

July 31, 2017

V.C. SUMMER AUTHORIZATION  
AUTHORITY ACTION REGARDING  
NEW NUCLEAR PROJECT

Adopted

Rejected

Postponed

RESOLUTION

WHEREAS, The Board of Directors of the South Carolina Public Service Authority (the "Authority"), by Resolutions dated October 20, 2006 and December 11, 2006, authorized management to take those actions necessary to begin the process of investigating, permitting, procuring, constructing and installing two 1100MW Westinghouse AP1000 nuclear units at the V.C. Summer site in Fairfield County, South Carolina ("Project"), and to expend certain funds in that regard; and

WHEREAS, On March 27, 2008 South Carolina Electric & Gas Company ("SCE&G") and the Authority (collectively the "Owners") submitted to the Nuclear Regulatory Commission ("Commission") an application for combined operating licenses ("COLs") to allow SCE&G and the Authority to construct and operate two new AP1000 units at the V.C. Summer site; and

WHEREAS, The Board of Directors of the Authority, by Resolution dated May 22, 2008, authorized the President and CEO of the Authority to execute a Limited Agency Agreement that appointed SCE&G to act as the Authority's agent, subject to certain conditions and limitations, with respect to the Engineering, Procurement and Construction Agreement (the "EPC") with Westinghouse Electric Company LLC ("Westinghouse") and Stone & Webster, Inc. (together the "Consortium") for the Project, and to expend \$1,900,000,000 through December 31, 2011 in that regard; and

WHEREAS, Westinghouse is a subsidiary of Toshiba Corporation ("Toshiba"), and Westinghouse's obligations under the EPC are supported by a Toshiba parental Guaranty; and

WHEREAS, The Limited Agency Agreement and the EPC were executed on May 23, 2008; and

WHEREAS, The Board of Directors of the Authority, by Resolution dated September 26, 2011, authorized the President and CEO of the Authority to execute the Design and Construction Agreement and the Operating and Decommissioning Agreement for the Project; the Design and Construction Agreement and the Operating and Decommissioning Agreement were executed on October 20, 2011; and

WHEREAS, The Board of Directors of the Authority, by Resolution dated December 12, 2011, extended the previous authorization for the \$1,900,000,000 in funding of the Project through December 31, 2012; and

WHEREAS, The Commission issued the COLs on March 30, 2012; and



WHEREAS, The Board of Directors of the Authority, by Resolution dated April 5, 2012, authorized the President and CEO of the Authority to provide prior written consent to SCE&G as required by the Limited Agency Agreement to issue the Full Notice to Proceed to the Consortium under the EPC, and to expend a sum not to exceed \$4,887,715,000 on the Project and \$261,233,000 for related transmission facilities, for a total project cost of \$5,148,948,000; and

WHEREAS, On April 17, 2012, SCE&G provided Full Notice to Proceed to the Consortium on behalf of itself and the Authority; and

WHEREAS, The Board of Directors of the Authority, by Resolution dated October 27, 2015, authorized the President and CEO of the Authority to execute a Limited Agency Agreement that appointed SCE&G to act as the Authority's agent with respect to an October, 2015 Amendment to the EPC Agreement ("October 2015 Amendment"). The October 2015 Amendment was executed by SCE&G the same day and became effective on December 31, 2015 upon the consummation of the acquisition by Westinghouse of the stock of Stone & Webster, Inc. from Chicago Bridge & Iron; and

WHEREAS, Among other things, the October 2015 Amendment provided SCE&G and the Authority with an irrevocable option in their sole discretion, until November 1, 2016 and subject to regulatory approvals, to further amend the EPC Agreement to fix the total amount to be paid to the Consortium for its entire scope of work on the Project (excluding a limited amount of work within the time and materials component of the contract price) after June 30, 2015 at \$6.082 billion (the Authority's 45% portion being approximately \$2.737 billion) as set forth in Exhibit D of the October 2015 Amendment ("Option Amendment"). Contemporaneously with the execution of the October 2015 Amendment, Westinghouse also executed the Option Amendment; and

WHEREAS, The Board of Directors of the Authority, by Resolution dated June 30, 2016, authorized the President and CEO of the Authority to consent to the exercise of the Option Amendment and to increase the total sum to be expended on the Project by \$1,100,000,000, for a total project cost of \$6,248,948,000; and

WHEREAS, SCE&G with the consent of the Authority and the approval of the Public Service Commission of South Carolina exercised the Option Amendment; and

WHEREAS, On December 27, 2016, Toshiba announced the possibility that the goodwill resulting from the acquisition by Westinghouse of the stock of Stone & Webster, Inc. from Chicago Bridge & Iron would reach a level of several billion U.S. dollars and would be impaired, leaving Toshiba with substantially reduced shareholders' equity. The increase to the amount of goodwill resulted from Westinghouse's analysis that demonstrated the cost to complete the four Westinghouse AP1000 new nuclear plants in the United States would far surpass the original estimates for construction. In public statements in 2017, Toshiba attributed the cost overruns to, among other things, higher labor costs arising from lower than anticipated work efficiency and the inability to improve such work efficiency over time; and

WHEREAS, The Board of Directors of the Authority, by Resolution dated March 27, 2017, anticipating a Westinghouse bankruptcy was imminent, authorized the President and Chief Executive Officer of the Authority to enter into an Interim Assessment Agreement ("IAA") for a period not to exceed ninety (90) days and in an amount not to exceed expenditures of \$250 million in advances of funds under the EPC against the Milestone Payments. That Resolution contemplated that during this ninety (90)-day period SCE&G and the Authority would conduct a complete, detailed, and independent review of the Project construction schedule and cost to completion, and that necessary information for these analyses be obtained directly from



primary sources as opposed to unverified information provided through Westinghouse or Toshiba; and

WHEREAS, on March 28, 2017, the Authority and SCE&G entered into an IAA with Westinghouse, WECTEC Global Project Services, Inc. (formerly known as "Stone and Webster") for a term not to exceed the earlier of (a) April 28, 2017, or (b) the termination of the Vogtle Interim Assessment Agreement; and

WHEREAS, Westinghouse filed a Petition pursuant to Chapter 11 of the Bankruptcy Code on March 29, 2017 in the United States Bankruptcy Court for the Southern District of New York at Case No. 17-10751-MEW; and

WHEREAS, on April 28, 2017, the parties to the IAA executed "Amendment No. 1 To Interim Assessment Agreement" extending the term of the IAA to June 26, 2017 and decoupling the agreement from the Vogtle Interim Assessment Agreement; and

WHEREAS, The Board of Directors of the Authority, by Resolution dated June 26, 2017, authorized the Chief Executive Officer to enter into an additional extension of the IAA, for a period not to exceed forty-five (45) days through August 10, 2017, and authorizing further expenditures in an amount not to exceed \$50 million by the Authority, for a total IAA expenditure authorization of \$300 million by the Authority; and

WHEREAS, beginning in late March, 2017, SCE&G and the Authority formed an independent team led by the SCE&G construction manager to undertake a rigorous Estimate-to-Complete (ETC) validation process, including the costing/scheduling expertise of High Bridge Associates and the expertise of AECOM Energy & Construction Inc. in the area of salvage, site restoration and preservation. The process began with gathering and validating information data received from Westinghouse and Fluor, and creating a new schedule model using Owner, Fluor and Westinghouse schedules; and

WHEREAS, on a parallel track and during the same time frame, the Authority retained nFront Consulting LLC to undertake an assessment of the projected cost of power from V.C. Summer Units 2 and 3 if completed, compared to other alternatives in meeting future energy needs of the Authority; and

WHEREAS, based upon the ETC validation process, Nuclear Executive Management of the Authority (consisting of the President and CEO, Senior Vice President of Nuclear Energy, Senior Vice President and General Counsel, and Senior Vice President and Chief Financial Officer) finds the results of the ETC validation process adequate to determine the viability of the V.C. Summer New Nuclear Project; those results estimating the schedule to complete Unit 2 would be delayed at least 40 months beyond the August 2019 contract completion date, and the estimated schedule to complete Unit 3 would be delayed at least 43 months beyond the August 2020 contract completion date. The estimated cost to the Authority to complete both units would exceed the EPC Agreement Fixed Price by a minimum of \$1.951 billion, and the estimated cost to the Authority to complete only one unit, due in great part to loss of economies of scale, would exceed an adjusted EPC Agreement Fixed Price by a minimum \$2.434 billion, and that such costs and delays should not be borne solely by the customers of the Authority and SCE&G; and

WHEREAS, based upon the analysis of the nFront Consulting LLC study, Nuclear Executive Management finds Santee Cooper's costs of power for the period from 2023 through 2058 would be in the range of \$1.5 billion to over \$3 billion higher with completing V.C. Summer Units 2 and 3 than with completing other alternatives, on a cumulative present worth basis discounted to 2017, assuming a national carbon tax is not implemented; and



WHEREAS, The Board of Directors of the Authority, by Resolution dated July 27, 2017, authorized the President and CEO of the Authority to execute a Settlement Agreement with Toshiba Corporation for the purpose of acknowledging and defining Toshiba's obligation under its May 23, 2008 EPC Guaranty and establishing a schedule for the full payment of that obligation to the Authority and SCE&G;

WHEREAS, having received and given due consideration to the opinions and information presented to it as set forth herein, as well as the recommendation of Nuclear Executive Management, and the guidance of external legal counsel, among other things, the Board of Directors has determined that it is reasonable to wind-down and suspend construction at the V.C. Summer site while undertaking a process to determine whether additional entities are available and interested to provide financial support and assumption of ongoing schedule, cost, and risk mitigation for the Project; and

WHEREAS, The Board of Directors has considered and appropriately balanced the factors set forth in South Carolina Code Section 58-31-55(A)(3) and has determined that the actions authorized by this Resolution are in the best interests of the Authority; now, therefore, be it

RESOLVED, That the President and CEO is directed to immediately begin taking those actions necessary to wind-down and suspend construction on the two 1100 MW nuclear units at the V. C. Summer site in Fairfield County, and protect and preserve both the site and related plant components and equipment; and be it further

RESOLVED, That the President and CEO, is directed to work with SCE&G to remove all non-essential personnel from the V.C. Summer site at the earliest possible date; and be it further

RESOLVED, That the President and CEO is authorized to develop with SCE&G a construction cessation plan within sixty (60) days of this resolution, to include a schedule and budget for that purpose, with the goal of having the V.C. Summer site in a fully preserved state in not more than six months of this Resolution; and be it further

RESOLVED, That the President and CEO is directed to identify and take whatever steps are legally available to the Authority to immediately reduce Project expenditures and personnel costs while the construction cessation plans being developed; be it further

RESOLVED, That the President and CEO is authorized to develop with SCE&G within fifteen (15) days appropriate service agreements that will convert Project activity exclusively to preservation and protection of the V.C. Summer site, and the related plant components and equipment, and the President and CEO of the Authority is further authorized to execute such service agreements and monitor the timely implementation of those agreements; and be it further

RESOLVED, That the President and CEO is authorized to work with SCE&G to identify third parties to purchase an undivided ownership interest in one or both of the units, and/or the related plant components and equipment, including a majority stake in one or both of the units; and be it further

RESOLVED, That the Project construction cessation plan and process of seeking additional support for the Project are authorized by the Board to remain in place for up to a period of one year from the date of this Resolution; and be it further

RESOLVED, That the President and CEO, in his discretion, is authorized to unilaterally terminate the Interim Assessment Agreement pursuant to Paragraph 2 of that agreement; and be it further

RESOLVED, That the President and CEO, in his discretion, is authorized to unilaterally terminate the Authority's involvement in the Project pursuant to Section 6.2.2 of the Design and Construction Agreement; and be it further

RESOLVED, That the President and CEO is authorized to take such further actions and execute such further agreements or instruments as may be necessary to carry out the foregoing Resolution, with the exact terms and conditions to be determined by the President and CEO.