making  
25 sure that you -- the stuff, as I look at it,

1       it's mostly in there to protect the bondholder  
2       and that stream of revenues. And I believe if  
3       you look at the documents and -- bond lawyers, I  
4       think that's what they would tell you, that the  
5       provisions that you're looking at, the reason --  
6       the terms that we issue it over and the length,  
7       we try to issue them over the life of the assets  
8       that we're going to be looking at funding, so  
9       most of our assets are long-term assets, so most  
10      of it's going to be issued over -- have long  
11      maturity dates.

12                   CHAIRMAN MASSEY: So even though  
13      you're not pledging the assets as collateral,  
14      you're, in considering the duration of the bond,  
15      you're looking at the length of the asset, at  
16      the life of the asset?

17                   MR. CARTER: Generally because  
18      again, we're trying to match that up so that the  
19      life of the asset that's being used to generate  
20      the revenue -- because you're going to sell the  
21      electricity from it, and that's where the  
22      revenues come. So that's -- again, that's  
23      standard in this industry. I mean, I would --

24                   CHAIRMAN MASSEY: So you're  
25      pledging -- you're basically pledging revenue,

1       which is affecting rates, over that long period  
2       of time.

3                   MR. CARTER:  Yes, sir.

4                   CHAIRMAN MASSEY:  You're  
5       committing, over a very long period of time,  
6       that you're not going to do anything negative on  
7       the rates.

8                   MR. CARTER:  Yes, sir, we have.  
9       I would say that the State has, and so has  
10      Santee Cooper.

11                  CHAIRMAN MASSEY:  Well, the State  
12      had -- well, you have because the State has.

13                  MR. CARTER:  Yes, sir.  
14      Otherwise, we wouldn't have been able to put in  
15      there -- it wouldn't have had the value that it  
16      does to create this credit rating, yes, sir.  
17      The way I look at it is, yes, sir.  So --  
18      because, in a sense, the way I look at it is, we  
19      mirrored what the State pledged so that we could  
20      have the ability to issue bonds for the life of  
21      the assets that we're going to use and then  
22      recover them through those streams of revenues.

23                  CHAIRMAN SETZLER:  Senator from  
24      Richland.

25                  SENATOR SCOTT:  So with that

1           said, if we kind of roll the clock back, our  
2           investment in the V. C. Summer Nuclear Plant is  
3           all bonds that you issued?

4                       MR. CARTER: Yes, sir.

5                       SENATOR SCOTT: So regardless,  
6           because we've raised rates over that period of  
7           time, the rates in your particular case would  
8           have to stay in place simply to be able to pay  
9           the bonds off.

10                      MR. CARTER: Santee -- yes, sir.  
11           So Santee Cooper, by statute and by these bond  
12           documents, has to set rates at least sufficient  
13           to cover all its costs, yes, sir.

14                      SENATOR SCOTT: So that puts us  
15           in another box when we begin to talk about  
16           somebody being able to purchase unless -- and I  
17           don't know whether or not those bonds for V. C.  
18           Summer is a set of bonds that's separate and  
19           apart, based on the previous question by the  
20           Chair just a second ago, or whether or not the,  
21           I think it's \$4.4 billion, is separate bonding  
22           out there by itself.

23                      MR. CARTER: It is not. All of  
24           the bonds have -- all of the revenue is pledged  
25           against all of the bonds, but it doesn't -- I

1 want to be clear here today. It doesn't mean  
2 you can't sell. It simply means that if you're  
3 going to sell large pieces or even if you sold  
4 the whole thing, you've basically just got to  
5 retire the debt. You've got to --

6 SENATOR SCOTT: Look, look --

7 MR. CARTER: I mean, it --

8 SENATOR SCOTT: And retiring the

9 --

10 MR. CARTER: It doesn't mean it  
11 can't be done.

12 SENATOR SCOTT: And retiring the  
13 debt, you also talked about a penalty a minute  
14 ago.

15 MR. CARTER: Yes, sir.

16 SENATOR SCOTT: I think a \$1.5  
17 billion penalty. And if -- even if you did a  
18 refinance, that 1.5 is going to appear again as  
19 a penalty for refinancing if it's a private  
20 company who comes in to settle that debt.

21 MR. CARTER: I'd prefer -- you  
22 know, bondholders, those are premiums that  
23 bondholders would expect, and again, those  
24 premiums are -- those terms are stuff that  
25 happens when we issue bonds. In other words, if

1       you buy a bond, you want to know that you're  
2       going to at least get to hold it for ten years,  
3       I think, is generally what most of -- our bonds  
4       have a least a --

5                   CHAIRMAN SETZLER:  So Mr. Carter,  
6       before you go -- you being Santee Cooper, not  
7       you, individually -- before Santee Cooper goes  
8       to a certain debt level, whether it be 80  
9       percent, 90 percent, or 50 percent, being a  
10      state-owned utility, you don't think, now  
11      looking back, that there ought to be some  
12      provision at a certain level that you have to  
13      come to the State to exceed that level instead  
14      of just going wherever Santee Cooper and the  
15      board decide to go?

16                   For example, if Santee Cooper's  
17      not sold, going forward, don't you think that's  
18      something that ought to be looked at, is how you  
19      are allowed to raise your rates without any  
20      approval by anybody, PSC or anybody else, number  
21      one, and number two, the level of debt that  
22      you're allowed to go to ought be controlled in  
23      some manner?

24                   MR. CARTER:  Again, Senator, I  
25      think that's a policy question.  I don't have an

1 answer for it. I'm not even sure how it would  
2 affect us if there were some cap. I just -- I  
3 don't know how to answer that question because  
4 I'd have to think about it a little bit to think  
5 about it if it made any difference to the bond  
6 market, is what I'm trying to tell you, so I --  
7 that would be --

8 CHAIRMAN SETZLER: I'm not  
9 worried about the bond market.

10 MR. CARTER: I would want to  
11 think about that.

12 CHAIRMAN SETZLER: I'm worried  
13 about how much debt, the percentage of debt that  
14 Santee Cooper runs up before you have to come to  
15 somebody to have some approval or authority or  
16 that they know it.

17 MR. CARTER: Mr. Chairman, I  
18 would -- I'd just say this to you, that there  
19 are utilities that have more and would have  
20 more, and some would argue that we should have  
21 more because our cost of capital is so low, and  
22 if we aren't getting it through debt, then we're  
23 collecting it from customers in equity. Am I  
24 making sense?

25 CHAIRMAN MASSEY: But it's tied

1 together, right? I mean, the -- I mean, it  
2 seems to me that the only way you do anything to  
3 benefit the ratepayers is, you've got to pay off  
4 all the debt. And the only realistic way to pay  
5 off all the debt is to sell Santee Cooper.  
6 Isn't that right?

7 MR. CARTER: That would be one  
8 way to do it.

9 CHAIRMAN MASSEY: Is there  
10 another way? Well, yeah, other than if Senator  
11 Leatherman wants to write an \$8 billion check to  
12 pay off the debt.

13 CHAIRMAN SETZLER: Which is the  
14 citizens of this state. But going back, you've  
15 got -- there is no control on the raising of  
16 rates except your board. You keep referring to  
17 other utilities do this, but those other  
18 utilities, the large percentage of them are  
19 regulated utilities by somebody, whether it's a  
20 PSC or somebody. You're not. And then on top  
21 of that, you're raising debt to 80 percent,  
22 which is rolled up into what the State debt is,  
23 so you could impact our bond rating.

24 MR. CARTER: The State has no  
25 obligation to pay Santee Cooper's bonds.

1                   CHAIRMAN SETZLER: Yeah, but I  
2 think your bond debt is rolled up, if I'm  
3 understanding correctly, into ours in  
4 consideration of our bond rating.

5                   MR. CARTER: I think it's put on  
6 your books --

7                   CHAIRMAN SETZLER: Right.

8                   MR. CARTER: -- but the State has  
9 no obligation -- and nowhere, in anything that  
10 we do, do we obligate the State to pay that  
11 debt. We don't have the authority to do that.

12                  CHAIRMAN SETZLER: All right, but  
13 if you go broke, if you go broke and you're a  
14 State agency, you think the General Assembly is  
15 going to let the citizens of this state suffer  
16 that loss?

17                  MR. CARTER: I -- if you look at  
18 the documents, they really prohibit you from  
19 going broke. You've got to set rates that are  
20 at least sufficient to cover the costs.

21                  MR. CARTER: So the higher you  
22 get in debt, the higher the rates are going to  
23 be.

24                  MR. CARTER: Yes, sir, but I want  
25 to -- I know this is a bit complicated, and it

1 would need to be looked at, but there are some  
2 joint action agencies -- remember, I mentioned  
3 those earlier -- that actually are even  
4 leveraged more, and you might ask yourself, why  
5 would you do that? Because, remember, the other  
6 piece of that 2.1 billion is collected from  
7 customers. So when we collect that equity,  
8 we're having to charge it in rates.

9 So we charge 8 1/2 percent  
10 generally. We're up -- we're charging, I think,  
11 it's 9 that's currently in rates. So the  
12 percent doesn't -- the percent that you're  
13 actually adding to recover equity, and so I will  
14 tell you that at least I've heard from board  
15 members, not any of the current ones, but  
16 there's an argument to be made that more  
17 leverage is important, and some do. Some do  
18 because of the type entity they are because it's  
19 a matter of maximizing your capital structure.

20 CHAIRMAN SETZLER: Well --

21 MR. CARTER: So it's --

22 SENATOR CAMPBELL: Mr. Chairman.

23 CHAIRMAN SETZLER: Just a second.

24 MR. CARTER: I want to, if I --

25 CHAIRMAN SETZLER: Sure, go

1 ahead. I'm not going to cut you off.

2 MR. CARTER: I think the question  
3 that you're really getting at is, Do we stay  
4 financially healthy, and what are rates? How do  
5 we compare competitively with rates? And that  
6 is very important. And I've got a chart that  
7 shows you the rates.

8 CHAIRMAN SETZLER: But with  
9 competitive with rates, you don't pay taxes;  
10 they do.

11 MR. CARTER: But our biggest  
12 advantage is our capital structure by far.

13 CHAIRMAN SETZLER: Well, but  
14 you've got a lot of advantages, and we'll get  
15 into this later, but, I mean, y'all have kind of  
16 sat here for two hearings and pointed at SCANA  
17 and their mismanagement and you were a junior  
18 partner and given this impression publicly that  
19 everything y'all have done is right when you're  
20 80 percent leveraged and going further and  
21 further in debt, and you've got it set where  
22 it's difficult for the State to even talk about  
23 selling Santee Cooper. And your ratepayers are  
24 paying -- like the others, for SCANA, they're  
25 paying charges -- if you knew it a long time

1 ago, you should have stopped it.

2 MR. CARTER: Again, I can refer  
3 back to my nuclear testimony. We stopped when  
4 we knew it was uneconomical. When we got the  
5 information --

6 CHAIRMAN SETZLER: Well, I think  
7 your testimony was that you knew about three of  
8 four years before that --

9 MR. CARTER: No, sir, not --

10 CHAIRMAN SETZLER: -- that it was  
11 over with.

12 MR. CARTER: No, sir, not -- no,  
13 sir. That's not my testimony.

14 CHAIRMAN SETZLER: Okay.

15 MR. CARTER: No, sir. We knew  
16 that there were issues that needed to be  
17 addressed, but we did not know until  
18 Westinghouse went bankruptcy and brought us that  
19 information that showed us that it was going to  
20 take too long and too much to finish it and we  
21 would have to raise rates 41 percent that we've  
22 talked about.

23 CHAIRMAN SETZLER: Senator from  
24 Dorchester. You still got a question? Oh, I'm  
25 sorry. Senator from Fairfield.

1                   CHAIRMAN MASSEY: Hold on.

2           Senator Campbell's first.

3                   CHAIRMAN SETZLER: Okay, Senator.

4                   SENATOR CAMPBELL: I know that  
5           the board can set the debt level, I guess,  
6           without coming to the State, but we have other  
7           entities in the state, not as big as you are for  
8           sure -- for instance, the universities in the  
9           state have to come to us before they can raise  
10          their debt level and I know that they have to  
11          come to the Joint Bond Review, and so we have to  
12          agree that it's a good decision for them to  
13          raise their debt level when they're going at --  
14          issue revenue bonds.

15                          But in your case, you didn't come  
16          to the General Assembly because you could do it  
17          -- but the -- how much did that decision make in  
18          deciding -- I know that was a -- decision to  
19          terminate the nuclear project was done because  
20          of the cost of finishing it versus the  
21          alternative, which was, I guess, a combined  
22          cycle gas turbine one, and the price of gasoline  
23          -- I mean, natural gas down, but that had to  
24          play some play because you generated revenue  
25          bonds based on the impact of generation from the

1 nuclear plant, and now you don't have that  
2 generation to pay the revenue off. So that's --  
3 how much did that enter into the decision to  
4 terminate the nuclear project, if you understand  
5 what I'm talking about?

6 MR. CARTER: Well, first of all,  
7 back to the issue of others, others are getting  
8 funding, and the State has some obligation, as I  
9 understand, to them. In our case, we can't  
10 pledge the State for any of this debt, so that's  
11 one difference I would draw. And then the  
12 revenue, that's part of what we look at when we  
13 look at our competitive position.

14 So again, to the point when we  
15 got the information after the end of March when  
16 Westinghouse went bankrupt and we saw that the  
17 time and the cost that it would take to finish  
18 these units would require us to raise rates 41  
19 percent, we knew that that would hurt our  
20 revenue stream and it couldn't be done, so that  
21 in itself would have been a reason to be  
22 responsible.

23 SENATOR CAMPBELL: But you had  
24 some indication several years ago that that  
25 project was going down or sideways, I mean, just

1 based on the correspondence I've looked at. And  
2 I know that you made the decision late, but  
3 there had to be some indication back in 2011,  
4 '12, '13, '14 that it wasn't going well and the  
5 cost was going to go up.

6 You know, when you first looked  
7 at it, it was going to be about a \$9 billion,  
8 nine to \$10 billion project to finish two  
9 reactors and have one operating by 2017, one by  
10 2019. But I was just trying to, in my head,  
11 figure out, why did it take so long to make the  
12 decision to terminate? I guess that's my  
13 question.

14 MR. CARTER: And the answer is,  
15 if you go back and look at what I've testified  
16 to, is that at first, we didn't have the right  
17 information. In my mind, we were being misled.  
18 We kept continually being told that it could be  
19 done. Ultimately, we shifted the risk, as I've  
20 testified to, where we got a fixed-price  
21 contract, and we analyzed that fixed-price  
22 contract. For the price that it had for us to  
23 pay, we could afford it. We could afford it and  
24 justify it. Even though we didn't need the  
25 capacity even at that point, we could justify

1 the cost of power that we had. But when, as I  
2 say, the curtain came down after the bankruptcy  
3 and we actually what it was going to take, did  
4 the analysis ourselves, it just -- you couldn't  
5 economically justify it at this point.

6 SENATOR CAMPBELL: I know that  
7 westinghouse, for instance, you know, they gave  
8 you the fixed cost to finish the project and  
9 come up with it, but even most of the analysts  
10 on wall street, as you referred to them, were  
11 saying that that was probably going to go  
12 bankrupt. I mean, if you go back and look,  
13 westinghouse was not doing well. I mean,  
14 Toshiba was going down. Their total value was  
15 going down.

16 How much did that enter in to it?  
17 I mean, you entered into a fixed-cost contract  
18 with a company that probably wasn't going to be  
19 capable of satisfying the contract, just from  
20 looking at it from a distance. Maybe I didn't  
21 get into the details, but that's a concern.

22 MR. CARTER: And I believe you  
23 will find in our records also that we have  
24 assurances that were coming both from  
25 westinghouse and Toshiba that they would stand

1 behind it. Even up until February of 2017,  
2 Toshiba was -- had representatives in front of  
3 us, senior representatives, officers of the  
4 company, representing that they were going to  
5 stay behind the project.

6 CHAIRMAN SETZLER: Okay. Senator  
7 from Fairfield.

8 SENATOR FANNING: And I do want  
9 to follow up Senator from Lexington's questions  
10 that -- we're looking at a fiasco at V. C.  
11 Summer, and we're finger-pointing back and  
12 forth, Santee Cooper and SCANA, and we're  
13 talking about possibly a sale of Santee Cooper,  
14 and one of the questions is, But would we lose  
15 the value of Santee Cooper? Because it -- and  
16 you've made this point -- it is one of the few  
17 that are -- actually has the goal of looking out  
18 for the consumers and they don't have  
19 shareholders.

20 But to follow up Senator from  
21 Lexington's question, when you look at debt, the  
22 State, as you shared, has no obligation to the  
23 debt, you said, and also, Santee Cooper really  
24 doesn't -- I mean, you just have a plan for the  
25 debt in the sense that you have a guarantee to

1 the people you'd be paying the debt to that we  
2 would have to raise rates to make sure the debt  
3 is paid; is that correct?

4 MR. CARTER: That's correct, and  
5 the state has pledged that it won't do any --  
6 where the state comes into that is, it pledged  
7 it wouldn't do anything to interfere with that,  
8 would be genera --

9 SENATOR FANNING: So we've got  
10 three players. We've got the state, we've got  
11 Santee Cooper, and the customers, so the state  
12 cannot in any way have the debt come back --  
13 debt come back on them. They're protected.  
14 Santee Cooper is protected in the sense that we  
15 have a law that you just cited that the state  
16 can't do anything that hampers your ability to  
17 set rates to make sure that we collect the debt.  
18 But nothing protects the customers because the  
19 customers are going to have to pay whatever the  
20 rate is to cover the debt.

21 Same with rates is, when we're  
22 talking about SCANA and we're talking about the  
23 PSC and we're talking about how on Earth we  
24 could raise rates nine times and we kept  
25 approving rate increases without this, at least

1           there was a system in place, a system that did  
2           not work and failed miserably, but there was a  
3           system in place where SCANA did at least have to  
4           go and present requests to and have those rates  
5           approved. But -- we've talked about rates  
6           before -- debts before, but with rates, the  
7           State -- you've made it very clear -- can do  
8           absolutely nothing to hamper the ability of  
9           Santee Cooper to set the rates. Santee Cooper,  
10          when it's time to set rates, you would go to who  
11          to set the rates?

12                         MR. CARTER: To our 12-member  
13          board, which has an extensive process, a very  
14          extensive process, to actually do that where we  
15          have an outside rate study done, and --

16                         SENATOR FANNING: And I do  
17          believe that, but you would be approving it.  
18          There's no outside entity that's approving it.  
19          You'd go to your board, your board would approve  
20          it, and then, once again, the customer pays  
21          whatever the rates are, and the rates are  
22          affected by whatever debt -- and you're allowed  
23          to go into as much debt as you want to, and  
24          there's no check on the debt.

25                                 And then by having no check on

1 the amount of debt you go into and an obligation  
2 twofold, one is the State can't do anything to  
3 restrict you and that your obligation to the  
4 shareholders, you have the right to set rates to  
5 pay for whatever debt you have, a completely  
6 unchecked system that, there's no check on the  
7 rates, there's no check on the amount of debt,  
8 and it's, again, the point that Senator from  
9 Lexington brought up, when we're looking at  
10 whether or not we sell Santee Cooper and whether  
11 Santee Cooper is the one group that looks out  
12 for ratepayers, to Senator Campbell's point, in  
13 this case, Santee Cooper didn't look out for  
14 ratepayers any better than their private  
15 counterpart that allowed rates to continue to go  
16 up for something that was a failed operation.

17 And now we're seeing, even with  
18 the debt, that we'll have further restrictions  
19 because Santee Cooper was allowed to go into  
20 debt unchecked, which would then impact our  
21 ability to save rates. How can we possibly make  
22 a case to the citizens of South Carolina that we  
23 need Santee Cooper, a public entity that has  
24 fewer checks on it than even SCANA does, that we  
25 need them to save us from this ever happening

1           again?

2                           MR. CARTER:  Well, if there's  
3           question in all of that, this is what I would  
4           say to respond to it.  There is a very thorough  
5           process.  First of all, remember, 60 percent of  
6           our business is negotiated through a contract.  
7           And that provides them a lot of input into  
8           Santee Cooper.  When you look at our retail  
9           rates that are set on schedules, the board,  
10          those 12 folks, have to go out and listen to and  
11          take public comments over a long period of time  
12          and actually hold a board meeting where those  
13          very customers can come and do come and talk to  
14          them about electric rates.  So they are very  
15          concerned.  I can tell you, they are always very  
16          concerned about whether we're going to be  
17          competitive.  That -- because they view that  
18          that is what this state will judge us by:  Do we  
19          have competitive rates?

20                          SENATOR FANNING:  Through that  
21          process, how many rate increases have been  
22          approved in the last ten years?  Is it five?

23                          MR. CARTER:  Since 2009, there  
24          have been five, so that would be the last --

25                          SENATOR FANNING:  So let's assume

1       that it was an intensive process and it was as  
2       good as we could think of at the time. It still  
3       yielded five rate increases for a project that  
4       was failing for five years. But let's just  
5       assume for the sake of argument that it was the  
6       best process in the world. What's the process  
7       for the amount of debt we're going to go into,  
8       whether we go from 70 to 80 or 80 to 90?

9                 What are the checks or the safety  
10       checks, the thorough process that somehow  
11       insures that the best practices that I think the  
12       Senator from Lancaster was asking earlier, the  
13       industry standard, what are the checks and the  
14       process to make sure that we're not getting into  
15       debt? Because I think that's the missing  
16       element, is even if there were checks on the  
17       rates, if there's no checks on the debt and we  
18       can't do anything to stop you from charging  
19       rates to pay off the debt, what is that check?

20                MR. CARTER: The check, again,  
21       goes back to being -- making sure that we're  
22       competitive, and, Senator Fanning, keep in mind  
23       that debt service is just one component of our  
24       overall cost. We have fuel being the largest  
25       piece, and the way we operate the system, all

1 those things are important to making sure that  
2 we manage costs and keep electric rates  
3 competitive.

4           There's a lot that goes into  
5 that, and debt being one, so when the board  
6 looks at these projects, and -- any of them, and  
7 when they look at what we're doing, they're  
8 trying to make sure that they can remain  
9 competitive because if you aren't competitive,  
10 then you're likely going to be impacting that  
11 revenue stream that protects the bonds, and  
12 believe you me, wall street will watch that. So  
13 wall street will -- there's a way --

14           SENATOR FANNING: Believe it or  
15 not --

16           MR. CARTER: -- discipline us.

17           SENATOR FANNING: -- I'm not --  
18 I'm really not questioning Santee Cooper at this  
19 point. I'm really questioning the process that  
20 allows checks on private entities, that the  
21 checks didn't work out. I mean, we had nine  
22 rate increases in ten years from SCANA as well.  
23 I just was wanting to see what the process was  
24 that gives me some assurance that ratepayers can  
25 be protected, either from rate increases, and

1       you talked a little bit about that process, but  
2       even the debt that would then lead to the rate  
3       increases.

4                   MR. CARTER:  And Senator, keep in  
5       mind, in that period of time, the increases  
6       associated with the nuclear project were the  
7       smallest piece of -- there was a total of 15  
8       percent raised over that period, and that's in  
9       my testimony.  It's in the documents we've given  
10      you.  But 4.3 of it was for nuclear.

11                   So that board was faced with  
12      multiple decisions as it looked at everything  
13      that we were doing, every cost that we incur,  
14      including debt, to make sure that we're doing  
15      the right thing for the customers because they  
16      know that they're going to have to stand before  
17      the customers, particularly the retail  
18      customers, when they get ready to raise rates,  
19      and they also will have to stand before the  
20      Electric Cooperatives, which they meet with  
21      periodically -- required to meet with them at  
22      least twice a year -- and look at, you know,  
23      look at our costs.  So -- and they're 12 of  
24      them.  That's a number -- that's a fairly large  
25      number of people that represent the state.

1                   SENATOR FANNING: That thorough  
2 process -- last question -- that thorough  
3 process led to higher rates, of which at least  
4 part of it was for nuclear reactors, correct?

5                   MR. CARTER: Yes, sir.

6                   SENATOR FANNING: And now that  
7 we're -- that Santee Cooper's board has voted to  
8 abandon the project, is there any process that  
9 would allow the rates to come down since they  
10 went up based on the nuclear reactors?

11                  MR. CARTER: Absolutely. First  
12 of all, 60 percent of them that are for the  
13 Electric Cooperatives, if our costs come down,  
14 their rates immediately come down in that year.

15                  SENATOR FANNING: But the  
16 continued debt we have would still be there,  
17 correct?

18                  MR. CARTER: Yes, sir. Any cost  
19 that we've incurred that we have to pay has to  
20 be paid.

21                  SENATOR FANNING: Got you. Thank  
22 you, Mr. Chairman.

23                  CHAIRMAN SETZLER: Okay. Senator  
24 from Oconee.

25                  SENATOR ALEXANDER: Thank you,

1 Mr. Chairman. Talking about debt that's been  
2 issued, I guess my question is, is there any  
3 debt that's being issued now or in the next  
4 year?

5 MR. CARTER: No, sir. I don't  
6 believe we have -- we don't have any capital  
7 requirements. There -- we --

8 SENATOR ALEXANDER: So you'll be  
9 paying off some of your bonds.

10 MR. CARTER: Yes, sir, and you'll  
11 -- I think if you back to the debt equity chart  
12 -- I should have pointed this out -- you'll  
13 actually see that it's projected to start coming  
14 down in 2017, which you would expect as you  
15 start -- you know, you're not issuing debt. You  
16 don't have a big capital project going on.  
17 You'll expect it to come back down like it did  
18 in the early 2000s, yes, sir.

19 SENATOR ALEXANDER: So what  
20 percentage or what kind of impact, going back to  
21 the other question, would that start to have on  
22 the rates? So there will be a direct  
23 correlation of rates going down as a result of  
24 that?

25 MR. CARTER: No, sir. I can't

1 sit here and say that because there are other  
2 costs that we're going to have to incur that may  
3 make rates go up. And there's still a component  
4 of -- remember, the capitalized interest that we  
5 were looking at earlier? That component still  
6 has to be put into electric rates. It's not --  
7 it's -- I -- it -- and that's part of what --

8 SENATOR ALEXANDER: So it's not  
9 simple --

10 MR. CARTER: That's part of what  
11 the board will be looking at, actually, Friday,  
12 to look at its financial plan, again, to make  
13 sure that it maintains financial health here and  
14 competitive position here, which is what this  
15 chart is. And you can see, we're well below the  
16 national average in these charts. Santee  
17 Cooper's rates compare favorably, particularly  
18 on the industrial front, which, again, is what  
19 -- one of the things we're supposed to do is  
20 help drive economic development and drive jobs.

21 But before I leave this chart, I  
22 want to point out, there's a footnote on it  
23 that's incorrect.

24 CHAIRMAN SETZLER: Okay, make  
25 that point.



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00:00:01

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CHAIRMAN SETZLER: I think next  
is the Senator from Dorchester.

5

SENATOR BENNETT: Thank you, Mr.  
Chairman.

7

CHAIRMAN SETZLER: Well, Senator  
from Oconee, you were through, as I understood  
it. Okay. Senator from Dorchester.

10

SENATOR BENNETT: I thought you  
were going to be -- well, never mind. Thank  
you, Mr. Chairman. Mr. Carter, I want to go  
back to the debt-to-capital question that was  
brought up, and I'm looking at your chart 26.  
Just generally speaking, so we've got basically  
20 years of declining debt to capital, and then  
the last 12 years of increasing debt to capital.  
I'm assuming all of that is attributable to  
Summer.

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MR. CARTER: No, sir, not all of  
it would be.

21

22

SENATOR BENNETT: The lion's  
share?

23

24

MR. CARTER: The lion's share  
would be, certainly in the last four years. I

25

1 -- well, let's see. Let's get the years right.  
2 Certainly the last seven or eight years, the  
3 lion's share of it would be.

4 SENATOR BENNETT: Okay. So, I  
5 mean, we see these in companies all the time.  
6 We get a trend of declining, whether it's  
7 profits in a company or debt in a company. We  
8 see trends of declining and trends of increasing  
9 followed by trends of declining. Absent the  
10 Summer, I mean, where is Santee Cooper now in  
11 their trend line? Is their debt -- I know you  
12 indicated that we've seen a one-year drop from  
13 '16-'17. That doesn't necessarily mean it won't  
14 jump back up in '18, but where do you think you  
15 are in your debt cycle, if you will? A  
16 declining period?

17 MR. CARTER: I would answer it  
18 this way, Senator Bennett, that we are -- 80-20  
19 is the upper end of what we would like to see.  
20 Mainly that goes back to maintaining the credit  
21 quality because the credit quality is going to  
22 drive how much debt service, principle and  
23 interest payments, we have to put into rates and  
24 our competitive position.

25 SENATOR BENNETT: Mm-hmm.

1                   MR. CARTER: And so these metrics  
2                   -- so you would expect to see -- when you're  
3                   having -- we -- in the last decade, not only  
4                   have we had to do nuclear, but we've had to do,  
5                   certainly, some system upgrades but also a fair  
6                   amount of environmental work to bring coal units  
7                   into compliance, and that would be the other  
8                   large piece. And we still have some work to do  
9                   in that regard as well.

10                   So -- and as I would say, in this  
11                   business, you would expect this to go up when  
12                   you're building a large capital-intensive  
13                   project, and you would expect it to go back  
14                   down, and that's what you see here. Summer 1  
15                   came on in '83, so you can see it was really  
16                   high back there. You see the '85 number. But  
17                   then you can see, as we worked our way into the  
18                   '90s, we brought it down, kept it down low  
19                   because during that middle period in there, we  
20                   were either building combustion turbines, which  
21                   are lower in capital -- that's the lowest  
22                   capital-cost generation we can put in.

23                   And then as we go forward and you  
24                   go back into having these environmental things  
25                   that we had to do and the nuclear capacity, then

1 that would tend to drive you back up. But I  
2 would say 80-20 is about the upper end of what  
3 we'd like to see.

4 SENATOR BENNETT: Okay. But  
5 we're trending down from that?

6 MR. CARTER: Yes, sir, and you  
7 would expect to now. We would trend down from  
8 now unless we took on some other large capital-  
9 intensive project.

10 SENATOR BENNETT: And you don't  
11 see that happening right now?

12 MR. CARTER: No, sir, I don't,  
13 and, again, I'll look at my colleagues, but  
14 there's nothing in our plan that would show  
15 that, no, sir.

16 SENATOR BENNETT: Okay.

17 MR. CARTER: Now, things do  
18 change on us, but there's nothing in our -- even  
19 in our ten-year plan that would show that. In  
20 our ten-year plan, you would see it declining.

21 SENATOR BENNETT: Okay. I want  
22 to jump topics a little bit and jump back to  
23 your water services, not the hydro component but  
24 the services that you provide -- there you go --  
25 to some of the water systems out there. Do you

1 -- does Santee Cooper do analysis from time to  
2 time on the sustainability of each of your kind  
3 of businesses out there?

4 I kind of see you as a number of  
5 businesses. You've got your power generation,  
6 obviously. You got your wholesale. You got  
7 your retail. You got your properties that you  
8 manage. You got these water systems. Do you  
9 ever look at the sustainability of being able to  
10 operate those entities if they weren't part of  
11 the bigger picture, if they weren't part of a  
12 bigger organization? I guess what I'm getting  
13 to is, do you see this component of Santee  
14 Cooper to be able to operate if it were on its  
15 own?

16 MR. CARTER: Certainly it could  
17 because it's done in other places. The question  
18 is their efficiencies. You know, are  
19 efficiencies gained? I can't see of any reason  
20 why somebody else couldn't operate this system.  
21 The advantage we bring to them is, you've  
22 already got the overhead, the capital structure  
23 and everything in place.

24 SENATOR BENNETT: Sure.

25 MR. CARTER: And we manage the

1 takes and have the licenses and all that stuff,  
2 yes, sir.

3 SENATOR BENNETT: Very good.  
4 Thank you.

5 MR. CARTER: But there's no  
6 reason that somebody else couldn't operate and  
7 provide potable water that I'm aware of.

8 CHAIRMAN SETZLER: Okay. Senator  
9 Campbell.

10 SENATOR CAMPBELL: Mr. Carter,  
11 I've got another question. I understand, and  
12 I've known this for some time, that the State  
13 has no obligation on Santee Cooper's bonds; is  
14 that correct?

15 MR. CARTER: That is correct.

16 SENATOR CAMPBELL: Let me ask you  
17 a question now. Since we have a restriction, we  
18 cannot restrict you from raising rates to  
19 satisfy your current bonds, right?

20 MR. CARTER: Yes, sir, and that's  
21 a -- excuse me. I didn't let you finish.

22 SENATOR CAMPBELL: No, but that's  
23 -- if you do that, then effectively, we do have  
24 an obligation for your bonds because if we can't  
25 restrict you from raising the rates so that you

1 can pay off the bonds, then we are responsible  
2 for your bonds because if we cut that off and  
3 wouldn't let you raise rates, you'd default on  
4 your bonds. But by law, I guess, or by statute,  
5 we can't do that, so I kind of see that as us  
6 being responsible for you bonds.

7 MR. CARTER: Well, the way I  
8 would phrase it is, the State has made that  
9 commitment and made that pledge and said that --  
10 I mean, you can read the statutes.

11 SENATOR CAMPBELL: Yeah, right.

12 MR. CARTER: And in doing so,  
13 that's what enabled Santee Cooper to exist and  
14 be able to do what it does.

15 SENATOR CAMPBELL: That's  
16 correct, but --

17 MR. CARTER: If it weren't, we  
18 wouldn't be able to do it.

19 SENATOR CAMPBELL: Right, but by  
20 proxy, then, we have to let you satisfy your  
21 bonds, which means that we're responsible for  
22 your bonds. Is that fair to say?

23 MR. CARTER: The board has  
24 committed that it would not -- I said the board.  
25 The legislature -- legislation has been passed

1 that commits that it won't do anything to --

2 SENATOR CAMPBELL: Correct.

3 MR. CARTER: -- on this statute

4 --

5 SENATOR CAMPBELL: Correct.

6 MR. CARTER: -- that it won't  
7 alter or restrict Santee Cooper in any way where  
8 it can't set rates sufficient to recover costs.

9 SENATOR CAMPBELL: Even if we  
10 change the statute, it couldn't be retroactive,  
11 so we are responsible for the bonds you have  
12 outstanding.

13 MR. CARTER: That's certainly a  
14 legal question, and my -- and I understand from  
15 others that that would be the case. You'd have  
16 to retire the bonds.

17 SENATOR CAMPBELL: If that's the  
18 case, should the state not have some role in  
19 your debt limit?

20 MR. CARTER: Again, you're asking  
21 a policy question, and one that I would --  
22 before I would want to give an answer to that  
23 is, I would want to be able to tell you how I  
24 think it would impact our business. would it  
25 have -- would it make a difference in the way

1           that we operate our business? So I think that  
2           would be the question that I would ask and try  
3           to get answered, and I don't have that off the  
4           top of my head. It would be something I'd want  
5           to look at and take a look at and also talk with  
6           the experts that, you know -- actually, the  
7           place where I'd worry most about it would be,  
8           would we be able to issue debt and to issue it  
9           effectively?

10                           SENATOR CAMPBELL: Which  
11           effectively means that, I think we would  
12           restrict -- bond holders would probably -- or  
13           the bond people would be very hesitant about  
14           buying a bond if the State could impact the  
15           recovery of revenue to pay for a revenue bond.

16                           MR. CARTER: I think that's  
17           something we would want to look at before we  
18           make that decision. At least, that would be my  
19           advice. I'm not -- I just don't have an answer  
20           for it without -- I'd be speculating in an area  
21           that I really would want to talk to some other  
22           people before I --

23                           SENATOR CAMPBELL: I'm with you.

24                           MR. CARTER: That are experts.

25                           SENATOR CAMPBELL: Thank you,

1       sir.

2                   CHAIRMAN SETZLER:  Senator from  
3       Fairfield, did you have a question?

4                   SENATOR FANNING:  Mr. Carter,  
5       Westinghouse had several things that led them to  
6       bankruptcy.  What were some of the things that  
7       led Westinghouse to bankruptcy?

8                   CHAIRMAN SETZLER:  I don't know  
9       that I'm qualified to answer that.  That's a  
10      matter that the bankruptcy court's addressing.  
11      I know at least one thing that they're not doing  
12      is they're not living up to their obligations to  
13      fulfill their fixed-price contract to us, nor  
14      the Vogtle facility that's actually still is,  
15      you know, going forward.

16                  SENATOR FANNING:  What would  
17      prohibit Santee Cooper -- we talked about that  
18      Santee Cooper has a process to raise their own  
19      rates, and we talked about what that process  
20      would be.  We talked about Santee Cooper really  
21      doesn't have to go before anybody to raise the  
22      amount of debt that they would have.  What would  
23      stop Santee Cooper from declaring bankruptcy?

24                  MR. CARTER:  Again, that's a  
25      legal question that you'd have to look at, but

1 where the real problem comes -- and that's why  
2 that is so important and why the board looks at  
3 that and why they're very concerned when they --  
4 when they make any decision about cost, when  
5 they set our annual budget, they're worried  
6 about and measuring it, based on how competitive  
7 we're going to be. So if we became  
8 uncompetitive, I believe that our credit rating,  
9 that credit rating would go down, and it would  
10 raise rates and make it even harder to be  
11 competitive.

12                   So you're constantly -- the  
13 board's constantly, over the years that I've  
14 been there, concerned about this and that. And  
15 then, in doing -- and the most control that they  
16 have over our rates is managing our costs. We  
17 focus a great deal on our debt. Our debt's  
18 about 30 percent of what goes into these rates.  
19 They also focus on the other 70 percent because  
20 it's important -- we've also -- when we're  
21 talked about rates and the rate process,  
22 remember, that's for the retail, industrial  
23 rates that are retail rates: residential,  
24 commercial, and industrial.

25                   The other 60 percent of the

1 business, rough numbers, as we've shown, is  
2 based on a formula, and they -- those folks,  
3 particularly the cooperatives and the cities,  
4 have the same problem. If our cost to them is  
5 too high, they're uncompetitive.

6 SENATOR FANNING: Mm-hmm.

7 MR. CARTER: And so it hurts the  
8 economy. You don't grow. It makes it even  
9 harder to fulfill your obligation and keep low  
10 rates. So you've got to watch it. I mean, it's  
11 always on their mind.

12 SENATOR FANNING: Is there  
13 anything that would bring a decision to declare  
14 bankruptcy before us? Is there any obligation  
15 in the process? We talked about that obviously  
16 could choose to bring that to us, but.

17 MR. CARTER: Senator Fanning, I  
18 don't know the answer to that. I don't know of  
19 anything. The board would -- they would have to  
20 be trying to set rates and simply -- there would  
21 be nobody to collect it from is the only way I  
22 can imagine it in my mind.

23 SENATOR FANNING: Thank you.

24 Thank you, Mr. Chair.

25 CHAIRMAN SETZLER: Okay, Senator

1 from --

2 MR. CARTER: But I think if we --  
3 I want to be clear. I believe -- I could --  
4 I've heard many of our board members, current  
5 and past, say that if we were upside down and  
6 not able to be competitive, we wouldn't -- we  
7 would be brought up here. We would be brought  
8 to task and asked to answer for ourselves.

9 CHAIRMAN SETZLER: All right.

10 MR. CARTER: I'm pretty confident  
11 of that.

12 CHAIRMAN SETZLER: That's what's  
13 happening now, isn't it?

14 CHAIRMAN MASSEY: You're here.

15 CHAIRMAN SETZLER: You're here.

16 MR. CARTER: No, sir. We're here  
17 because we suspended the nuclear plant, I guess,  
18 is my understanding of this committee. But we  
19 remain competitive.

20 CHAIRMAN SETZLER: Well, let me  
21 --

22 MR. CARTER: Our rates remain  
23 competitive and will remain competitive. If we  
24 had not stopped, they would not have remained  
25 competitive.

1                   CHAIRMAN SETZLER: Are you  
2                   telling -- as I recall, you testified before the  
3                   House committee recently that you were going to  
4                   have to raise rates; is that correct?

5                   MR. CARTER: That's correct.  
6                   That's --

7                   CHAIRMAN SETZLER: And when do  
8                   you anticipate that, and how much?

9                   MR. CARTER: I do not know the  
10                  answer to either of those questions because the  
11                  board, if you will recall, when it suspended the  
12                  rate process that they had ongoing, they asked  
13                  for a financial plan that they will be  
14                  discussing later this week that will start to  
15                  address what that looks like. But we -- I know  
16                  that we cannot have them in '18 and '19.

17                  CHAIRMAN SETZLER: All right.

18                  MR. CARTER: And it will depend  
19                  on what they -- where they think they need to  
20                  be, again, and at least, if they do it the way  
21                  they've done it in the past, will be trying to  
22                  judge where they see themselves in trying to  
23                  maintain the appropriate metrics there so that  
24                  they keep this in order. It's a balancing act  
25                  for them.

1                   CHAIRMAN SETZLER: All right, so  
2 let me go back just a minute. What is Santee  
3 Cooper's cost in V. C. Summer 2 and 3 to date?  
4 what has it cost you?

5                   MR. CARTER: Isn't that in here  
6 somewhere? Or have we -- it's not in -- what's  
7 the cost of V. C. Summer 2 and 3? It's -- I  
8 believe we provided that, but I don't have that  
9 chart in front of me. But these numbers --

10                  CHAIRMAN SETZLER: I want to know  
11 what V. C. Summer 2 and 3 has cost Santee Cooper  
12 to date.

13                  MR. CARTER: There is --

14                  CHAIRMAN SETZLER: The whole  
15 management team can't tell us what the cost is?

16                  MR. CARTER: There's a chart  
17 that's been provided, and when you asked for the  
18 total to date, it's got several components, and  
19 we've provided that. We've got that chart. I  
20 just don't have it in front of me. I didn't  
21 bring that with me. So that's not what it's  
22 cost us to date. That's not our actual. That's  
23 the projections. He's asking what has it cost  
24 us to date. That's not it. There's an actual  
25 chart. I thought I was going too far. I hadn't

1 gone far enough. This would show you the bond  
2 expenditures.

3 SENATOR CAMPBELL: That's about  
4 4.6 million; is that what I read that as?

5 CHAIRMAN SETZLER: Is this the  
6 chart you're talking about?

7 MR. CARTER: No, sir. Those are  
8 the projected costs.

9 CHAIRMAN SETZLER: Okay.

10 SENATOR CAMPBELL: 4.2 -- 4.4  
11 million is what I see there.

12 MR. CARTER: Yeah, there's a --

13 SENATOR CAMPBELL: Plus -- yeah.

14 MR. CARTER: That sounds like --

15 SENATOR CAMPBELL: 4.4 billion is  
16 what those charts add up to be roughly.

17 MR. CARTER: And that's roughly  
18 what's on the books.

19 CHAIRMAN SETZLER: How much? I'm  
20 sorry.

21 MR. CARTER: 4.4 billion.

22 CHAIRMAN SETZLER: 4.4 billion;  
23 okay.

24 MR. CARTER: But that's --

25 CHAIRMAN SETZLER: And you've had

1 five rate increases during that period of time  
2 for that 4.4, correct?

3 MR. CARTER: Yes, sir.

4 CHAIRMAN SETZLER: All right, and  
5 so how much --

6 MR. CARTER: Well, no, sir. No,  
7 sir. I'm sorry. I'm telling you wrong because  
8 all of that is not in rate base yet. All of  
9 that is not in rates yet.

10 CHAIRMAN SETZLER: Okay, so how  
11 much is in rate base so far?

12 CHAIRMAN MASSEY: He said "yet."

13 MR. CARTER: There's been 4.3  
14 percent added during that period of about a  
15 total of 15 percent.

16 CHAIRMAN SETZLER: All right, so  
17 15 percent is currently in the ratepayers' base.

18 MR. CARTER: No, sir.

19 CHAIRMAN SETZLER: Or is -- 15  
20 percent of the ratepayers' bill currently is  
21 attributable to V. C. Summer.

22 MR. CARTER: No, sir.

23 CHAIRMAN MASSEY: (INDISTINCT)  
24 percent.

25 MR. CARTER: I believe the answer

1 to that question is 4.5. There have -- in the  
2 -- from 2009 until now, there have been 5 rate  
3 increases.

4 CHAIRMAN SETZLER: Okay.

5 MR. CARTER: And the total of  
6 that amount was 15 percent. The piece that was  
7 nuclear was 4.3. Thank you. That's, that's  
8 this then. So actually, the total during that  
9 period was 15.7. That's (INDISTINCT) --

10 CHAIRMAN SETZLER: Okay, so 4.3  
11 percent --

12 MR. CARTER: Is nuclear.

13 CHAIRMAN SETZLER: -- of the  
14 current ratepayers' bill is attributable to the  
15 cost of V. C. Summer.

16 MR. CARTER: I think it's  
17 actually 4.5. That's the percent -- because  
18 those are different -- the amount that the rates  
19 go up and the percent that is of the bill is a  
20 different -- they're different.

21 CHAIRMAN SETZLER: Okay, so 4.5  
22 percent.

23 MR. CARTER: Yes, sir.

24 CHAIRMAN SETZLER: Now, how much  
25 do you get from the Toshiba settlement?

1 MR. CARTER: Let's see.

2 CHAIRMAN SETZLER: Total.

3 MR. CARTER: Again, I didn't --  
4 that's a different folder than I brought. I  
5 didn't realize I had to go into all that today,  
6 but let's look that up. That's 800 and --  
7 almost 900 million.

8 CHAIRMAN SETZLER: All right, so  
9 let's use 900,000 as a round number.

10 MR. CARTER: I think it's 898. I  
11 think it's 898.

12 CHAIRMAN SETZLER: I mean  
13 billion. Excuse me. Million?

14 MR. CARTER: Million, yeah.

15 CHAIRMAN SETZLER: All right, so  
16 900 million, right? How much of that have you  
17 already received, if any?

18 MR. CARTER: Because we've  
19 received the first payment from Toshiba  
20 directly, and then we monetize the balance and  
21 have collected that. So we have it cash in  
22 hand.

23 CHAIRMAN SETZLER: Okay, and so  
24 how much is that cash, ballpark?

25 MR. CARTER: I believe if you

1 look at all of it together, it's 898 million.

2 CHAIRMAN SETZLER: How much  
3 again? I'm sorry.

4 MR. CARTER: 898 is the number I  
5 remember, but it would round to 900 million.

6 CHAIRMAN SETZLER: All right.

7 MR. CARTER: And there's a chart  
8 that I believe we've provided that shows all of  
9 that.

10 CHAIRMAN SETZLER: All right.  
11 where I'm going, there's been a lot in the press  
12 about if Santee Cooper is sold, in essence, the  
13 ratepayers would be whole. Are you aware of any  
14 discussions that are going on where that 4.5  
15 percent that is currently being paid would be  
16 refunded to the ratepayers?

17 MR. CARTER: No, sir, I'm not  
18 aware of anything that --

19 CHAIRMAN SETZLER: And do you  
20 perceive any scenario where Santee Cooper could  
21 be sold and that 4.5 percent refunded to the  
22 ratepayers?

23 MR. CARTER: well, look, it would  
24 be -- depend on -- I believe the answer to that  
25 question would be, it would depend on what

1           somebody's willing to pay for it and what the  
2           General Assembly decided to do with the money.

3                       CHAIRMAN SETZLER: All right, so  
4           to make it perfectly clear, what they're really  
5           referring to is future rate increases, not  
6           taking away built-in current rate increases.

7                       MR. CARTER: I'm not sure what  
8           other people are referring to, but I read it  
9           that way. I'm not --

10                      CHAIRMAN SETZLER: Okay.

11                      MR. CARTER: I can't say that I  
12           know, but I understand what you're saying.

13                      CHAIRMAN SETZLER: Right. Okay.  
14           I'm going to call on the Senator from Edgefield.  
15           Before I do, I want to recognize the Senator  
16           from Beaufort who is here, Senator Davis, and  
17           the Senator from Greenville, Senator Timmons,  
18           who are not members of this committee, but  
19           they've been here, and we welcome y'all and are  
20           glad to have you here. Senator from Edgefield.

21                      CHAIRMAN MASSEY: So to follow up  
22           on that point then, if we've got roughly \$900  
23           million in Toshiba money --

24                      CHAIRMAN SETZLER: Excuse me one  
25           minute. I don't think the Chairman of Senate

1 Finance needs any introduction, but I didn't  
2 introduce him, but I think he's over here and  
3 been here.

4 CHAIRMAN MASSEY: If the plan is  
5 to use the Toshiba money to offset future  
6 increases, that means we're putting the Toshiba  
7 money into the operating funds, right?

8 MR. CARTER: That actually would  
9 be used -- it can be used for both. You can use  
10 it to defease and retire debt, or -- and some of  
11 it, I believe, will be used for that purpose  
12 because you -- we wouldn't need -- you certainly  
13 don't need all of it during these next few years  
14 to cover all of the debt service that would be  
15 associated with anything nuclear. So the short  
16 answer is, it can be used to retire debt,  
17 defease debt, and -- so you can apply it in the  
18 short term, is what I would say, or you could  
19 apply it in the long term.

20 CHAIRMAN MASSEY: Why wouldn't we  
21 just put all of it to debt?

22 MR. CARTER: Effectively, I think  
23 that's what will happen with it, effectively.  
24 Is that right? So he's saying some piece of it  
25 may go to operating expenses the first year or

1 two.

2 CHAIRMAN MASSEY: why wouldn't we  
3 put it all to debt?

4 MR. CARTER: Again, just -- what  
5 the board will be looking at, again, there -- I  
6 haven't seen the financial plan yet myself, and  
7 it won't be a plan until the board looks at it  
8 and adopts it, and typically they'll want to  
9 weigh in on it and have some suggestions for us.  
10 But the -- I guess, to answer your question  
11 specifically, it would be to manage and maintain  
12 your competitive position.

13 So, again, looking at your rates  
14 and looking at when the -- when and how to add  
15 all of your costs in because keep in mind, there  
16 are -- in that same time period, there are  
17 several hundred million dollars' worth of  
18 capital that's got to be used to make a number  
19 of environmental improvements that we have to  
20 make. So effectively -- that's what I was  
21 trying to say earlier. Effectively, you would  
22 -- you know, instead of going and borrowing --  
23 let's say if you have \$300 million worth of a  
24 capital addition you have to do to make an  
25 existing unit to continue to run. Rather than

1 have the expense of going and borrowing that 300  
2 million and the expense of using the existing  
3 Toshiba money is the cheaper way, just apply the  
4 cash that you have to keep you from borrowing  
5 future debt. That way you'll offset rates as  
6 well. Because, remember, the revenues are a  
7 function of whatever our cost is.

8 CHAIRMAN MASSEY: well, it -- but  
9 if you pay down the debt, you're going to have  
10 -- you'll have more money freed up to do  
11 additional things, right, and also, you're not  
12 going to be as far in debt, which is all --  
13 which is going to have an impact on customers'  
14 rates.

15 MR. CARTER: Yes, sir, but it's a  
16 question of --

17 CHAIRMAN MASSEY: Is that right?

18 MR. CARTER: -- it costs you  
19 money to issue debt, so if you have this money  
20 sitting there as cash on hand, rather than incur  
21 the cost to borrow money, you would use it to  
22 offset the debt that you were going to have to  
23 issue for these other capital projects. So  
24 effectively, it ends up -- on the balance sheet,  
25 it ends up and in your debt service, it ends up

1 at the same point, but it's just cheaper because  
2 it costs you money to issue debt.

3 CHAIRMAN MASSEY: Is there --  
4 does Santee Cooper have additional cash on hand?

5 MR. CARTER: It has this money on  
6 hand that we're talking about.

7 CHAIRMAN MASSEY: In addition to  
8 the 900 million from Toshiba.

9 MR. CARTER: Yes, sir, there's  
10 still some money that we have from the original  
11 project that we borrowed that we have --

12 CHAIRMAN SETZLER: How about ask  
13 him to come forward so he can give us numbers.

14 MR. CARTER: Some of these cash  
15 flow numbers are liquidity numbers.

16 CHAIRMAN SETZLER: Say what you  
17 just said out loud, Mr. Carter.

18 MR. CARTER: Some of it's in  
19 these liquidity numbers that you see.

20 CHAIRMAN SETZLER: Okay.

21 CHAIRMAN MASSEY: Well, how much  
22 are we talking about roughly? I mean, you don't  
23 (INDISTINCT) dollar.

24 MR. ARMFIELD: Ballpark, it is  
25 somewhere in the 250 to \$350 million range.

1 MR. CARTER: That's the piece  
2 that we issued --

3 MR. ARMFIELD: It's the --

4 MR. CARTER: -- to be clear.

5 CHAIRMAN MASSEY: That's what  
6 you've got --

7 MR. ARMFIELD: Proceeds that we  
8 still have on hand that we haven't applied yet.

9 CHAIRMAN MASSEY: That's the  
10 money that you borrowed but you haven't spent  
11 yet.

12 MR. ARMFIELD: That is correct.

13 CHAIRMAN MASSEY: Right? All  
14 right. Is there additional cash on hand beyond  
15 the 250, 300 million?

16 MR. ARMFIELD: Yes, and it's in  
17 the numbers on the charts that we've shown.

18 CHAIRMAN MASSEY: All right.

19 MR. CARTER: Let's --

20 CHAIRMAN MASSEY: I'm not real  
21 smart, so I can't read that stuff. How much you  
22 got? I got to get Senator Bennett to translate  
23 all that stuff for me.

24 MR. ARMFIELD: That's in days.  
25 It's not in dollars, so I'll have to get you the

1 actual numbers.

2 MR. CARTER: I'm sorry.

3 MR. ARMFIELD: It's in days.

4 It's not in dollars.

5 CHAIRMAN MASSEY: It's in what?

6 MR. ARMFIELD: It's in days of  
7 liquidity, not in dollars.

8 CHAIRMAN MASSEY: Days of  
9 liquidity.

10 MR. ARMFIELD: So I will get you  
11 the exact dollar amount.

12 CHAIRMAN MASSEY: Okay. So --

13 MR. CARTER: And you also have  
14 the money you just got from Toshiba.

15 MR. ARMFIELD: That's correct.

16 CHAIRMAN MASSEY: Right, and I  
17 get that. We've got roughly \$900 million from  
18 Toshiba. We've got 250, 300 million that's left  
19 over that we haven't spent yet. And then  
20 there's some amount beyond that.

21 MR. ARMFIELD: That's correct.

22 CHAIRMAN MASSEY: All right. So  
23 what would be the plan for the cash that you've  
24 got in addition to the Toshiba money?

25 MR. ARMFIELD: We will, in many

1 -- in most cases, we will either pay down debt  
2 or defease debt, which is an accounting  
3 methodology where you basically pay off the debt  
4 and can take it off your books. So it  
5 accomplishes the same thing. It keeps that debt  
6 from being paid by your ratepayers.

7 CHAIRMAN MASSEY: Is paying off  
8 debt and defeasing debt, as far as -- for me, is  
9 that the same thing? Is that the same thing?

10 MR. ARMFIELD: When you defease  
11 debt, you actually set up a separate account and  
12 make a commitment that that's what you'll use  
13 the money for as opposed to actually calling the  
14 debt and paying off the bondholders. So the  
15 reason why you would defease debt in some cases  
16 is, there's actually a cost, as we covered  
17 earlier, to calling a bond early before a call  
18 date. So it's more efficient.

19 CHAIRMAN MASSEY: All right. So  
20 is there a plan -- or can you tell me the answer  
21 to this -- is there a plan to use any of the  
22 cash in addition to the Toshiba money for  
23 operating as opposed to paying off debt?

24 MR. ARMFIELD: well, it's all  
25 fungible to us, but I would say the vast

1 majority of it is used for paying off debt,  
2 either in the form of actually calling the bonds  
3 or defeasing the bonds.

4 CHAIRMAN MASSEY: And I ask these  
5 questions, Mr. Chairman, because it seems to me,  
6 from our perspective, that if the cash on hand  
7 goes toward operating expenses, it limits our  
8 ability even more to even consider alternatives.

9 CHAIRMAN SETZLER: And I would  
10 agree with you. I got a follow-up question when  
11 you finish.

12 CHAIRMAN MASSEY: Well, go ahead.  
13 If it's on that line, go ahead.

14 CHAIRMAN SETZLER: Okay. So if  
15 you have this money in hand, exactly what the  
16 Senator from Edgefield said, you are aware, as a  
17 management team, the board is aware that there  
18 is an effort out there to try to sell Santee  
19 Cooper. Whether we agree with it or don't agree  
20 with it, there is an effort out there, and at  
21 least this committee is going to have to  
22 consider at some point whether or not that is a  
23 feasible option to recommend to the Senate.

24 But every action you take from  
25 here on is going to affect that in some way or

1 other, and in most cases, make it more difficult  
2 to sell, if that was the determination, in  
3 particular, following up on what you said, of  
4 keeping from borrowing for capital projects.  
5 why would you not, knowing what the situation is  
6 now, kind of stand still, take a time-out for a  
7 better -- lack of a better term until there is  
8 some time to make a determination. If the  
9 board's meeting Friday, is the management team  
10 making a recommendation to the board, what to do  
11 with this money?

12 MR. CARTER: Yes, sir. They will  
13 present a preliminary plan to them to --

14 CHAIRMAN SETZLER: And is it --  
15 going back to his question, is that for payment  
16 of debt, or is that for operating expenses?

17 MR. CARTER: Let me answer your  
18 question. why would we have -- we are an  
19 ongoing concern, and we have to meet regulatory  
20 requirements. we have to add services, so there  
21 are certain things we have to do in order to,  
22 you know, provide --

23 CHAIRMAN SETZLER: We understand  
24 that.

25 MR. CARTER: And that's what

1 we're talking about in capital terms. So what  
2 we have told you, though, also is, there's no  
3 plan to add additional debt. So we won't be  
4 borrowing any more money.

5 CHAIRMAN SETZLER: On a normal --

6 MR. CARTER: Not during the next  
7 couple of years, I wouldn't think.

8 CHAIRMAN SETZLER: On an average  
9 monthly basis, how -- what are your operating  
10 costs compared to your revenue generated? Last  
11 month, what -- compare last month's revenue and  
12 operating costs. Did you cover it?

13 MR. ARMFIELD: Absolutely.

14 MR. CARTER: Yes, sir, but I  
15 normally think of it in terms of an annual cost,  
16 so --

17 CHAIRMAN SETZLER: Well, that's  
18 not what we're asking you. Last month, did you  
19 generate enough revenue to pay your operating  
20 costs for the last month?

21 MR. CARTER: Again, Senator, Mr.  
22 Chairman, I can't -- I don't -- we don't look at  
23 -- we have to make sure we do over a year. So  
24 you could have -- I mean, think about our  
25 business a little bit. You could have one -- I

1 want to be careful in answering you accurately.  
2 In some months, in a fall period, you may be  
3 collecting a little bit less because people  
4 don't use as much, but in December, they use a  
5 little bit more. So we do these evaluations  
6 over the course of a year, so we don't -- you  
7 don't look at individual months. So I don't  
8 know the answer to that.

9 CHAIRMAN SETZLER: Mr. Carter, I  
10 run a business, too, and a law office, and I  
11 know that we have expenses sometimes in one  
12 month that may affect us for the rest of the  
13 year, but I know whether or not I got enough  
14 revenue to pay my expenses for that month in the  
15 month that I incurred them. And for you to  
16 stand and tell this committee that eight of you,  
17 the executive team, and you can't tell us if you  
18 generated enough money in the last month to pay  
19 your expenses? That's a simple question.

20 MR. CARTER: And I'm going to try  
21 to answer it again simply, Mr. Chairman. So if  
22 you look -- we look at our cash flow. You're  
23 saying "revenue," so if you look at our cash  
24 flow, we do generate enough cash that -- and  
25 have enough cash on hand that we can do that.

1 But as you will see, if you looked at our  
2 monthly cash available for operating, it goes up  
3 in some months and then comes back down. It's  
4 just like any other business, so some months,  
5 you have more operating cash on hand at the end  
6 of the month than others.

7 But I -- again, in our business,  
8 revenue -- I'm thinking you're thinking, All  
9 right, do we have -- have we made sure we  
10 collected enough revenue in any month to pay all  
11 of the bills that we pay in that month.

12 CHAIRMAN SETZLER: Have you had  
13 to borrow any money?

14 MR. CARTER: No, sir.

15 CHAIRMAN SETZLER: Okay.

16 MR. CARTER: Not to operate, no,  
17 sir.

18 CHAIRMAN SETZLER: Okay.

19 MR. CARTER: And won't be.

20 CHAIRMAN SETZLER: Senator  
21 Campbell.

22 SENATOR CAMPBELL: You know, we  
23 talked about the money we have on hand to pay  
24 down the debt. Are there assets that you could  
25 liquidate that would help retire that debt,

1 assets that don't have anything to do with your  
2 power generation or your water control? I know  
3 you're restricted on some assets along the lake  
4 by FERC, but are there other assets that you  
5 could liquidate and use that money to retire  
6 debt that don't have anything to do with your  
7 core business?

8 MR. CARTER: Yes, sir, and as you  
9 -- and I believe you're aware, Senator Campbell,  
10 we have some property holdings that are on the  
11 market that we're trying to sell, and --  
12 including our economic development properties, I  
13 would put into that category.

14 SENATOR CAMPBELL: That's, that's  
15 (INDISTINCT) responsible, yeah.

16 MR. CARTER: Also, I believe, in  
17 my previous testimony, both, I believe, here and  
18 with the House -- of course, I'll let that  
19 testimony speak for itself, but that's also a  
20 potential for some of the equipment that's at --  
21 still at the V. C. Summer station.

22 I would also point out that in --  
23 when we talk to you about what we spent on  
24 nuclear, I just -- I wanted to leave this chart  
25 up to point out to you that while that nuclear

1 transmission, that \$210 million, that is still a  
2 very useful asset. It's part of the integrated  
3 transmission system and helps the transmission  
4 system move power from the west to the east, so  
5 that's an asset that will definitely be  
6 deployed.

7 SENATOR CAMPBELL: Does it have  
8 anything to do with your interconnects? Can you  
9 bring more power in or ship more power out  
10 because of that?

11 MR. CARTER: It does help us move  
12 more power through our integrated system, yes,  
13 sir. If you didn't have them, you wouldn't be  
14 able to.

15 SENATOR CAMPBELL: Okay, that's  
16 power in and power out to take advantage of  
17 purchasing the gas off-system?

18 MR. CARTER: Yes, sir.

19 SENATOR CAMPBELL: Or to take  
20 power out or let somebody else bring power in.  
21 I know that Century keeps asking can they bring  
22 power in.

23 MR. CARTER: Yes, sir.

24 SENATOR CAMPBELL: And the Nucor  
25 said that their rates are -- their industrial

1 rates are higher than most of their other  
2 facilities. I just wondered how -- because --  
3 are there possibilities there that could bring  
4 you more revenue?

5 MR. CARTER: It would lower our  
6 costs, and that's a fuel cost, I believe, as  
7 you'll recall, Senator Campbell. That's a fuel  
8 cost, and we pass those fuel costs through  
9 immediately to all of our customers. They get  
10 the immediate cost savings from fuel, which is  
11 roughly about 50 percent of our costs.

12 SENATOR CAMPBELL: Fuel.

13 MR. CARTER: Fuel, yes, sir, and  
14 that brings me to this chart, which is, again,  
15 the payment to the State is reflected here over  
16 the last number of years. As you can see, it's  
17 gone down from a high of 20 almost .7 million  
18 dollars, and the reason that it goes down is  
19 because of -- the biggest driver there is fuel.  
20 Fuel costs have gone down, and those fuel  
21 savings get passed through to the customers.  
22 This calculation is based on 1 percent of gross  
23 operating revenues each year. So that's why  
24 that number is lower and those costs get passed  
25 through.

1                   SENATOR CAMPBELL: Got you.

2                   MR. CARTER: I would also point  
3 out that on the industrial chart, Santee  
4 Cooper's average industrial rates are 31 percent  
5 below the national average.

6                   CHAIRMAN MASSEY: Senator from  
7 Oconee had a question, and then I've something I  
8 want to ask him about.

9                   CHAIRMAN SETZLER: Okay, let the  
10 Senator from Richland --

11                   CHAIRMAN MASSEY: Oh, I'm sorry.

12                   CHAIRMAN SETZLER: Senator from  
13 Oconee.

14                   SENATOR ALEXANDER: I --

15                   MR. CARTER: Yes, sir.

16                   SENATOR ALEXANDER: I want to go  
17 back to, on the Toshiba settlement money and  
18 that money that would be available to y'all, and  
19 you talk about using it for operations,  
20 certainly some of that, so I guess the concern  
21 I've got there is, if you've got that -- funds  
22 there that's dedicated to go against that debt  
23 has been incurred, and I've heard you comment on  
24 these other questions that maybe preclude you  
25 from issuing debt. I guess my thought would be

1 -- or the question would be, are there other  
2 things outside of normal operations that you're  
3 considering using those funds for or that you  
4 all will be making a recommendation for?

5 MR. CARTER: No, sir.

6 SENATOR ALEXANDER: Or anything  
7 else that's associated with the two nuclear  
8 reactors?

9 MR. CARTER: If I understand the  
10 question, I -- the -- all that money would be  
11 applied, in one way or the other, to lower  
12 rates. I feel confident that that's what the --  
13 any plan that the board adopts --

14 SENATOR ALEXANDER: Okay.

15 MR. CARTER: -- will include  
16 that.

17 SENATOR ALEXANDER: I just want  
18 to be clear on that.

19 MR. CARTER: Yes, sir.

20 SENATOR ALEXANDER: So any monies  
21 that has been about Toshiba will be used to  
22 lower the rates one way or the other.

23 MR. CARTER: Yes, sir. I can't  
24 imagine anything that we would -- that the board  
25 would do that that would be the case, but in

1 addition to that, Senator Alexander, they're  
2 expecting us to reduce other costs also.

3 SENATOR ALEXANDER: Oh, I  
4 understand, and we are, yeah, we're all  
5 expecting that, yeah, yeah, but I just want to  
6 make sure that that stream of funds is going to  
7 be dedicated --

8 MR. CARTER: To customers, yes,  
9 sir.

10 SENATOR ALEXANDER: Okay.

11 MR. CARTER: There's no other  
12 place for it.

13 CHAIRMAN MASSEY: Is it dedicated  
14 to lowering rates, or to offsetting rate  
15 increases?

16 MR. CARTER: It will go to the  
17 customers. So, I mean --

18 CHAIRMAN MASSEY: Yeah, but does  
19 that mean that if my bill today is \$50 that it's  
20 going to go to \$48, or does it just mean that my  
21 bill's going to be 50 for the next four years?

22 MR. CARTER: I'm not sure I  
23 understand you, Senator.

24 CHAIRMAN MASSEY: Well, you said,  
25 in response to Senator Alexander's question, you

1       said that it was going to be used to reduce  
2       rates, but I thought we had heard that we  
3       weren't going to -- that you weren't going to  
4       reduce rates --

5                       CHAIRMAN SETZLER: That's what he  
6       told me.

7                       CHAIRMAN MASSEY: -- that you  
8       were going to offset rate increases into the  
9       future with it.

10                      MR. CARTER: And by that  
11       statement, that's what I mean because remember,  
12       60 percent plus of our revenues are being trued  
13       up in a formula rate, so those electric rates,  
14       that power cost will immediate reflect it. The  
15       customers that are under rate schedules that  
16       require a rate process to change those aren't  
17       going to be changing during the next two years.  
18       The board has laid that down, told us to figure  
19       out a way to make that happen, and that will  
20       happen. So all of that money has to be applied  
21       in some way to reduce what people pay for power.

22                      CHAIRMAN MASSEY: well --

23                      MR. CARTER: Either in this year,  
24       next year, or the year after.

25                      CHAIRMAN MASSEY: -- maybe it's

1 just semantics, but if you're -- reducing, to  
2 me, says that I'm paying less than I'm paying  
3 now.

4 CHAIRMAN SETZLER: Right.

5 CHAIRMAN MASSEY: Right?

6 Offsetting means you're planning to increase my  
7 rates, and you may not increase them as much. I  
8 mean, that --

9 SENATOR ALEXANDER: That's where  
10 I was going.

11 MR. CARTER: So let's be --

12 CHAIRMAN MASSEY: I mean, it may  
13 be semantics, but there's a difference, and I  
14 think to the people who are paying the bills,  
15 there's a difference. I mean, is the proposal  
16 -- and I don't know that I like the proposal  
17 either way, by the way -- but is the proposal to  
18 have -- is the proposal that the executive team  
19 is going to make to the board on Friday that the  
20 current bills, the current rates will be reduced  
21 with the Toshiba money, or is the proposal that  
22 we're going to use Toshiba money not to raise  
23 rates for a period of time into the future? Or  
24 was there some other proposal?

25 MR. CARTER: So let me try to be

1 very specific and answer that because I now  
2 understand what you're asking me --

3 CHAIRMAN MASSEY: Okay.

4 MR. CARTER: -- Mr. Chairman.  
5 For customers like Central that are under a  
6 formula rate -- remember, I told you earlier,  
7 they adjust to actual. I think this is where  
8 this confusion is coming in. They adjust to  
9 actual. So anything we do to reduce costs, to  
10 deploy money to offset nuclear costs, whatever  
11 we do to maintain our financial health will  
12 lower those customers' costs that are on these  
13 formula rates. Are we okay with it? Do you  
14 understand what I'm saying there?

15 CHAIRMAN MASSEY: So the  
16 consequence of your proposal --

17 MR. CARTER: Well, let me finish.  
18 So are we okay on -- if I may because -- so that  
19 piece will adjust, and it will likely lower the  
20 actual bill that they get. In fact, I can't  
21 imagine that it won't.

22 For customers that are under rate  
23 schedule -- so that's going to be industrial  
24 customers, residential customers, and commercial  
25 customers -- during that two-year period, my

1 understanding is, there's no plan to change  
2 those rates. So they won't go -- the base rates  
3 won't go up or down during that next two-year  
4 period, except for changes in fuel costs because  
5 fuel is adjusted month. Is that clear?

6 CHAIRMAN MASSEY: well, I don't  
7 know. well, let me make sure. Maybe it is;  
8 maybe it's not. You can tell me right now. The  
9 consequence of your proposal for co-op customers  
10 would be that the bill they're paying in three  
11 months will be less than the bill they're paying  
12 today.

13 MR. CARTER: well, again, y'all  
14 look at in months. we look at it annually.  
15 Annually, it definitely would.

16 CHAIRMAN MASSEY: well, the  
17 people who pay -- I guarantee you, the people  
18 who pay the power bill every month because, I  
19 mean, you send them a bill every month.

20 MR. CARTER: We send them a bill  
21 every month --

22 CHAIRMAN MASSEY: well, the co-  
23 ops are sending them a bill every month. So  
24 whoever is giving them power is sending them a  
25 bill. So I thought I understood that what you

1 said was that there would be a rate reduction  
2 for co-op customers, but that for your other  
3 customers -- industrial, commercial, or the  
4 people that you supply directly, residential  
5 that Santee Cooper supplies directly -- that  
6 they would be flat for a period of time. Did I  
7 understand -- is that right?

8 MR. CARTER: Yes, the last part  
9 is correct. They would be flat, except for fuel  
10 adjustment, because there's no change in base  
11 rates.

12 CHAIRMAN MASSEY: All right, so  
13 what did I miss?

14 MR. CARTER: But with the  
15 Electric Cooperatives, remember, we're rendering  
16 one bill to Central, so again, I want to be  
17 clear, and so you can see that Central's costs  
18 -- that's what I'm trying to make sure everybody  
19 understands is, each year, they pay our actual  
20 costs, whatever they are, so if they go up one  
21 year, they pay it. If they go down one year,  
22 they pay it. So that's -- I -- and that's what  
23 we charge Central. And beyond that, I can't  
24 speak to what, you know, their customers --

25 CHAIRMAN MASSEY: So then your

1 proposal to the board would be to give a portion  
2 of that Toshiba money to Central; is that right?

3 MR. CARTER: Central is our  
4 largest customer. They would get their  
5 allocable (INDISTINCT) --

6 CHAIRMAN MASSEY: But what they  
7 do with it, they do with it.

8 MR. CARTER: Yes, sir.

9 CHAIRMAN MASSEY: Okay. Well,  
10 I'm pretty sure I don't like that. I --  
11 because, I mean, there's no guarantee that it's  
12 going to be passed along.

13 MR. CARTER: Well, I can't speak  
14 for how they set their rates, but --

15 CHAIRMAN MASSEY: No, well -- and  
16 I get that. I mean, I guess ultimately, that's  
17 their concern. But, I mean, if people have been  
18 paying rates to finance construction of the  
19 project, the project fails, Toshiba guarantees,  
20 we will pay you some money if the project fails,  
21 and there's no guarantee that any of that  
22 money's going back to the people who paid the  
23 bill to begin with.

24 MR. CARTER: All of the money  
25 that Santee Cooper receives will flow to the

1 customer eventually.

2 CHAIRMAN MASSEY: Your customer  
3 is Central, right?

4 MR. CARTER: Yes, sir.

5 CHAIRMAN MASSEY: So -- but  
6 there's no guaranteed that that money goes to  
7 the ultimate ratepayer, right?

8 MR. CARTER: All I can say -- all  
9 -- I can't guarantee anybody else's rate,  
10 including the cities', but I can tell you, from  
11 Santee Cooper's perspective, all that money has  
12 to flow to the customers eventually.

13 CHAIRMAN MASSEY: well, and  
14 Senator -- Mr. Chairman, I'll say again, I've  
15 got concern about putting that money into  
16 operating in any event because I think it makes  
17 it even more difficult for us even to consider  
18 -- and I don't know where I am on -- ulti --  
19 honestly, as I told the press before we broke  
20 for lunch, I don't think -- for me personally, I  
21 don't think that I've still got enough  
22 information to make a decision on whether we  
23 ought to sell Santee Cooper.

24 But I know enough to know that I  
25 think that putting all that money into

1 operating, as opposed to paying down debt, makes  
2 it more difficult for us to consider selling.  
3 And if you're putting the money into operating  
4 and there's no guarantee that the people who  
5 have paid the money to start with are going to  
6 get a refund, that's even more troubling to me.  
7 But in any event, I do have another topic that I  
8 want to go to, but if there's other questions on  
9 this, I'll happy to yield to that --

10 CHAIRMAN SETZLER: All right. I  
11 have the Senator from Richland next.

12 CHAIRMAN MASSEY: -- for that  
13 purpose.

14 SENATOR SCOTT: I want to just go  
15 back again. A little bit earlier we were  
16 talking about bond and rate increases and  
17 looking at the five different revised rate.  
18 when -- in early -- well, in late November 2009,  
19 an agreement was finally reached between the two  
20 companies to go in -- it look -- somewhere  
21 around November 2009. The first rate increase  
22 was gathered all the way through April 2017.

23 when you do the revised rate  
24 increases, which means it's money there to pay  
25 the bond, how do you -- is your bond that you

1 do, can you add onto the bond, or it's a  
2 separate piece and they do an average for making  
3 payment? Tell me how the process work because  
4 each time you revise the bond, it simply means  
5 -- I guess you were taking money to be able to  
6 participate in the project.

7 MR. CARTER: Yes, sir. Senator,  
8 Scott, I -- if I understand you correctly, there  
9 won't be any additional debt issued over the  
10 next year, so.

11 SENATOR SCOTT: No, no. I'm at  
12 the beginning. I'm at the beginning when we  
13 first got the project started in 2009, and I'm  
14 looking at, in November we had a revised rate  
15 increase. Does that represent at that point an  
16 increase in your bond indebtedness so that cash  
17 is made available? Tell me how that worked.

18 MR. CARTER: Well, that's what I  
19 was going to try to do, so --

20 SENATOR SCOTT: I'm sorry.

21 MR. CARTER: -- basically, what  
22 we -- what the board has to do from here forward  
23 is, they have to look at, what are our costs  
24 look like for a year? The piece that's the  
25 Electric Cooperatives will get trued up, so

1 let's -- in rough numbers, that's 60 percent  
2 that will get trued up. And then they have to  
3 look at the balance that's under what we call  
4 rate schedules. That's your industrial,  
5 residential, commercial customers and some  
6 municipal customers.

7 You -- they look at those rates  
8 and look if they will be sufficient to recover  
9 all those costs, and all of the debt service --  
10 that's what I was trying to talk about earlier  
11 -- all of the debt service for all bonds that  
12 have been issued, and because there aren't going  
13 to be any more issued -- so there aren't any  
14 projected to be issued because they would be  
15 looking at those, too, if that were the case.

16 SENATOR SCOTT: Please, please --

17 MR. CARTER: But that's just the  
18 process.

19 SENATOR SCOTT: Just please --

20 MR. CARTER: But there aren't  
21 going to be.

22 SENATOR SCOTT: Please allow me  
23 to stop you. I'm trying to go back in my own  
24 mind to figure out the process you used when you  
25 began to get the first part of the bond in 2009

1 to participate in the process of building the  
2 reactors. And each time -- I guess when I see a  
3 revised rate increase, does that represent new,  
4 additional money from the bond to be able to pay  
5 your indebtedness, or how was that paid?

6 MR. CARTER: That's what I was  
7 trying to explain, Senator Scott.

8 SENATOR SCOTT: I'm sorry.

9 MR. CARTER: It's basically --  
10 there -- every time we look at costs and rates,  
11 we're looking at what the debt service is that's  
12 outstanding that has to be paid in that year.

13 SENATOR SCOTT: Okay.

14 MR. CARTER: So whatever it was  
15 issued for. So it would include the nuclear.  
16 It would include anything else that was issued,  
17 even decades before that's still outstanding.  
18 It includes everything.

19 SENATOR SCOTT: So when -- so  
20 after you look at that, we've concluded that we  
21 -- you're at \$4.4 billion. At some point you  
22 need a billion dollars or \$3 billion or a  
23 billion and half dollars. What do you do to get  
24 that money? Do you revise your bond, or you add  
25 additional to the bond? What does the bond

1 lending house, Standard & Poors, Moody's, what  
2 do they allow you to do so you can get the  
3 additional money? Was it a separate bond by  
4 itself as you increased over the time period, or  
5 it's just an add-on?

6 MR. CARTER: In order to -- well,  
7 first of all, the entities -- S&P, Fitch,  
8 Moody's --

9 SENATOR SCOTT: Right.

10 MR. CARTER: -- they rate us.  
11 That's their role.

12 SENATOR SCOTT: Right. Right.

13 MR. CARTER: They rate our  
14 credit. But as we have capital needs, we look  
15 at, again, the cash that we generate available  
16 internally, which we do generate some  
17 internally; that's where the equity component  
18 comes from that we're talking about. And if  
19 we're looking at our capital additions and  
20 they're greater than that, then it's Mr.  
21 Armfield's responsibility to go out and get into  
22 the bond market or commercial paper and make  
23 sure that there's enough money available to pay  
24 for those capital needs.

25 SENATOR SCOTT: I guess the part

1 that was kind of throwing me, in looking at how  
2 close and how many different times you went in  
3 the five time periods. And then the last couple  
4 of times, in April 2017, April, again, 2016, and  
5 then you had a spread about three years in  
6 December '13, which meant that when you did the  
7 bond -- I mean, when you did the rate revision,  
8 you generated additional cash that was able to  
9 pay the indebtedness on the reactors? Am I --  
10 is -- am I understanding you said that?

11 MR. CARTER: It paid what -- all  
12 of the indebtedness, all of it, including the  
13 reactors. All debt service would have been  
14 figured into rates.

15 SENATOR SCOTT: Okay. Okay,  
16 thank you.

17 CHAIRMAN SETZLER: All right,  
18 Senator Campbell and Senator Sabb.

19 SENATOR CAMPBELL: Let's go back  
20 to, I think, Senator Massey's question, just a  
21 little bit of a follow-up. All right, since  
22 Central pays actual cost and you true them up,  
23 if the costs go down immediately, okay, then  
24 they're going to see it immediately. Customers  
25 paying fixed rates are effectively going to

1       paying more into it because your costs went down  
2       and their rate's stable. They're going to be  
3       paying more into the rates than they were today  
4       because your costs are down. That delta will be  
5       at a bigger number.

6                        Okay, so they're actually going  
7       to be contributing to the costs that will impact  
8       Central's rates going forward, but yet they  
9       don't get the benefit of it because as those  
10      rates go down -- as your costs go down and  
11      they're paying more in incremental costs, then  
12      after three years, Central may be adjusted up or  
13      down, but at the same time, they've paid part of  
14      that incremental cost, so Central gets the  
15      benefit of that, and they don't get the benefit  
16      because they're rates are fixed. Does that make  
17      sense?

18                      MR. CARTER: I understand what  
19      you're alluding to, but I think -- I believe if  
20      you look at it, generally it works out because  
21      Central, also, when rates go up, when -- excuse  
22      me -- when costs go up and we're seeing that  
23      we're going to have to raise rates, Central's  
24      going to pay theirs by formula, so Central  
25      really -- the Electric Cooperatives are going to

1 pay whatever they agreed to pay on an actual  
2 basis, so it's -- they're not going to underpay  
3 or overpay, is the way I look at it.

4 SENATOR CAMPBELL: But for  
5 the next three or four years, they're going to  
6 under -- well, pay under what -- since your  
7 costs are going to go down and the other  
8 ratepayers are -- 40 percent of your ratepayers  
9 are paying whatever the rate is now.

10 MR. CARTER: But that goes back  
11 to what Mr. Armfield was trying to explain. As  
12 he -- as they balance and look at the costs, the  
13 way that they apply this debt and use the  
14 Toshiba money to apply it toward the debt to  
15 help work that out so that we aren't  
16 undercollecting from them. Am I making sense?  
17 Or overcollecting.

18 So in other words, we're not  
19 going to change rates. They're flat, as we  
20 talked about, for that group of customers.  
21 They're flat. And so that's where -- I think  
22 what they'll be looking at is trying to make  
23 sure that they use this money in the best way to  
24 keep rates low and competitive for the long  
25 term. They will be looking over a multi-year

1 period, trying to make sure that they keep them  
2 competitive. So I don't -- you know --

3 SENATOR CAMPBELL: I -- yeah, my  
4 concern is that, you know, Central gets the  
5 break immediately. The other customers may or  
6 may not get a break because in three years, your  
7 costs may be up. And so consequently, the other  
8 customers have paid part of Central's --  
9 Central's rates are going to stay down because  
10 they paid more, which offsets your costs. So  
11 Central's rates stay lower, but yet, they're not  
12 going to see the benefit for the next three  
13 years. They may see it after that, but for the  
14 short term, your fixed-rate customers will pay  
15 more because your costs go down. So their  
16 incremental cost is higher.

17 MR. CARTER: But keep in mind,  
18 Senator Campbell, that what -- in the rate  
19 increases that we were looking at, a large  
20 component of those were things that were not  
21 nuclear, so this is balancing all of your power  
22 costs, that cost, and making sure that whatever  
23 costs that are left there in those years, rates  
24 are sufficient to cover it. So I don't --

25 SENATOR CAMPBELL: Right, but the

1 nuclear piece is what's causing the rates to go  
2 -- I mean, your costs to go down, on a short-  
3 term basis anyway, the recovery you're getting  
4 from Toshiba.

5 MR. CARTER: That's part of it,  
6 but another part of it is lowering costs in  
7 general. There will definitely be other cost  
8 reductions.

9 SENATOR CAMPBELL: Yeah, I would  
10 think so.

11 MR. CARTER: Significantly.

12 SENATOR CAMPBELL: I think you  
13 look at your whole organization cost, your  
14 manning and everybody else, because you're in a  
15 squeeze now because of the budget, so you got to  
16 look at your whole organizational structure. I  
17 know on the industrial side, the first thing  
18 they would tell us was to cut heads because  
19 that's an immediate cost savings.

20 MR. CARTER: And you will  
21 definitely the head count go down; no doubt  
22 about that.

23 CHAIRMAN SETZLER: Okay, Senator  
24 Sabb.

25 SENATOR SABB: Thank you, Mr.

1 Chairman. I guess I'll pick up on that point.  
2 I really wanted to follow up on a point that was  
3 raised either by Senator Massey or Senator  
4 Setzler, but I thought we had a discussion the  
5 last time on the issue of whether or not there  
6 was going to be a reduction in force, and my  
7 recollection was that the answer was, Probably  
8 not, but as people retire, then those positions  
9 might not be filled immediately. Has that  
10 thought process changed?

11 MR. CARTER: No, sir. That's why  
12 I said there would -- I -- to answer -- I  
13 answered the question, There would be a  
14 reduction in head count. I do not believe this  
15 will be necessary to do a reduction in force  
16 because I believe, as many of you area wear, the  
17 TERI program is ending in June.

18 SENATOR SABB: Right.

19 MR. CARTER: And we have a number  
20 of retirements taking place.

21 SENATOR SABB: Right.

22 MR. CARTER: I believe there are  
23 150 left to take place, and there's a large  
24 number of those that have already been  
25 identified that will not be filled.

1                   SENATOR SABB: Yeah, and so, of  
2 course --

3                   MR. CARTER: And let me --

4                   SENATOR SABB: -- that's  
5 consistent with the conversation that we had the  
6 last time. Did you want to add something to  
7 that? Because I'm getting ready to (INDISTINCT)  
8 --

9                   MR. CARTER: Yes, sir, I just  
10 wanted to -- I did want to clarify. Some of the  
11 people that retire, we obviously will have to  
12 replace. So if you're a unit operator or a  
13 system controller, you know, we have to have  
14 enough of those to operate. But they will come  
15 out somewhere else where we don't have to have  
16 them.

17                   SENATOR SABB: Yeah, and so the  
18 last time I was concerned about individuals and  
19 jobs and the loss of jobs, and so I just wanted  
20 to make sure that any response to Senator  
21 Campbell's question, that we had not changed  
22 with regard to that.

23                   MR. CARTER: Thank you for  
24 helping me clarify that.

25                   SENATOR SABB: On the other

1 point, though, one of my takeaways from our  
2 September gathering was, on the issue of moving  
3 forward and what do we do with the assets that  
4 our currently over in Fairfield. And I had an  
5 appreciation as I left for the idea of whether  
6 or not we ought to try to maintain the assets,  
7 not knowing what the future climate might be,  
8 and I think you gave the example of the coal  
9 plant that we had that stayed dormant for a  
10 period of time and then we had a need for it  
11 later. And so I walked away thinking that that  
12 made some sense, and I recall some testimony, I  
13 believe, that it would cost some \$15 million or  
14 so to maintain what was there. Is my memory --

15 MR. CARTER: Yes, sir. My  
16 understanding is about \$15 million a year, and I  
17 don't know if we've got a better number than  
18 that yet.

19 MR. CROSBY: That will -- that's  
20 2018.

21 MR. CARTER: And --

22 MR. CROSBY: Beyond that, it will  
23 be about a \$5 million cost.

24 SENATOR SABB: Yeah, and so --

25 MR. CROSBY: (INDISTINCT)

1                   SENATOR SABB: Thank you. And so  
2 in response to, and I can't remember which  
3 senator it was -- they were firing sort of  
4 almost simultaneously with their questions --  
5 but you mentioned that. You mentioned the  
6 assets, and so I'm curious. This Friday, when a  
7 financial plan is going to be presented to the  
8 board, does it include thoughts associated with  
9 what ought be done with those assets?

10                   MR. CARTER: It -- that study --  
11 that's a very good question. Let me try to  
12 answer it broadly first. I believe that there's  
13 an analysis that needs to take place, a careful  
14 one, because some things out there are in the  
15 ground, they're there, they can't be moved. And  
16 eventually, as I like to point out, we plan over  
17 long periods of time.

18                   So we started this thing a decade  
19 ago. I've seen a coal plant on our own system  
20 sit in storage for 11 years, I think it was, and  
21 then come out and be -- had parts for it, large  
22 components, and then ultimately get built. We  
23 can look at Watts Bar, the most recent nuclear  
24 unit to come online. It sat dormant for 20 or  
25 25 years before it was brought back and used and

1 completed and is now online. At some point,  
2 somebody's likely to want to go back to this  
3 investment. But in the meantime, there also is  
4 part of this cost of maintaining equipment.

5 There needs to -- in my opinion,  
6 there needs to be a knowledgeable analysis of  
7 what's out there, particularly the components  
8 that can be moved and sold to the other people  
9 that are now building nuclear power plants, and  
10 there needs to be a thoughtful, reasoned  
11 decision to see whether we ought to sell it or  
12 whether we ought to keep it and keep it  
13 warehoused because keeping it, you got to --  
14 it'll cost you at least some money to keep in  
15 warehouse and maintain something, as you know,  
16 Senator Sabb. And selling it today, you might  
17 not get a hundred cents on the dollar, but what  
18 will you get for it?

19 So there's a bit of an analysis,  
20 I think, that needs to take place, and that's  
21 got to be done in the context of, when do we  
22 think we would need the capacity, "we" being the  
23 state as a whole, and what are regulations going  
24 to do? Because regulations not only impact the  
25 nuclear industry, but the existing fleet of

1 units that are operating today as well. That  
2 would be both -- mostly our coal units and our  
3 gas units.

4 SENATOR SABB: So the answer to  
5 my question as it relates to whether or not  
6 there are any recommendations by staff that will  
7 go to the board this coming Friday, the answer  
8 to that question is yes or no?

9 MR. CARTER: No. There's no  
10 money in that analysis, I don't believe, because  
11 we don't know what it would be. I don't believe  
12 anybody's put anything -- I'm looking -- into  
13 that analysis that would assume any recovery of  
14 the sale of assets from the site.

15 SENATOR SABB: Okay, so I saw you  
16 looking to the left of your team, and then I saw  
17 you looking to the right of your team, and I'm  
18 still kind of looking at you, so you've gotten  
19 --

20 MR. CARTER: I'm pretty sure I'm  
21 right about that. Is there anything in there  
22 for sale of any assets?

23 MALE SPEAKER: No, there's  
24 nothing in there for sale. That may be  
25 (INDISTINCT).

1                   MR. CARTER: The maintenance cost  
2 is in there. Yeah, that's a great point. So  
3 what he's saying is, I'm right about that  
4 because we don't know -- there's been no  
5 analysis, any thorough, appropriate analysis  
6 about what to sell --

7                   SENATOR SABB: I understand.

8                   MR. CARTER: -- but the cost to  
9 actually maintain it is in the O&M budget, yes,  
10 sir. Thank you.

11                  CHAIRMAN SETZLER: All right, Mr.  
12 Carter, let me follow up on what the Senator  
13 from Berkeley asked you. And after I finish  
14 that, I want to go to this meeting on Friday.  
15 Last time, we asked you about your  
16 organizational chart and your retirement  
17 benefits. And y'all have provided us this  
18 picture of your organizational chart. If I'm  
19 reading this correctly -- I asked you last time  
20 how many vice presidents you had. If I'm  
21 reading it, you have 20 vice presidents for 1700  
22 employees?

23                  MR. CARTER: Senator, can I look  
24 at what you're -- I believe that would also  
25 include the executive team, I believe.

1 CHAIRMAN SETZLER: Well, sure.

2 MR. CARTER: I'm glad to look at  
3 it and count them for you.

4 CHAIRMAN SETZLER: Sure. If  
5 it'll help you, I've counted them three times.

6 MR. CARTER: Well, then I believe  
7 you. I trust you.

8 CHAIRMAN SETZLER: Okay. So  
9 you've got 20 vice presidents.

10 MR. CARTER: But that includes  
11 the senior vice presidents, I believe, doesn't  
12 it?

13 CHAIRMAN SETZLER: Certainly.

14 MR. CARTER: The executives that  
15 are behind me.

16 CHAIRMAN SETZLER: Certainly.  
17 All right, so now, you also gave us this packet  
18 on your retirement system, and -- do you have a  
19 copy of that with you?

20 MR. CARTER: I think I do.

21 CHAIRMAN SETZLER: All right.  
22 The first page says, The Executive Leadership  
23 Team, and -- under your name, and it's got eight  
24 people listed, which I assume are the people  
25 that are behind you or with you, and it says,

1 2017 Incentive: \$330,508. Of course, we're not  
2 all the way through 2017. Can you explain that  
3 number? Is that for the year, is that to date,  
4 what?

5 MR. CARTER: That is the  
6 executive --

7 MALE SPEAKER: (INDISTINCT) not  
8 in this packet.

9 CHAIRMAN SETZLER: It wasn't in  
10 the packet? Okay, it was emailed to us last  
11 night. We'll get you a copy. Go ahead. Go  
12 ahead, Mr. Carter. I'm sorry.

13 MR. CARTER: That's all right.  
14 Mr. Chairman, that is the executive defined  
15 contribution plan, and that is the balance as of  
16 6-30-17. So that balance includes any  
17 contributions into the account over the long  
18 period of time that I've been in it plus its  
19 earnings plus (INAUDIBLE).

20 CHAIRMAN SETZLER: Correct. So  
21 of the eight people that are listed there, as I  
22 read it, \$858,000 of that money is yours, and  
23 the balance is the other seven people, so about  
24 55 percent of that money is yours.

25 MR. CARTER: Yes, sir, and I'm --

1 if you look at that list of folks, I'm the  
2 person that's been in that plan the longest.  
3 I've been in that --

4 CHAIRMAN SETZLER: All right, and  
5 I understand that, and I've -- I also read the  
6 definition of the plan, and if I read it  
7 correctly, it says the people that are enrolled  
8 in this plan are chosen by you and/or the board.

9 MR. CARTER: That's correct.

10 CHAIRMAN SETZLER: So you only --  
11 are the only one besides the board that can  
12 choose the people that participate in this plan.

13 MR. CARTER: That's correct.

14 CHAIRMAN SETZLER: All right,  
15 sir, and I believe it also says very clearly  
16 that in order to be enrolled in this plan, you  
17 have to sign a confidentiality agreement.

18 MR. CARTER: Yes, sir.

19 CHAIRMAN SETZLER: What in the  
20 world are you requiring them to sign a  
21 confidentiality agreement -- you don't want the  
22 rest of the employees of Santee Cooper to know  
23 about this plan?

24 MR. CARTER: No, sir. That's not  
25 what we're talking about there. We're talking

1 about -- it's actually a noncompete and a  
2 confiden --

3 CHAIRMAN SETZLER: That's not  
4 what it says. It says a confidentiality plan.

5 MR. CARTER: It also --

6 CHAIRMAN SETZLER: It's in your  
7 brochure that you give to people. It says it's  
8 a confidential -- it doesn't say it's a  
9 noncompete.

10 MR. CARTER: It has noncompete  
11 provisions in it, and --

12 CHAIRMAN SETZLER: That's not  
13 what I asked you. Is it a confidentiality  
14 agreement?

15 MR. CARTER: It's both.

16 CHAIRMAN SETZLER: Okay. So  
17 you're asking them to sign something where they  
18 can't tell other employees that they're sitting  
19 beside, working beside every day, that they're  
20 getting this benefit that nobody else in the  
21 company is offered.

22 MR. CARTER: No, sir. That is  
23 not what that document does.

24 CHAIRMAN SETZLER: Well, then  
25 what -- why is it required that they be kept

1 confidential?

2 MR. CARTER: What it means is  
3 that people that are working with confidential  
4 information, like industrial customer  
5 information, our competitive rates, where we're  
6 negotiating and competing with other people for  
7 wholesale power costs. It's not that they can't  
8 -- you know, most -- like all of this, this is  
9 public information. This is --

10 CHAIRMAN SETZLER: Okay, so you  
11 publish this.

12 MR. CARTER: This information is  
13 available, yes, sir. You -- it's been published  
14 --

15 CHAIRMAN SETZLER: Do you publish  
16 it publicly?

17 MR. CARTER: It is -- it  
18 certainly is provided when people ask for it.  
19 And it's been, it's been asked for.

20 CHAIRMAN SETZLER: Okay, it's  
21 when they ask for it.

22 MR. CARTER: Yes, sir.

23 CHAIRMAN SETZLER: And then you  
24 have another defined benefit plan, correct?

25 MR. CARTER: Yes, sir.

1                   CHAIRMAN SETZLER: And I believe  
2 in 2016, it cost the company \$800,000, correct;  
3 roughly, is that what I'm reading?

4                   MR. CARTER: I'm not sure where  
5 you are.

6                   CHAIRMAN SETZLER: I'm on page 4.

7                   MR. CARTER: Yes, sir. That's  
8 actually the disbursement.

9                   CHAIRMAN SETZLER: All right, so  
10 there were contributions made to that defined  
11 benefit plan and to the other plan in each of  
12 the last five years, correct?

13                  MR. CARTER: Mr. Chairman, can  
14 you restate the question again?

15                  CHAIRMAN SETZLER: I said there  
16 were contributions made to those plans for the  
17 benefit of those employees over the last five  
18 years, each of the last five years, as well as  
19 the incentives.

20                  MR. CARTER: well, for the --  
21 they -- for these employees, some of them have  
22 been retired so long, it's likely ahead of that.

23                  CHAIRMAN SETZLER: What -- not a  
24 particular employee. To the plan, in 2015,  
25 2016, 2017, the company paid money into those

1 plans, and they paid incentives while you were  
2 incurring \$4.4 billion in debt to the  
3 ratepayers.

4 MR. CARTER: Over the course of  
5 -- there are two plans here. The deferred --

6 CHAIRMAN SETZLER: Correct. Oh,  
7 believe me, we understand that, and that doesn't  
8 count the State retirement plan.

9 MR. CARTER: And then this plan,  
10 there's an actuarial study done each year, as I  
11 understand it, and that determines how much has  
12 to be put into it.

13 CHAIRMAN SETZLER: And that's my  
14 question to you. You put that money -- did you  
15 give incentive bonuses, whatever you want to --  
16 incentive pay, in 2015, 2016, and 2017 to your  
17 executive team?

18 MR. CARTER: Yes, sir, but that's  
19 not in this package.

20 CHAIRMAN SETZLER: All right, and  
21 did you make contributions, you being Santee  
22 Cooper, to both of these plans in 2015, 2016,  
23 and 2017 for the participants of those plans?

24 MR. CARTER: Yes, sir. For all  
25 the participants in those plans, they would have

1 had the actuarial --

2 CHAIRMAN SETZLER: So when you  
3 knew this project went south, there's been no  
4 effort to cut anything out of the retirement or  
5 the special plans for the executives of Santee  
6 Cooper, but the ratepayers are still paying the  
7 \$4.4 billion. Let me rephrase it differently.  
8 Is there anything in the management plan you're  
9 going to present Friday to the board that's  
10 going to affect this and what you're paying for  
11 these people versus the ratepayers?

12 MR. CARTER: I cannot speak to  
13 that because the board will ultimately make that  
14 decision. I don't know --

15 CHAIRMAN SETZLER: I didn't -- I  
16 said, was it in the plan?

17 MR. CARTER: I don't know that  
18 there are any changes in the plan for -- were  
19 there any changes made for any of the  
20 compensation, executive or otherwise?

21 MALE SPEAKER: I'm not aware of  
22 any.

23 MR. CARTER: I'm not aware of any  
24 that were made either, Mr. Chairman.

25 CHAIRMAN SETZLER: So -- and this

1 meeting on Friday, is it going to be public, or  
2 it going to be another executive session of the  
3 board?

4 MR. CARTER: It has both,  
5 Senator. It will have some of both. Because  
6 there are -- of course, and again, I'm just  
7 trying to be candid with you. Some of what they  
8 will be discussing are legal matters because  
9 there are several, as you know, lawsuits that  
10 are pending.

11 CHAIRMAN SETZLER: All right,  
12 sir. Mr. Carter, you have been there 30 years,  
13 correct? Ballpark.

14 MR. CARTER: Thirty-five.

15 CHAIRMAN SETZLER: Thirty-five,  
16 give or take. And you're leaving. If the State  
17 -- and I think I heard you say earlier, Santee  
18 Cooper could not be sold. If I -- maybe I  
19 misunderstood you. Do you believe that Santee  
20 Cooper is in a position where it could be sold  
21 by the State? Is that a viable option, in your  
22 opinion, based on your experience?

23 MR. CARTER: First of all, to  
24 clarify, I believe that if we look at my  
25 testimony, it will simply be that I've told you

1 issues that have to be dealt with, but I've also  
2 been very clear that it can be sold. I believe  
3 I've actually used those words several times  
4 today. It's just, you know --

5 CHAIRMAN SETZLER: Do you think  
6 it can be sold easily?

7 MR. CARTER: No, sir, because I  
8 think it's a big, complicated operation, and a  
9 part -- and in all honesty, to what --

10 CHAIRMAN SETZLER: And by the  
11 way, I agree with you 100 percent on that.

12 MR. CARTER: It's a big,  
13 complicated operation. It would -- there are a  
14 number of things, but it can be done.

15 CHAIRMAN SETZLER: But it can't  
16 be done quickly and overnight.

17 MR. CARTER: No, sir, and it  
18 would need some careful thought because as I  
19 have said before, I would expect that an -- as I  
20 use the word "objective," stepping back and  
21 looking at, there is an advantage to having  
22 Santee Cooper, not just the economic development  
23 stuff that is in the rest of my presentation,  
24 but we -- you know, there are some intrinsic  
25 things like providing a yardstick value --

1 remember, our rates, we're trying to keep our  
2 rates below the state average, the national  
3 average, so we're providing a competitive, what  
4 I call benchmark or yardstick for others to be  
5 measured by, and we have a -- our capital  
6 structure provides a benefit, if you will, or an  
7 advantage in our business model.

8 CHAIRMAN SETZLER: Yeah, I'm not  
9 trying --

10 MR. CARTER: So --

11 CHAIRMAN SETZLER: -- to get you  
12 to take one side or the other. I'm really  
13 trying to draw on your -- based on your  
14 experience, what do you see as the obstacles to  
15 selling Santee Cooper, one, two, three, four?  
16 I'm not looking for a long explanation. What  
17 are the obstacles that have got to be overcome?

18 MR. CARTER: They are numerous.  
19 There are a number of them.

20 CHAIRMAN SETZLER: Okay.

21 MR. CARTER: I'm going to give  
22 you a few, but my --

23 CHAIRMAN SETZLER: That's fine.  
24 Give me a few.

25 MR. CARTER: I would recommend

1 that if somebody were definitely serious that  
2 they get that analyzed and looked at because  
3 first of all, there's the issue of, what does it  
4 take to clear to debt? You got to deal with the  
5 set issue, as I think we've talked about.

6 Another issue would be taking a  
7 look at our licenses, our various federal  
8 licenses.

9 Another issue that would have to  
10 be dealt with would be taking a look at our --  
11 you know, we have ash ponds. We have sites that  
12 have been industrial sites that would have -- so  
13 you'd have the environmental issues that would  
14 have to be looked at.

15 We've got a number of contracts  
16 that would need to be looked at and carefully  
17 examined and that factored into and dealt with  
18 Santee Cooper, if you were trying to sell it.  
19 The one that we've talked about today is the one  
20 with the Electric Cooperatives, but I've also  
21 mentioned the one with the Corps of Engineers.  
22 So those are the ones that immediately come to  
23 top of mind.

24 Another issue that I would think  
25 that the General Assembly would want to take a

1 hard look at is, you know, what's our  
2 responsibility to the retirement system if you  
3 were to sell Santee Cooper? What do we owe it?  
4 So -- because we've got a number, you know, of  
5 employees that are in that. All of our  
6 employees are in that system.

7 So that's why I would say it can  
8 be done. We just need to look at those items.  
9 I'm sure there's probably a longer list of them  
10 than that, but those are the ones that come to  
11 top of mind.

12 CHAIRMAN SETZLER: But don't --

13 MR. CARTER: Any business --  
14 excuse me. I'm sorry.

15 CHAIRMAN SETZLER: No, go ahead.  
16 Go ahead.

17 MR. CARTER: You know, any large  
18 business like we are is complicated, and those  
19 things would have to be taken care of, and there  
20 are people that earn a living doing that type of  
21 stuff. So I don't want to stand here and tell  
22 you it can't be done because it can. It's just  
23 that if you're going to sell something that's  
24 this big and this important, there's a right way  
25 to go about it.

1                   CHAIRMAN SETZLER: Do you think  
2 it could be sold, part of it and not sell part  
3 of it?

4                   MR. CARTER: Again, I think --  
5 again, Senator -- Mr. Chairman, I think  
6 anything's possible, but I think if you sell  
7 part of it, because you have this revenue  
8 portion that -- remember, the revenue's backed  
9 to bonds.

10                  CHAIRMAN SETZLER: Right.

11                  MR. CARTER: I think you'd still  
12 have to recover all of the bonds. I think  
13 that's -- again, that's something that you'd  
14 have to look at and decide if you thought that  
15 was in the best interest of all the stakeholders  
16 that are involved. Is it going to make power  
17 costs lower in the future? I mean, that would  
18 be one question that I would ask. That's -- I  
19 -- I'm sure it's going to get asked.

20                  CHAIRMAN SETZLER: Sure, and  
21 there's no question about that, and that goes  
22 back to what Senator Massey and I were -- and  
23 the Senator from Fairfield is -- looks like, to  
24 some of us, that with all that's going on and  
25 the discussions that are going on at various

1 levels, that the less y'all do to disrupt the  
2 status quo right now may be the best. But  
3 that's just a different -- difference of  
4 opinion.

5 MR. CARTER: Senator, if I may  
6 say that I believe that the board is trying to  
7 be very responsible and do just that. They're  
8 not trying to -- they're trying to make sure  
9 that Santee Cooper continues to be a valuable  
10 asset to the state, whatever decisions are made,  
11 whether it's an ongoing concern or whether it's  
12 sold.

13 CHAIRMAN SETZLER: All right. As  
14 the outgoing CEO, flip the coin. Instead of  
15 selling Santee Cooper, what you see the problems  
16 are, if Santee Cooper is maintained by the  
17 State, after 35 years of experience and what you  
18 have been through in the last ten with V. C.  
19 Summer, what changes would you recommend to be  
20 made to the operation of Santee Cooper and its  
21 relationship with the State to protect the  
22 ratepayers of South Carolina?

23 MR. CARTER: Mr. Chairman, I --  
24 the first thing that comes to my mind is that  
25 maybe we could communicate better to all of our

1       elected officials, particularly -- that's  
2       probably the one thing that I would point to so  
3       that people aren't surprised. Nobody likes  
4       surprises. So that -- I thought we would do a  
5       better a job than -- that's clearly -- than --  
6       then I think, you know, when I come here and I  
7       realize -- and I realize, you know, y'all have  
8       to deal with everything in the State. I'm  
9       dealing just with Santee Cooper.

10                    But I have been -- surprised is  
11       -- I thought more was understood and known.  
12       I'll just be honest with you, Mr. Chairman, so I  
13       think we should figure out a way to make sure  
14       that we keep our owners, the people who speak  
15       for the owners -- the General Assembly speak for  
16       the owners of Santee Cooper. Y'all ultimately  
17       have the ultimate control over Santee Cooper,  
18       and I think we -- to be candid with you, I think  
19       we could have done better.

20                    CHAIRMAN SETZLER: And nothing  
21       else?

22                    MR. CARTER: Then, Mr. Chairman,  
23       you get into policy questions, and there are a  
24       number of things that may -- you may want to  
25       consider, but they have other ramifications in

1 other places, and so I typically -- you know,  
2 that's not something that I've spent a lot of  
3 time thinking about. My job is to run what I've  
4 got. Does that make sense? So there are other  
5 policy questions you could look at certainly.

6 CHAIRMAN SETZLER: Senator from  
7 Edgefield.

8 CHAIRMAN MASSEY: But as part of  
9 running what you've got, don't you come across  
10 things occasionally and say, You know what? It  
11 would be a whole lot easier if I could do this,  
12 or, This sure is causing us problems. I mean,  
13 look, you're retiring, right? There's no reason  
14 for you to not -- I mean -- I guess, without you  
15 commenting on this, my assumption is that you  
16 would prefer that the State not sell Santee  
17 Cooper.

18 MR. CARTER: I believe I'm --

19 CHAIRMAN MASSEY: And if that's  
20 the case, if that's the case, there have got to  
21 be changes made, brother. All right? And  
22 you're in as good of a position as anybody to  
23 make recommendations as to what those changes  
24 ought to be because I'll tell you, if the  
25 decision is made not to sell Santee Cooper and

1 the proposal is that to fix stuff, all we've got  
2 to do is communicate a little bit better, the  
3 momentum against Santee Cooper will be probably  
4 insurmountable, all right? There will be  
5 significant changes made, potentially excessive,  
6 unless we have some good, responsible  
7 conversation about what legitimate changes need  
8 to be made. Does that make sense?

9 MR. CARTER: Yes, sir. I do  
10 understand what you're --

11 CHAIRMAN MASSEY: You're not  
12 going to get a good response from the General  
13 Assembly if, Hey, everything's fine, All right?  
14 We've just got to talk with you a little bit  
15 better.

16 MR. CARTER: It's --

17 CHAIRMAN MASSEY: Because, I  
18 mean, that's like SCANA telling us that  
19 everything decision they made was in the best  
20 interest of the customers. I mean, people laugh  
21 about stuff like that. So there's got to be  
22 things that we can do to help improve Santee  
23 Cooper if we decide to maintain it as a state  
24 asset.

25 MR. CARTER: And I understand

1           you, and I apologize if my answer to Chairman  
2           Setzler was intended to be comprehensive. In  
3           fact, I thought I was making it clear that it  
4           wasn't. It wasn't about policy. It was simply,  
5           what could I have done better, is the way I was  
6           looking at it, and I certainly --

7                           CHAIRMAN MASSEY: I don't think  
8           it's -- and I don't want to speak for him, but I  
9           don't think it's directed at you personally.

10                          CHAIRMAN SETZLER: No, it's not.  
11           No.

12                          CHAIRMAN MASSEY: It's the whole  
13           --

14                          CHAIRMAN SETZLER: It's the  
15           operation.

16                          CHAIRMAN MASSEY: Right, it's the  
17           whole operation. It's the whole structure of  
18           Santee Cooper, right? Everything associated  
19           with Santee Cooper.

20                          CHAIRMAN SETZLER: It had nothing  
21           to do with you individually. It was about the  
22           operation, period.

23                          CHAIRMAN MASSEY: And I mean,  
24           there's no -- I didn't interpret anything from  
25           that to be a criticism of you.

1 MR. CARTER: I think --

2 CHAIRMAN MASSEY: I guess what  
3 we're looking for is help. If we decide to  
4 maintain it as a state asset, how can we make it  
5 better?

6 MR. CARTER: I -- what I'd like  
7 to do, if that's a question that you're asking  
8 of the Santee Cooper team, I would say, I would  
9 say that we ought to ask that and pose that with  
10 the board some as well because they -- I think  
11 they, in some ways, can be more objective even  
12 than the management team can because Chairman  
13 Massey, you said something early in your  
14 comments that -- you know, you said, "To make it  
15 easier." Easier is not always better,  
16 particularly in this industry.

17 And so what we're talking about -  
18 - let's -- I think -- let's be -- I want to be  
19 intellectually honest with you. You're talking  
20 -- you know, you're implying, and rightfully so,  
21 that there needs to be more oversight. If the  
22 General Assembly is going to be comfortable with  
23 Santee Cooper going forward, there's clearly got  
24 to be more oversight of some sort, right? I  
25 mean, that's -- and again, I don't want to put

1 words into your mouth, but that's what I hear  
2 you saying to me, and that is not something that  
3 I focused on, and I would like a chance to  
4 really sit down with people and look at it, look  
5 at it in the context, too, of, there are trade-  
6 offs.

7           You know, that's what I was  
8 trying to say earlier. There are trade-offs in  
9 whatever we do, and so let's make sure that we  
10 -- that what we do actually is going to benefit  
11 and provide, one, the protections that we want,  
12 that it really would provide the protections and  
13 not unduly damage or limit or reduce Santee  
14 Cooper's ability to fulfill its mission and  
15 provide lower power costs. And those things can  
16 be in tension with each other, but I think a  
17 careful -- I mean, if you'd like, I -- we could  
18 certainly pose that.

19           CHAIRMAN SETZLER: But that's not  
20 what we asked you, Mr. Carter; no offense to the  
21 rest of the folks in here or the board. My  
22 question was to you as the CEO and being there  
23 35 years and retiring, if you had a paintbrush  
24 and could paint the changes, what would you  
25 recommend based on your experience? Not what

1           they would; what you would. They're not  
2           necessarily leaving.

3                           MR. CARTER: I would want to look  
4           at it and think through it carefully because --  
5           so one of the questions -- let's -- again, I'm  
6           not trying to be evasive. I'm trying to tell  
7           you why I would want to think about it before I  
8           just answer you off the cuff about this because  
9           there was a question about, well, maybe we  
10          should put some -- or at least implied that  
11          there should be some limit on some how much debt  
12          Santee Cooper can issue. I'd want to make sure  
13          that that wasn't going -- and so maybe that  
14          could be done easily, Mr. Chairman, in some way  
15          that gives the comfort to the General Assembly  
16          that it wants that Santee Cooper can't get too  
17          far, if you will, without the General Assembly  
18          knowing what's going on and it not cost Santee  
19          Cooper money when it gets ready to issue debt.  
20          Am I making sense?

21                           So I would want to think about  
22          those things and maybe even, in some sense, get  
23          a sense from people, what would give the General  
24          Assembly comfort? what would maybe give me  
25          comfort might not be what would give the General

1 Assembly comfort. So I'm not -- I'm honestly  
2 not trying to be evasive. That's a question  
3 that should be very thoughtfully answered and  
4 not something that I prepared to do, but I would  
5 -- I could take a look at it, and it would need  
6 to be informed. I mean, I hope that's helpful.  
7 And there may be other things besides that that  
8 I haven't -- that's the first one that comes to  
9 mind from what we've seen today.

10 CHAIRMAN SETZLER: Senator from  
11 -- Campbell.

12 SENATOR CAMPBELL: Yeah, I just  
13 got a question. There are no board members here  
14 today, right?

15 MR. CARTER: I don't believe so.  
16 No, sir, I don't believe so. I'm sure they're  
17 watching though.

18 SENATOR CAMPBELL: Well, why  
19 didn't they show up today? Just curious.

20 MR. CARTER: They were -- my  
21 understanding is, and we made clear, that they  
22 were not expected to be here today. But they --  
23 I can speak -- I can tell you, I have talked to  
24 the chairman, and the chairman will make himself  
25 available. I know that was an issue with the

1 House. He understood he didn't need to be  
2 there, but -- or not didn't need to be there.  
3 They understood he had a conflict and couldn't  
4 make that. But if you need him to return, he  
5 will return, and other board members will make  
6 themselves available to you.

7 SENATOR CAMPBELL: I just hope  
8 they were watching because it's a good  
9 discussion today, and I wish they'd been  
10 participating in it. But -- at least where they  
11 could hear it on one side.

12 MR. CARTER: Yes, sir.

13 SENATOR CAMPBELL: But if they're  
14 watching it, I'm okay with that.

15 MR. CARTER: Yes, sir, and again,  
16 to be intellectually honest with the two  
17 Chairmen, I don't want to stand up here today  
18 and offer something up that you wouldn't care  
19 about and look like a fool, so some of what I'd  
20 want to know is, what would give -- what are  
21 realistic things -- I get the debt piece. I  
22 understand that from today's discussion. So I  
23 just -- I could -- we could take a look at that  
24 and send you back something in writing for sure  
25 because I think it needs that kind of careful

1 consideration. I would think that's what you  
2 would expect, not me to answer you off the cuff.

3 CHAIRMAN SETZLER: Senator from  
4 Edgefield.

5 CHAIRMAN MASSEY: Thank you, Mr.  
6 Chairman, and I may come back to that point in  
7 just a second. But I want -- Mr. Carter, look,  
8 I got another couple of questions about the  
9 contract that Santee Cooper has with Central.

10 MR. CARTER: Yes, sir.

11 CHAIRMAN MASSEY: And we found  
12 it, and I've got a couple of the amendments,  
13 too, and looking at it, but -- and I don't think  
14 this is a legal question, so I -- hopefully you  
15 can answer it for me. What does that contract  
16 give Central the option to buy if there is a  
17 sale?

18 MR. CARTER: Do you know?

19 CHAIRMAN MASSEY: Or --

20 MR. CARTER: I'm not sure, Mr.  
21 Chairman, and again, as Senator Campbell could  
22 tell you, before this amendment, I probably  
23 could have told you, but I was not one of the  
24 primary negotiators of the amendment, so I'm not  
25 as -- quite as familiar with that agreement as I

1           once was earlier in my career.  Marc, do you  
2           know?

3                           CHAIRMAN MASSEY:  Can somebody  
4           help out with that?  What does -- well, if the  
5           General Assembly were to agree to sell, what  
6           does that agreement give Central the option to  
7           buy?

8                           MR. TYE:  Mr. Chairman, I'm going  
9           off memory, so it's not as good as it used to  
10          be.  But if I remember right, it's essentially a  
11          pro rata portion of the generating assets and  
12          the transmission assets, which is primarily what  
13          they utilize.

14                          CHAIRMAN MASSEY:  All right, so  
15          who --

16                          SENATOR CAMPBELL:  It's not a  
17          single piece.  It's the pro rata share, just to  
18          clear it up.

19                          CHAIRMAN MASSEY:  Right.

20                          MR. TYE:  Yes, sir, I think it  
21          has a --

22                          SENATOR CAMPBELL:  So they  
23          couldn't say, I want Cross 1 and Cross 2, and I  
24          don't want the rest of it.  They --

25                          MR. TYE:  No, sir.  My

1           recollection is that it has a very defined term,  
2           which is -- but essentially it's pro rata. I  
3           think it's even based over the last 15 years or  
4           something like that.

5                         CHAIRMAN MASSEY: So who owns the  
6           generation assets now?

7                         MR. CARTER: Santee Cooper.

8                         MR. TYE: Santee Cooper.

9                         CHAIRMAN MASSEY: Who owns the  
10          transmission assets?

11                        MR. TYE: Santee Cooper owns our  
12          transmission assets, and that's what -- I think  
13          what you're asking on that part.

14                        CHAIRMAN MASSEY: All right, so  
15          then the -- and those are completely owned by  
16          Santee Cooper?

17                        MR. CARTER: That's correct. So  
18          there are about 5,000 miles of transmission  
19          line, and they were reminding me at lunch, there  
20          are about 600 miles that the co-ops own, and it  
21          is mostly radials that go straight to one of  
22          their delivery points, one of their substations.

23                        CHAIRMAN MASSEY: That's not part  
24          of this agreement though.

25                        MR. CARTER: No, sir.

1                   CHAIRMAN MASSEY: Right?

2                   MR. CARTER: They own those. We  
3 own everything else, all the rest.

4                   CHAIRMAN MASSEY: Right. So the  
5 contract gives Central the option to purchase  
6 those assets from Santee Cooper if there is a  
7 sale of Santee Cooper? Is that right?

8                   MR. CARTER: That's my  
9 understanding, yes, sir.

10                  CHAIRMAN SETZLER: Yes, sir.

11                  MR. CARTER: A pro rata share.

12                  SENATOR HUTTO: Can I follow up  
13 on that real quick?

14                  CHAIRMAN SETZLER: Senator from  
15 Orangeburg.

16                  SENATOR HUTTO: A pro rata share,  
17 meaning that they -- if their pro rata share was  
18 45 percent, they would buy 45 percent of  
19 everything, or they could buy -- they could pick  
20 and choose what they wanted to to get the 45  
21 percent. I don't know what the percentage is,  
22 but does the pro rata -- you know how I'm  
23 asking?

24                  MR. CARTER: Yes, sir. What I  
25 would say would be more like an undivided

1 interest.

2 MR. BAXLEY: Yes, sir. They  
3 would get it.

4 SENATOR HUTTO: An undivided. So  
5 they would want a pro rata share of everything.  
6 It's not like they would want to take the total  
7 and figure out what 45 percent was. So if we  
8 tried to sell it, we could only sell -- if their  
9 share was 45 percent, we really only could see  
10 55 percent. Is that --

11 MR. CARTER: But they've got to  
12 pay for it.

13 SENATOR HUTTO: Central would  
14 have to pay for it, but they'd own 45 percent of  
15 everything, not a defined 45 percent. Is that  
16 --

17 MR. BAXLEY: And Senator Hutto,  
18 if you think about it, that protects the system.  
19 It permits -- it prevents someone from buying up  
20 pieces of the system but then -- oops --

21 SENATOR HUTTO: Cherry-picking  
22 the best parts.

23 MR. BAXLEY: -- then separates  
24 it.

25 SENATOR HUTTO: Right.

1                   MR. BAXLEY: That's why it's an  
2 undivided interest.

3                   SENATOR HUTTO: Okay. All right.  
4 I'm sorry Mr. --

5                   CHAIRMAN MASSEY: Okay. And so  
6 does -- do you -- Santee Cooper consider the  
7 generation assets, the transmission assets to be  
8 surplus property?

9                   MR. CARTER: No, sir. No, sir.

10                  CHAIRMAN MASSEY: Okay. And I  
11 just got the answer to where I was going then.  
12 who owns the lakes?

13                  MR. CARTER: Santee Cooper owns  
14 them.

15                  CHAIRMAN MASSEY: You own all the  
16 water -- you own all the land surrounding the  
17 lakes? There's nothing -- there's no Corps  
18 property there?

19                  MR. CARTER: No. The Corps owns  
20 this -- this is the best way to show you. I  
21 think the Corps owns the facility that comes off  
22 of Lake Moultrie lower lake.

23                  CHAIRMAN MASSEY: Is that St.  
24 Stephen?

25                  MR. CARTER: They own that power

1 plant and that intake canal, but the lake  
2 itself, where it leaves the FERC boundary,  
3 Santee Cooper owns it.

4 CHAIRMAN MASSEY: So the lakes --

5 MR. CARTER: But Santee Cooper  
6 has an op -- excuse me, Mr. --

7 CHAIRMAN MASSEY: You're fine.

8 MR. CARTER: I'm sorry to  
9 interrupt, Mr. Chairman.

10 CHAIRMAN MASSEY: I interrupted  
11 you.

12 MR. CARTER: That was one of the  
13 other things I was talking about earlier today  
14 that has to be dealt with. Santee Cooper has an  
15 obligation to take ownership and to operate this  
16 facility in 1934, which sounds like a long time,  
17 but it will be here before you know it.

18 CHAIRMAN MASSEY: 2034?

19 CHAIRMAN SETZLER: 2034.

20 MR. CARTER: 2034, I'm sorry.  
21 what year are we in? I'm sorry. It's been a  
22 long day, gentlemen and ladies. So anyway, so  
23 we have an obligation to take that on and  
24 operate it and not discharge the water down the  
25 Cooper River and to discharge it into the Santee

1 River, which is back to the efficiency question  
2 that I believe Senator Hutto asked me this  
3 morning.

4 CHAIRMAN MASSEY: All right, so  
5 Santee Cooper owns the lakes, and then how about  
6 the property around the lakes?

7 MR. CARTER: There is property  
8 around the lakes, yes, sir, that we do own.

9 CHAIRMAN MASSEY: That's --

10 MR. CARTER: And you can't sell  
11 that piece that's inside that red line. That  
12 has to go with the project. You can't sell it  
13 now. If you sell the whole company, you'd have  
14 to sell the whole kit and caboodle and the  
15 license.

16 SENATOR HUTTO: (INDISTINCT) but  
17 a lot of that property's in long-term lease.

18 MR. CARTER: Yes, sir, and the  
19 leases would come with it.

20 SENATOR CAMPBELL: The FERC  
21 property is only lake -- the lower lake?

22 MR. CARTER: No, sir. You got it  
23 in the upper lake too.

24 SENATOR CAMPBELL: Just on the --  
25 I see on there.

1                   MR. CARTER: It doesn't matter as  
2 much up on the upper lake because most of it is  
3 swamp or doesn't have good developable property.  
4 There's some over up in -- I don't have a  
5 pointer here, but -- or maybe -- yeah, here,  
6 that's a pointer. There's some -- I think  
7 there's some (INDISTINCT). Ms. Williams could  
8 tell us, but I think that's -- but most of the  
9 -- I think most -- more of it's on the  
10 (INDISTINCT) --

11                   SENATOR CAMPBELL: I was looking  
12 at your red lines, which is only on the lower  
13 lake. I can see. Other than the diversion of  
14 it.

15                   MR. CARTER: Ms. Williams is  
16 telling me a good bit of it's up on the upper  
17 lake too.

18                   SENATOR CAMPBELL: Okay.

19                   CHAIRMAN MASSEY: All right, Mr.  
20 Chairman, just to -- just very quickly, just to  
21 go back to where we were before I started asking  
22 about the contracts, Mr. Carter, I appreciate  
23 that you're going to take a look at things and  
24 maybe give us some recommendations if you've got  
25 some recommendations about that as well.

1                   But I would -- and I think you're  
2                   in a little bit of a different position since  
3                   you have announced your retirement. I mean,  
4                   you're in a little bit -- I would think you're  
5                   in a more secure position to make  
6                   recommendations about things because you're  
7                   going to be retired.

8                   But along those lines, I would  
9                   also like to have recommendations from all the  
10                  folks sitting on the front row, right? I mean,  
11                  y'all are dealing with stuff every day. I mean,  
12                  I can call you up right now if you want to talk,  
13                  but I'll give you some opportunity to think  
14                  about that. But, I mean, from each of you, if  
15                  there are things that we can do to help improve  
16                  Santee Cooper, you're on the front lines, right?  
17                  If there are things we can do, I would like for  
18                  them, Mr. Chairman, to provide us with those  
19                  recommendations.

20                  CHAIRMAN SETZLER: Sure.

21                  CHAIRMAN MASSEY: And if you  
22                  would -- if you want to do it privately, if you  
23                  want to submit things privately, I mean, I  
24                  understand that for all of y'all, it's a little  
25                  bit more sensitive than it is for Mr. Carter.

1 But I'll tell you, again, I'll say -- and this  
2 is -- I'm just speaking for myself, but it seems  
3 to me there's a real question as to whether the  
4 State -- whether we're going to sell Santee  
5 Cooper, but if the recommendations are,  
6 Everything's fine, we don't need to make any  
7 changes on anything, that makes it a much more  
8 easier decision for me because I think that's an  
9 absurd position to take. But.

10 SENATOR HUTTO: Mr. Chairman?

11 CHAIRMAN SETZLER: Yes, sir,  
12 Senator from Orangeburg.

13 SENATOR HUTTO: So Mr. Carter, if  
14 we did -- and I don't advocate it, and I think  
15 it's near impossible. But if we did try to sell  
16 Santee Cooper, a public entity, to a private  
17 entity, then all of a sudden, you're going to  
18 put a tremendous amount of value on the tax  
19 rolls in five counties that -- no company is  
20 going to want to undertake to pay the property  
21 tax and the -- all the other things that would  
22 go into privatize that much public land, or am I  
23 missing something?

24 MR. CARTER: That's another part  
25 of the trade-off and one of the issues.

1           Somebody mentioned it earlier, and those costs  
2           -- you know, utilities are going to expect to  
3           recover them from the people they're selling  
4           electricity to. So the number one is capital  
5           structure. Taxes is number 2. But taxes is a  
6           pretty distance second.

7                         SENATOR HUTTO: Oh, it's --

8                         MR. CARTER: But it would be a  
9           significant amount of money that would have to  
10          be recovered in cost.

11                        SENATOR HUTTO: It would be  
12          tremendous. Owning a lot on the lake myself and  
13          knowing how much I pay Clarendon County every  
14          year for just one lot, you -- and you own how  
15          many acres? I own, whatever, a half-acre, and  
16          I'm paying \$5,000. It is -- it would be  
17          insurmountable for -- unless we were going to  
18          give a break, some sort of a tax break,  
19          tantamount to making them tax exempt, wouldn't  
20          all of those assets of Santee Cooper, if owned  
21          by a private utility company, be taxable?

22                        MR. CARTER: Yes, sir.

23                        SENATOR CAMPBELL: I think  
24          there's also some limitation on the property if  
25          it's in the FERC boundary about what you can do

1 with it; is that not correct?

2 SENATOR HUTTO: And then you talk  
3 to -- Senator Grooms told me that -- I think the  
4 Berkeley County assessor was sending out tax  
5 notices on (INDISTINCT) property two years ago,  
6 and we --

7 SENATOR CAMPBELL: We sent a  
8 quietus on it.

9 SENATOR HUTTO: I put, I think,  
10 put something in the proviso, but still, if you  
11 move it from -- because they're a public entity.  
12 I don't know if a private company owns something  
13 in the FERC boundaries that you'd have the same  
14 ability to claim that.

15 SENATOR CAMPBELL: FERC would  
16 have to approve it also.

17 CHAIRMAN SETZLER: Senator from  
18 Oconee.

19 SENATOR ALEXANDER: Thank you.  
20 Following back up on the contract that was  
21 brought up while ago and you said that the co-  
22 ops would have that ability, if I understand, to  
23 buy their pro rata share, under their current  
24 agreement with y'all where they're buying  
25 electricity to 2058 -- I believe you testified

1 earlier and at other times that they're  
2 purchasing from electricity; is that correct?

3 MR. CARTER: Yes, sir. Yes, sir.

4 SENATOR ALEXANDER: So under that  
5 scenario, is there anything in that contract --  
6 do they continue to have to be a customer if we  
7 went down the road under that contract to sell?

8 MR. CARTER: Well, in theory,  
9 they would own the assets necessary to --

10 SENATOR ALEXANDER: But if they  
11 didn't buy -- I'm not talking about -- if they  
12 chose not to buy.

13 MR. CARTER: Oh, excuse me. I'm  
14 sorry. I misunderstood.

15 SENATOR ALEXANDER: I was just  
16 saying they could do the pro rata, but if they  
17 don't do the pro rata and they decide they don't  
18 want to purchase and they've got the agreement  
19 of up to 2058 today, is there anything in your  
20 agreement that they would continue to be a  
21 customer if it sold?

22 MR. CARTER: I believe, if I  
23 understand the agreement correctly, that if we  
24 were sold, they have a right -- the one right  
25 that we just talked about, but if they don't

1 choose it, they can also ask that their contract  
2 be honored or they can terminate it on 90 days'  
3 notice.

4 SENATOR ALEXANDER: Okay. Thank  
5 you. I just wanted to clarify that.

6 MR. CARTER: That's a -- thank  
7 you, Senator Alexander, because that's good  
8 clarification. I might not have been clear  
9 about that earlier.

10 CHAIRMAN SETZLER: Mr. --

11 MR. CARTER: So they sort of have  
12 three choices as I see it, to be clear: stick  
13 with the agreement and ask somebody to honor it;  
14 somebody has to buy it with the contract, get  
15 the pro rata share, or cancel in 90 days and go  
16 buy power from somebody else or the new entity.

17 CHAIRMAN SETZLER: All right.  
18 I'm slightly confused, which is not unusual, but  
19 I thought I heard you say earlier that the co-op  
20 owns some portion of your generation.

21 MR. CARTER: No, sir. They do  
22 not own --

23 CHAIRMAN SETZLER: Okay.

24 MR. CARTER: They own some of the  
25 trans --

1                   CHAIRMAN SETZLER: So they own  
2 none of your generation. They own none of your  
3 transmission.

4                   MR. CARTER: No, sir, that's the  
5 piece -- they do own some --

6                   CHAIRMAN SETZLER: I understand  
7 the direct line, but the other part, they don't.

8                   MR. CARTER: No, sir. So of  
9 5,000 miles of transmission that we operate as  
10 an integrated system, I think they own about  
11 600.

12                  CHAIRMAN SETZLER: Okay. And  
13 then you own -- Santee Cooper owns a third of  
14 V. C. 1.

15                  MR. CARTER: Yes, sir.

16                  CHAIRMAN SETZLER: And does the  
17 co-op own any portion of V. C. 1?

18                  MR. CARTER: No, sir.

19                  CHAIRMAN SETZLER: Okay.  
20 Anything further? Senator Campbell?

21                  SENATOR CAMPBELL: The co-ops do  
22 not own any generation; is that correct?

23                  MR. CARTER: Yes, sir, they do  
24 have a -- they certainly own, remember, SEPA,  
25 the Southeastern Power Administration, and they

1           may own some diesels and a few other minor peak-  
2           shaving items, but no significant generation.

3                         SENATOR CAMPBELL: It's  
4           insignificant, what they would own.

5                         MR. CARTER: Yes, sir.

6                         CHAIRMAN SETZLER: All right, so  
7           while you've got Mr. Crosby here, you want to  
8           let's make him available for any questions about  
9           the nuclear construction up there while he's  
10          here? Didn't you say he's the person that was  
11          in charge? Was he there from day one?

12                        MR. CARTER: (INDISTINCT) he got  
13          there on -- not -- no, sir, not from day one.

14                        CHAIRMAN SETZLER: Okay, when did  
15          he go there?

16                        MR. CROSBY: 2011. 7-11.

17                        CHAIRMAN SETZLER: Okay. Yeah,  
18          that's pretty close.

19                        SENATOR CAMPBELL: I've got  
20          questions.

21                        CHAIRMAN SETZLER: Okay.  
22          Senator Campbell.

23                        SENATOR CAMPBELL: Yeah, this  
24          goes back to that. You know, I see where the  
25          Vogtle plant's going forward. They're not going

1 to terminate. what is significantly different  
2 from the Vogtle operation than was at the V. C.  
3 Summer operation? why are we curtailing and not  
4 going forward but yet, they're -- same reactors,  
5 roughly same project, they're choosing to  
6 forward? what's the difference, and maybe you  
7 don't know. Maybe you don't know Georgia Power  
8 or Southern's decision there.

9 MR. CARTER: I do not know the  
10 answer to that. I do know that the reports that  
11 I received all the way up through even the  
12 evaluation is they are in -- and what you see  
13 reported publicly, they are -- see the project  
14 -- basically, they were at the same point of  
15 completion and see the cost to complete and --  
16 the time, we see a little bit longer than they  
17 do, but that would be the difference.

18 But I don't know. That would be  
19 an issue -- I do know, Senator Campbell, that an  
20 issue that has come up that I have been made  
21 aware of is, they have loan guarantees. I want  
22 to reemphasize, they're loans; they're not  
23 grants. Even this stuff that's just come up,  
24 they're not -- they are loans that have to be  
25 paid back, just like our bonds have to be paid

1 back. And in the provisions of those -- and  
2 they already have some from earlier that they  
3 got, the owners, all the owners because there  
4 are multiple owners over there. They're four  
5 owners. Is that right? Yeah, four.

6 In those loan guarantees, there  
7 are provisions that if you abandon the project,  
8 stop the project, they immediately come due.  
9 The principle immediately comes due, so it's  
10 like -- the government giving you these loans is  
11 almost like a poison pill to the ability to  
12 suspend or stop the project.

13 SENATOR CAMPBELL: If you had  
14 that same situation, you'd have to come forward  
15 with your 4.4 billion.

16 MR. CARTER: I think we would be  
17 having a different conversation with this  
18 committee because we would be trying to figure  
19 out how were we going to avoid a situation where  
20 we were going to have to raise rates 41 percent  
21 finishing these units because we had entered  
22 into that type of an arrangement.

23 CHAIRMAN SETZLER: Mr. Carter, do  
24 you or your team have what you think is a value  
25 of Santee Cooper as it sits and operates today?

1 MR. CARTER: No, sir, I do not,  
2 and that's a great question. What -- you know,  
3 the real -- because you know, Mr. Chairman,  
4 it's, what will somebody pay? What would  
5 somebody pay, and...

6 CHAIRMAN SETZLER: Okay. Mr.  
7 Crosby was going to come up if you don't have  
8 any objection. Mr. Crosby, you went in 2011; is  
9 that correct?

10 MR. CROSBY: That's correct.

11 CHAIRMAN SETZLER: Tell us what  
12 you found when you got there in 2011. Were you  
13 actually on-site, or were you in headquarters,  
14 home office?

15 MR. CROSBY: Based out of  
16 headquarters, but I was on-site once a week,  
17 twice a week, sometimes three or four times a  
18 week.

19 CHAIRMAN SETZLER: Okay.

20 MR. CROSBY: So it just varied  
21 week to week.

22 CHAIRMAN SETZLER: So tell us  
23 what you found when you got there. What part of  
24 2011 did you go?

25 MR. CROSBY: October, the end of

1 2011.

2 CHAIRMAN SETZLER: And what did  
3 you find?

4 MR. CROSBY: I think right out  
5 the box, one of the first things that I observed  
6 was that -- and I think the testimony has been  
7 on the sub-modules that the large pieces that  
8 were being built down in Lake Charles and them  
9 being late to being delivered to the site. That  
10 was one of my first observations, was, on the  
11 material supply side, getting material to the  
12 site to build the plant. And there was an issue  
13 there.

14 CHAIRMAN SETZLER: And what did  
15 you do?

16 MR. CROSBY: What did we do? We  
17 worked with SCE&G and we worked with the  
18 consortium to try to understand what the issues  
19 were and to try to affect a change. One of the  
20 important things that was happening, in my  
21 estimation, throughout that period of time -- it  
22 wasn't clear right out the box, to me, that the  
23 issue was so dependent on Westinghouse and their  
24 engineering deficit, if you will.

25 Lake Charles -- you've heard

1 about that manufacturing facility that was first  
2 put in place by the Shaw Group -- was a startup  
3 facility that we believed was primarily -- use  
4 of labor from the Gulf, building oil rigs, and  
5 there was issues, if you will, in terms of  
6 learning curve of, How does Shaw Group, with a  
7 new manufacturing facility, operate in an NRC  
8 environment, a nuclear environment?

9 So there was issues there that  
10 was true, really true issues. Getting product  
11 out of that shop that met the pedigree on  
12 paperwork was an issue. But what we didn't see  
13 initially -- and it took time as we moved  
14 through the project to really see was the impact  
15 that the Westinghouse design was having on that  
16 Shaw facility and other facilities. As we  
17 farmed that work out to other places around the  
18 country, we noticed, in time, that wherever the  
19 work was being done, Westinghouse was impacting  
20 product coming out of the fab shops.

21 So in terms of your question to  
22 me, what was one of my initial observations, was  
23 on the supply side and actually getting the  
24 material to the site. It was a real challenge.

25 CHAIRMAN SETZLER: So when did

1           you realize there was a problem with  
2           westinghouse and the design side? You got there  
3           in 2011. When did you realize that?

4                       MR. CROSBY: I would say it was  
5           probably in the 2013 range. We wrote a letter.  
6           we, collectively, Santee Cooper and SCE&G put  
7           together a letter that we ultimately sent to  
8           Toshiba saying, Here are the problems that we've  
9           observed. And I think it was in that letter  
10          that -- it was pretty clear that the impact of  
11          engineering on the overall project was clear to  
12          us, and we shared that with Toshiba.

13                      And another way it presented  
14          itself, when we successfully encouraged  
15          westinghouse and that consortium to farm the  
16          work out to different shops, we started noticing  
17          that the other shops were having similar  
18          problems as well, and the spotlight, you know,  
19          kind of shifted to westinghouse and their issues  
20          with design. The design kept changing, and so  
21          a piece would be let to the field, to the shop  
22          floor to be built, and before it could even be  
23          completed, a change would come down the pipe and  
24          they'd have to stop it and, you know, rework it.  
25          So that's when it really became evident to us as

1 owners.

2 CHAIRMAN SETZLER: When did you  
3 realize that it was going to end up being a  
4 disaster? My words, not yours.

5 MR. CROSBY: Your words, not  
6 mine.

7 CHAIRMAN SETZLER: Right.

8 MR. CROSBY: When Westinghouse  
9 failed to live up to their contract. That's  
10 when --

11 CHAIRMAN SETZLER: And when would  
12 that have been?

13 MR. CROSBY: That would have been  
14 March 29th. It's when they filed for  
15 bankruptcy.

16 CHAIRMAN SETZLER: Oh, okay.

17 MR. CROSBY: Right.

18 CHAIRMAN SETZLER: So you didn't  
19 know before then it was a disaster?

20 MR. CROSBY: We knew that there  
21 was challenges, like there are on any major new  
22 build. There's always problems, and we were  
23 working on the problems every day. SCE&G was  
24 working on them. We were working on them.  
25 Santee Cooper was also trying to bring better

1 project management to the team to try to help  
2 with some of those issues. It may have made a  
3 difference; it may not have made a difference.  
4 Westinghouse was a very formidable challenge.

5 The state of this design was a  
6 real issue for us, and it is an issue for  
7 Vogtle, and it was issue for China, and it will  
8 be -- I think as Lonnie just mentioned, the  
9 schedules at Vogtle as indicated back on August  
10 31 of this year when they said, we're moving  
11 forward, are going to be more than a challenge.  
12 They're going to have -- I think they've got  
13 about 27 months left to build the plant, and  
14 they're about as far along as we were in terms  
15 of percent completion. So it's going to be a  
16 real challenge.

17 CHAIRMAN SETZLER: Senator from  
18 Dorchester.

19 SENATOR BENNETT: Thank you, Mr.  
20 Chairman. I apologize for trying to keep coming  
21 back. It seems like we take one step forward  
22 and two steps back. Would you agree or disagree  
23 with the comment that came up over the past few  
24 years that maybe in those AP1000 units that  
25 China was initially, whether officially or

1 unofficially, kind of the prototype that we were  
2 supposed to learn from?

3 MR. CROSBY: I would agree with  
4 that.

5 SENATOR BENNETT: And then at  
6 some point, that kind of changed and we turned  
7 into the prototype, is what I'm reading in a  
8 number of engineering periodicals and things of  
9 that nature, that China's having as many  
10 problems as we are, and they're almost --  
11 although I think they do have one AP1000 coming  
12 online fairly soon. But for the most part, the  
13 others are as far behind if not more -- farther  
14 behind than us?

15 MR. CROSBY: I don't know about  
16 farther behind, but they're certainly behind in  
17 China. They're building four units in China.  
18 There's one at each site. There's a Sanmen site  
19 and a Haiyang site that are both, we believe,  
20 near being ready for fuel load, but they have  
21 not loaded fuel to my knowledge yet. So they're  
22 several years behind as well.

23 SENATOR BENNETT: Did any members  
24 of your team or SCANA visit those sites at all  
25 by any chance?

1                   MR. CROSBY: Yeah, I actually  
2 visited one of the sites.

3                   SENATOR BENNETT: All right.

4                   MR. CROSBY: So yes on both  
5 counts. SCANA and Santee Cooper has been there.

6                   SENATOR BENNETT: And did you  
7 witness the same sort of things that you're  
8 witnessing at our own sites?

9                   MR. CROSBY: You know, it was a  
10 higher level-type visit. We got to visit the  
11 site. There was issues with even getting us  
12 into one of the sites from the Chinese. But  
13 what we observed with the construction that was  
14 going on and -- mostly the same unit. Their  
15 shield buildings were a good bit different than  
16 our shield buildings, so -- but what was common  
17 was the fact that they were behind schedule, and  
18 I believe behind schedule likely because of the  
19 engineering debt. Engineering wasn't complete.  
20 A different regulatory environment over there,  
21 so it's a little bit hard to compare apples to  
22 apples.

23                   SENATOR BENNETT: A little more  
24 stringent over there?

25                   MR. CROSBY: No, I'd say more

1 stringent here.

2 SENATOR BENNETT: That was a  
3 joke. Thanks.

4 MR. CROSBY: Yeah, actually less  
5 stringent.

6 SENATOR BENNETT: Thank you.

7 SENATOR CAMPBELL: Mr. Chairman.

8 CHAIRMAN SETZLER: Yes, sir.

9 Senator from -- Campbell.

10 SENATOR CAMPBELL: I -- question  
11 along that line. You know, I know that Shaw  
12 finally went bankrupt in Louisiana. Is that  
13 when -- did Chicago Bridge & Iron buy them, or  
14 did Chicago Bridge & Iron have them all along?

15 MR. CROSBY: No, Chicago Bridge &  
16 Iron bought The Shaw Group, but they didn't go  
17 bankrupt. They -- Chicago Bridge & Iron bought  
18 The Shaw Group lock, stock, and barrel and  
19 picked up Stone & Webster as a part of that  
20 transaction.

21 SENATOR CAMPBELL: When did they  
22 do that?

23 MR. CROSBY: February of 2013.

24 SENATOR CAMPBELL: February 2013,  
25 so Shaw actually wasn't delivering, so Chicago

1 Bridge & Iron goes in. When did you take  
2 Chicago Bridge & Iron off the job at V. C.  
3 Summer? Didn't you bring in Fluor Daniel to do  
4 the -- to finish the work?

5 MR. CROSBY: Westinghouse did  
6 that. Chicago Bridge & Iron left the job at the  
7 end of December -- at the end of 2015.

8 SENATOR CAMPBELL: Okay. It  
9 seems like somewhere along the line, you had to  
10 know that the delivery was not going to be on  
11 time, that the 2017 date was going to be late  
12 and probably the 2019 date was going to be late  
13 and that there had to have been a cost overrun  
14 associated with that.

15 MR. CROSBY: There were. There  
16 were a couple of categories in our EPC contract  
17 that were time and material-type categories that  
18 were spending at a rate higher than we thought  
19 they should have been spending at. So, you  
20 know, Santee Cooper was always within our  
21 budget. We only adjusted our budget one time,  
22 and that was when we went to our fixed-price  
23 contract. So when we tried to get the certainty  
24 for our customers that we were going to have a  
25 cost certainty if nothing else on this project,

1       which was also August -- or, excuse me, October  
2       of 2015, you know, that's what we tried to  
3       accomplish.

4                       So I'll tell you, Senator  
5       Campbell, when you look at any slice of time  
6       looking backwards and you look at where we were  
7       on the project and what the dates were, there  
8       was always time to build that plant if we could  
9       have got the problems resolved. But getting the  
10      problems resolved turned out to be a real  
11      challenge. And so that's why we, in the end,  
12      said, we have got to get some certainty on this  
13      thing, and we went for certainty on both cost  
14      and schedule.

15                      So we got the price certainty  
16      with the fixed-price contract, but we also put  
17      in there like \$676 million worth of liquidated  
18      -- delayed liquidated damages, so we increased  
19      our liquidated damages by about 4X, 4.5X. And  
20      both of those moves were, in our mind at least,  
21      designed to change the behavior of the  
22      contractor, shift that burden onto him to see if  
23      he would resolve those problems more readily on  
24      his own.

25                      SENATOR CAMPBELL: Was there any

1 kind of performance bond on that job?

2 MR. CROSBY: No, there was not.  
3 There was a payment bond that we enacted after  
4 Toshiba's accounting scandals starting dipping  
5 their credit rating. We actually pushed forward  
6 with a contractual payment bond, but it was a  
7 small bond.

8 SENATOR CAMPBELL: Okay, but why  
9 didn't you go with a performance bond? Do you  
10 have a clue with that?

11 MR. CROSBY: It was just  
12 something that we did not negotiate for  
13 originally in the contract, and we didn't -- we  
14 decided to go for the fixed price and higher  
15 liquidated damages on delay as a part of what we  
16 were able to accomplish with Westinghouse at the  
17 end of 2015.

18 CHAIRMAN SETZLER: Senator from  
19 Edgefield.

20 CHAIRMAN MASSEY: Mr. Chairman, I  
21 don't know that I have any more questions. I  
22 mean, I appreciate Mr. Crosby coming. I mean, I  
23 think I -- we've probably examined as much as we  
24 can examine as to what happened and how we got  
25 there, and I think most of us have formed our

1 own conclusions about things.

2 I was sitting here thinking that,  
3 I mean, Mr. Crosby, I understand the position  
4 that you're in, and the things that you're  
5 saying are very consistent with what we've heard  
6 in some of our other hearings. And I was  
7 sitting here thinking, you know, Judge, during  
8 your time on the bench -- very accomplished time  
9 on the bench -- you probably tried cases in  
10 probably about every county in the state. I  
11 just can't imagine, if you're looking at a jury  
12 in Allendale County or Lexington County or all  
13 of them in between, I don't think you sell it to  
14 any jury.

15 And the jury is the public, and  
16 no matter how many times y'all say it or SCANA  
17 says it, I think the response is going to be  
18 like the AFLAC duck when Yogi Berra's talking to  
19 him, right? It's just a complete --  
20 incredulous. I get it. I understand what  
21 you're saying. I just think in light of what  
22 we've seen, none of it is credible. But, having  
23 said that, Mr. Chairman, I think we've  
24 accomplished all that we can accomplish in that  
25 area.

1                   CHAIRMAN SETZLER: Right.

2                   CHAIRMAN MASSEY: I think that  
3 what we need to do now -- I think today is a  
4 good start for this, but I think now we've got  
5 to figure out what our response is going to be  
6 and what we're going to do to try to propose  
7 some solutions, so to that effect, a big part of  
8 our goal today -- Mr. Carter, I appreciate your  
9 help in this -- was to get us to have a better  
10 understanding of what Santee Cooper does, what  
11 goes on operationally, what the structure is  
12 like, because, I mean, in full disclosure, if  
13 we're going to make changes, whether it be to  
14 changing the existing system or to sell, I think  
15 we've got to know more in order to make a  
16 responsible decision on that.

17                   So that was our purpose in having  
18 you here today. Mr. Chairman, we also asked ORS  
19 to come help us on the regulatory side for the  
20 private companies, and of course, Mr. Carter was  
21 so enthralling today that we -- he took a little  
22 bit longer than we had anticipated, so maybe  
23 we'll have to do another hearing to listen to  
24 some information about -- so that we can learn  
25 more --

1                   CHAIRMAN SETZLER: Process.

2                   CHAIRMAN MASSEY: -- about what  
3 goes on on the regulatory side with SCANA, Duke,  
4 and those folks and then any suggestions on how  
5 we can deal with that as well. But I do think  
6 we're at the point where we've got to start  
7 working on --

8                   CHAIRMAN SETZLER: I agree.

9                   CHAIRMAN MASSEY: -- what our  
10 legislative response is going to be, and today  
11 was the first step in that. I think that's  
12 probably where we're going to have to go with  
13 our next hearing as well.

14                  CHAIRMAN SETZLER: And I agree  
15 with you, and you and I had talked about that.  
16 We had to have a full understanding from Santee  
17 Cooper of how they operate, their structure, et  
18 cetera, what their assets are and their  
19 liabilities to be able to even move forward from  
20 doing that. So we do appreciate that, Mr.  
21 Carter, and your executive team coming with you  
22 and staying with us all day. If no one has any  
23 other questions, we're going to adjourn. Okay  
24 --

25                  CHAIRMAN MASSEY: Mr. Chairman,

1 have we set a date for --

2 CHAIRMAN SETZLER: We haven't.  
3 You and I need to talk about that.

4 CHAIRMAN MASSEY: Okay.

5 CHAIRMAN SETZLER: okay? we'll  
6 set a date and notify you. Thank you.

7 MR. CARTER: Thank you, Mr.  
8 Chairman.

9 01:49:59

10 (END OF VIDEO PART 2)

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CERTIFICATE OF TRANSCRIPTIONIST

I, Susan K. von Keller, do hereby certify:

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I further certify that I am neither related  
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Witness my hand, I have hereunto affixed my  
official seal this 26th day of October, 2017, at  
Columbia, Richland County, South Carolina.

---

Susan K. von Keller

Notary Public

State of South Carolina at Large

My Commission expires:

March 8, 2026