



ORS NUCLEAR PROGRAMS REQUEST FORM

DATE: April 12, 2016

TO: Kenny Jackson and K. Chad Burgess

UTILITY: South Carolina Electric & Gas Company

FROM: Allyn Powell

RE: Follow Up to the March 4, 2016 AIR regarding October 2015 EPC Amendments

ORS REQUESTS THE FOLLOWING ITEMS BE PROVIDED BY: April 22, 2016

The following questions are issued as follow up to the AIR originally issued on March 4, 2016 regarding the October 2015 Amendments to the EPC contract. Question numbers and responses quoted refer back to the original AIR. This follow-up request is a continuation of the previous request. Please respond using the same instructions contained in the original AIR.

RESPONSE 1-1:

(a)-(c) SCE&G is in the process of completing its evaluation of the Fixed Price Option under the Amendment and expects to have reached a decision concerning that option before filing a 2016 BLRA update docket. Information concerning increased EPC Contract costs that would be responsive to this RIA will depend on this evaluation and decision and will be provided as soon as reasonably possible after the decision on the Fixed Price Option has been announced.

- Follow Up: **Please provide related information and assumptions used by the Company when evaluating the Amendment. If no information is currently available, please indicate how Amendment was evaluated.**

ORS NUCLEAR PROGRAMS REQUEST # 1

RESPONSE 1-2:

SCE&G is preparing the responsive information and will provide when available.

- Follow Up: **Please provide related information and assumptions used by the Company when evaluating the Amendment. If no information is currently available, please indicate how Amendment was evaluated and date by which SCE&G expects to provide information to ORS.**

RESPONSE 1-4:

(a)-(e): The information responsive to this request contains highly confidential and sensitive information which if disclosed would result in the disclosure of EPC Contract information which SCE&G is required to maintain in confidence. Due to the highly confidential and sensitive nature of the information requested, the Company will make the information responsive to this request available for review and inspection at the offices of New Nuclear Deployment.

With respect to (e), SCE&G is preparing the responsive information and will provide, pursuant to the terms of the confidentiality agreement, when available.

- Follow Up: **Please provide related information and assumptions used by the Company when evaluating the Amendment. If no information is currently available, please indicate how Amendment was evaluated.**

RESPONSE 1-5:

(a)-(e): The information responsive to this request contains highly confidential and sensitive information which if disclosed would result in the disclosure of EPC Contract information which SCE&G is required to maintain in confidence. Due to the highly confidential and sensitive nature of the information requested, the Company will make the information responsive to this request available for review and inspection at the offices of New Nuclear Deployment.

With respect to (e), SCE&G is preparing the responsive information and will provide, pursuant to the terms of the confidentiality agreement, when available.

- Follow Up: **Please provide related information and assumptions used by the Company when evaluating the Amendment. If no information is currently available, please indicate how Amendment was evaluated.**

RESPONSE 1-6:

(a)-(e): The information responsive to this request contains highly confidential and sensitive information which if disclosed would result in the disclosure of EPC Contract information which SCE&G is required to maintain in confidence. Due to the highly confidential and sensitive nature of the information requested, the

ORS NUCLEAR PROGRAMS REQUEST # 1

Company will make the information responsive to this request available for review and inspection at the offices of New Nuclear Deployment.

With respect to (e), SCE&G is preparing the responsive information and will provide, pursuant to the terms of the confidentiality agreement, when available.

- Follow Up: **Please provide related information and assumptions used by the Company when evaluating the Amendment. If no information is currently available, please indicate how Amendment was evaluated.**

RESPONSE 1-7:

(a)-(e): The information responsive to this request contains highly confidential and sensitive information which if disclosed would result in the disclosure of EPC Contract information which SCE&G is required to maintain in confidence. Due to the highly confidential and sensitive nature of the information requested, the Company will make the information responsive to this request available for review and inspection at the offices of New Nuclear Deployment.

With respect to (e), SCE&G is preparing the responsive information and will provide, pursuant to the terms of the confidentiality agreement, when available.

- Follow Up: **Please provide related information and assumptions used by the Company when evaluating the Amendment. If no information is currently available, please indicate how Amendment was evaluated.**

RESPONSE 1-8:

SCE&G is in the process of completing its evaluation of the fixed price option under the Amendment and expects to have reached a decision concerning that option before filing a 2016 BLRA update docket. Information concerning increased EPC Contract costs that would be responsive to this RIA will depend on this evaluation and decision and will be provided as soon as reasonably possible after the decision on the fixed price option has been announced.

SCE&G is preparing the responsive information concerning Owners Costs and Transmission dollars and will provide when available.

- Follow Up: **Please indicate an estimated date by which SCE&G will provide the information to ORS. As a clarification, regardless of the option eventually elected by the Company, ORS is requesting documentation for both the Fixed Price Option and the Non Fixed Price Option.**

RESPONSE 1-9:

ORS NUCLEAR PROGRAMS REQUEST # 1

SCE&G is in the process of completing its evaluation of the fixed price option under the Amendment and expects to have reached a decision concerning that option before filing a 2016 BLRA update docket. Information concerning increased EPC Contract costs that would be responsive to this RIA will depend on this evaluation and decision and will be provided as soon as reasonably possible after the decision on the fixed price option has been announced.

SCE&G is preparing the responsive information concerning Owners Costs and Transmission dollars and will provide when available.

- Follow Up: **Please indicate a date by which SCE&G will provide the information to ORS.**

RESPONSE 1-10:

The Fixed Price Option includes all remaining work under the EPC Agreement as of December 31, 2015 (Effective Time), at the remaining Contract Price of \$3.345 billion (SCE&G's 55% share) in current U.S. Dollars, excluding future change orders and items on Exhibit C. The remaining contract price adjustment represents the cost to complete the project beyond what has been paid through June 30, 2015. Payments made after June 30, 2015, except for change orders and items on Exhibit C, will be credited against the \$3.345 billion amount. This includes escalation. The following time and material work, for which allocations have been established in the initial EPC Agreement, is not included in the Fixed Price Option: sales tax, performance bond and insurance premiums, import duties, mandatory spare parts and extended equipment warranties. The resolution of any and all disputes outstanding under the EPC Agreement or concerning the project as of December 31, 2015, as stated in the October 2015 Agreement, section 3, is also included in the Fixed Price Option. Specific contractor incentives and penalties as well as specific contract terms are also included in the Fixed Price Option as stated in the October 2015 Agreement.

The Non-Fixed Price Option resolves any and all disputes outstanding in the October 2015 Agreement or concerning the Project as of December 31, 2015, for a net of \$137,500,000 paid to the Contractor in accordance with the October 2015 Agreement, section 3. Future change orders and items on Exhibit C, are not resolved, settled, or released. The October 2015 Agreement provides for a DRB to expedite the resolution of future disputes during the construction of the project. Specific contractor incentives and penalties as well as specific contract terms are also included in the Non-Fixed Price Option as stated in the October 2015 Agreement.

- Follow Up: **The last sentence of the first paragraph contains ambiguities and could be to read as though the dollar amount for the incentives and penalties is included within the total cost of the fixed price option. Based on previous information, ORS does not understand that to be the case. Please clarify the response.**

ORS NUCLEAR PROGRAMS REQUEST # 1

RESPONSE 1-11:

The primary benefit of the Non-Fixed Price Option is that any and all disputes outstanding in the October 2015 Agreement or concerning the project as of December 31, 2015, are considered resolved, except for future change orders and items on Exhibit C. The resolution of these disputes avoided potential litigation that would have been costly and disruptive to the project. A DRB is being established to expedite the resolution of future disputes during the remaining construction of the project. Also, specific terms have been agreed upon that benefit the owner.

The additional benefit of the Fixed Price Option is that the contractor is at risk of completing the project within the remaining \$3.345 billion (SCE&G's 55% share) to include escalation, except for future change orders and items on Exhibit C.

- Follow Up: **Provide details of the company's cost analysis used to determine the price, penalties and incentives for the Non-Fixed Price Option and the Fixed Price Option.**

RESPONSE 1-14:

SCE&G is in the process of completing its evaluation of the Fixed Price Option under the Amendment and expects to have reached a decision concerning that option before filing a 2016 BLRA update docket. Information that would be responsive to this RIA will depend on this evaluation and decision.

- Follow Up: **ORS is not asking for specific documentation, but rather the types of documentation the Company plans to provide. Based on this clarification, provide a description of the types of documentation the Company plans to provide.**

RESPONSE 1-15:

SCE&G is preparing the responsive information and will provide when available.

- Follow Up: **Provide the related information and assumptions used by the Company when evaluating the Amendment. If no information is currently available, please indicate how Amendment was evaluated.**

RESPONSE 1-16:

Confidential overview schedules for Units 2 and 3 showing a 12 month interval between substantial completion dates for the two units are available for review and inspection at the offices of New Nuclear Deployment, pursuant to the terms of the confidentiality agreement. This interval is achievable depending on the availability of resources, material procurement and the construction work efficiencies. Plans are being worked to achieve success in each of these areas as well as other work streams.

ORS NUCLEAR PROGRAMS REQUEST # 1

- Follow Up: **If the interval between Unit 2 and Unit 3 is to be met as stated, what are the applicable assumptions on available resources, material procurement and work efficiencies? Be specific in outlining each assumption.**

RESPONSE 1-17:

Please see the Company's 2016 Integrated Resource Plan (IRP) for the impact of delaying the substantial completion dates for Units 2 & 3 on the Company's supply plan for 2017 and beyond.

The Company has not yet procured capacity to meet the capacity needs identified in the IRP. Therefore, the Company does not know the additional costs associated with that capacity.

- Follow Up: **What cost and assumptions related to replacement power did the Company use when evaluating the Amendment? Also, given that Unit 2 was originally scheduled to come online in 2016, please include an analysis of the impact on fuel costs caused by replacing nuclear fuel with other fuel sources, beginning with the dates the Units were scheduled to come online under the original Baseload Review Order, Order No. 2009-104(A)**

RESPONSE 1-18:

This document has not yet been prepared. The changes from the October 27, 2015 EPC Amendment will be incorporated into the EPC Contract at a later date.

- Follow Up: **Indicate an estimated date by which SCE&G expects to incorporate the changes from the October 27, 2015 EPC Amendment into the EPC contract.**

RESPONSE 1-19:

SCE&G considered the following items to be in need of clarification in the EPC Contract prior to the Amendment: (1) the contractor's obligation to provide units fully compliant with DCD Rev. 19 and (2) the change in law provision related to entitlement to change orders.

These issues were addressed in the October 27, 2015 Amendment by the changes set forth in Paragraphs 5 and 14, respectively.

- Follow Up: **Provide specific examples to support this response.**

RESPONSE 1-22:

ORS NUCLEAR PROGRAMS REQUEST # 1

The information responsive to this request contains highly confidential and sensitive information which if disclosed would result in the production of information which SCE&G is required to maintain in confidence. Due to the highly confidential and sensitive nature of the information requested, the Company will make the information responsive to this request available for review and inspection at the offices of New Nuclear Deployment.

- **Follow Up: Provide a copy of the Level 1 Schedule that was used to support the SCD's provided for in the Amendment when the Amendment was signed. Also, provide a copy of the most recent Level 1 Schedule and most recent schedule, Level 1 or otherwise, provided to the Company by Westinghouse or Fluor. Additionally, indicate when a fully resource loaded Level 1 Schedule will be available.**

RESPONSE 1-23:

No. SCE&G has not received additional documentation behind the Order No. 2015-661 estimates.

The Non-Fixed Option increase is due to the dollars SCE&G is paying to resolve the disputes referenced in section 3 of the October 2015 Agreement as well as additional items including: (a) increased liquidated damages, (b) amended change-in-law provisions, (c) expressed commitment to provide units that fully meet DCD Rev. 19, (d) consolidation of responsibility for the project to entities owned by a single parent company, (e) extension of equipment warranties, (f) new milestone payment schedule tied to actual construction results, (g) granting of an option to fix the price at \$3.345 billion (SCE&G's 55% share), and (h) other matters. SCE&G determined that it was prudent to agree to the additional \$137.5 million to obtain these benefits and concessions. The project risks on which the additional target and time and material dollar increases in Order No. 2015-661 were based remain the same and are potentially greater. Also, the Non-Fixed Option avoids potential litigation which would be costly and disruptive to the project. We believe that the additional dollars for the Fixed Price Option are justified due to WEC taking the risk, except for change orders, for the project.

- **Follow Up: What occurred with regards to the previous understanding of the estimates outlined in Commission Order No. 2015-661 to change the understanding that these estimates were a ceiling?**

RESPONSE 1-24:

SCE&G is preparing the responsive information and will provide when available.

- **Follow Up: Recognizing that not all of the mitigation strategies have been developed, some assumptions regarding mitigation must have been made in order to develop the SCD's in the amendment. Understanding that these strategies are still in development and may be modified or added to, provide the currently known mitigation strategies.**

ORS NUCLEAR PROGRAMS REQUEST # 1

RESPONSE 1-25:

The maximum liquidated damages are negotiated amounts and represent factors of 2 to 3 times greater than the LD's initially negotiated in the EPC Agreement. SCE&G believes that these penalties will motivate WEC to meet the Guaranteed Substantial Completion dates in the October 2015 Agreement.

SCE&G is in the process of completing its evaluation of the Fixed Price Option under the Amendment and expects to have reached a decision concerning that option before filing a 2016 BLRA update docket. The relevant liquidated damages amounts will be determined by that decision. In the interest of clarity and efficiency, SCE&G will provide additional information responsive to this RIA as soon as reasonably possible after the decision on the Fixed Price Option has been announced.

- Follow Up: **Indicate an estimated date by which the Company expects to provide the additional information to ORS. ORS is requesting documentation for both the Fixed Price Option and the Non Fixed Price Option.**

RESPONSE 1-26:

The goal of the schedule commitment is to ensure that the federal production tax credits can be obtained. SCE&G therefore believes it to be prudent to have the relief in place so long as this goal is achievable.

WEC will still have to pay liquidated damages if they go beyond the guaranteed substantial completion dates.

- Follow Up: **What was the rationale behind incentivizing the contractor to pursue an extension of the date for which federal tax credits can be claimed rather than providing a larger incentive for on on-time completion?**

RESPONSE 1-27:

The completion bonuses are an incentive to complete both units by January 1, 2021, which would qualify SCE&G for production tax credits (PTC). This dollar amount was negotiated as a reasonable incentive for the Contractor to meet the PTC date. The Contractor would have to pay liquidated damages beyond the guaranteed substantial completion dates.

As to the deliberations prior the Amendment, SCE&G carefully considered the impact on the project of allowing the bonuses to expire while the PTCs were still available and determined that this would have a detrimental impact on the project and customers.

- Follow Up: **What was the rationale behind incentivizing the Contractor to pursue an extension of the tax credits rather than providing a larger incentive for on on-time completion?**

ORS NUCLEAR PROGRAMS REQUEST # 1

RESPONSE 1-28:

SCE&G is in the process of completing its evaluation of the Fixed Price Option and expects to have reached a decision concerning that option before filing a 2016 BLRA update docket. SCE&G will provide information responsive to this RIA as soon as reasonably possible after the decision on the Fixed Price Option has been announced.

- Follow Up: **ORS is not requesting the results of the evaluation but the criteria on which the evaluation will be performed. Does the company have a list of criteria it is using to evaluate the Options? If so, provide the criteria and/or metrics that the Company is using in its evaluation.**

RESPONSE 1-30:

No items listed in Exhibit C of the October 27, 2015 Amendment have been resolved at this time, and SCE&G is awaiting proposals from Westinghouse concerning these matters. No dates have been set or scheduled for resolution of these items.

- Follow Up: **Has SCE&G attempted to get WEC to set a schedule for resolution for some or all of these items? Does SCE&G have cost estimates for these unresolved items?**

RESPONSE 1-33:

e) Fluor is managing the site construction and procurement of commodities for permanent plant as a subcontractor to WEC. The details of the Fluor management plan will be shared with ORS as they become available.

- Follow Up: **Provide an estimated date by which the Company expects to provide the information to ORS.**

RESPONSE 1-34:

The information responsive to this request contains highly confidential and sensitive information which if disclosed would result in the production of information which SCE&G is required to maintain in confidence. Due to the highly confidential and sensitive nature of the information requested, the Company will make the information responsive to this request available for review and inspection at the offices of New Nuclear Deployment.

- Follow Up: **Recent discussions regarding the schedule have indicated that Fluor input has not been fully incorporated. With regards to the BLRA milestones, when does the Company anticipate this will be completed?**

RESPONSE 1-37:

ORS NUCLEAR PROGRAMS REQUEST # 1

A project organization chart to include the key Fluor personnel is being developed and will be provided to ORS upon completion.

- Follow Up: **Provide an estimated date by which SCE&G expects to provide the information to ORS.**

RESPONSE 1-38:

SCE&G has not prepared any such analyses and does not have information necessary to do so. Such analyses would be highly speculative and would not result in probative information.

- Follow Up: **This analysis is regularly performed as part of Georgia's base load recovery process. Please elaborate why SCE&G does not have the information available to perform this analysis while other similarly situated entities are able to perform and do perform similar analyses. To clarify, we are requesting an analysis similar to the Georgia analysis. As an example, reference https://georgiapower.com/docs/about-energy/14th-VCM-Filed-Report-R2.pdf?hp=lnau_box3 , page 33 and forward.**

RESPONSE 1-39:

An analysis of the prudence of continuing construction of the Units has not yet been performed. No studies are being performed for hypothetical delay scenarios.

- Follow Up: **Please elaborate why SCE&G is not performing this analysis.**

RESPONSE 1-40:

SCE&G is in the process of completing its evaluation of the Fixed Price Option under the Amendment and expects to have reached a decision concerning that option before filing a 2016 BLRA update docket. In the interest of clarity and efficiency, SCE&G will provide information responsive to this RAI as soon as reasonably possible after the decision on the Fixed Price Option has been announced.

- Follow Up: **Provide a calculation of the levelized cost/kW (overnight cost) based on the pricing for both options provided in the amendment. If this is not possible because some information is not available, please state the information that is still unavailable and provide a timeline for providing the data requested.**

RESPONSE 1-42:

ORS NUCLEAR PROGRAMS REQUEST # 1

The nine bullet points listed in Mr. Marsh's pre-filed direct testimony in Docket No. 2015-103-E are as follows:... (Response not included in whole due to space considerations.)

- Follow Up: **While a large volume of responsive information was presented, please provide the information in the format requested. That is, please address each point (letters A. through I.) specifically and separately.**

Thank you.