

**Report of the Department of Administration
Pursuant to
Section 9 of the Joint Resolution
(A95, R113, H4287)
Regarding
The South Carolina Public Service Authority**



Submitted by the South Carolina Department of Administration
To The Chairman of the Senate Finance Committee and
The Chairman of the House Ways and Means Committee

February 11, 2020

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I. EXECUTIVE SUMMARY

The report that follows is at its core a discussion about the future of Santee Cooper and how it can be best positioned to serve the interests of its customers, the taxpayers of South Carolina, and the State of South Carolina itself. The abandonment by Santee Cooper in 2017 of Units 2 and 3 of the Virgil C. Summer Nuclear Generating Station left the State with a \$4 billion problem—namely, how to provide relief to Santee Cooper’s retail and wholesale customers burdened by the payments on debt incurred for a costly power plant that would never provide them with electricity. In drafting the Joint Resolution, the General Assembly charged the South Carolina Department of Administration and its outside advisors with considering three paths to solve this problem:

- Analyze a plan by Santee Cooper for its reform, restructuring, and changes in its operations;*
- Conduct a competitive process seeking proposals for third-party management of Santee Cooper in lieu of its sale; and*
- Conduct a competitive process seeking bids for a sale of some or all of the assets of Santee Cooper.*

Each of these paths faces obstacles. In no small part, shortcomings in Santee Cooper’s management, structure, and culture were the root cause for the State’s current problem, and while some changes have been made, these issues remain. Whether Santee Cooper is capable of meaningful reform will depend on whether its reform plan: (i) adequately addresses certain fundamental, structural changes required for its prudent oversight and governance, (ii) embodies a management philosophy that mitigates the impact on ratepayers of outstanding debt for assets that are neither used nor useful, while lowering costs by modernizing and increasing the efficiency of operations, and (iii) exemplifies a culture shift that can solve for the fractured relationship with, and restore the confidence of, Santee Cooper’s largest wholesale customer, Central Electric Power Cooperative, Inc.

In considering the efficacy of a management proposal, thought was and should be given to the question of whether and how a third party managing Santee Cooper could impact its organizational structure and culture. In essence, can the issues faced by Santee Cooper be better solved by a third-party manager than they can solely through self-reform? If not, might a management proposal be more effective as a complement to reform?

Each sale bidder, including the one recommended here, faced a significant financial challenge in addition to being required by the Joint Resolution to solve the multi-billion dollar problem of the outstanding indebtedness for assets that are neither used nor useful. Specifically, the privatization of Santee Cooper would entail (over 20 years) \$5.3 billion of transition costs associated with a private owner’s loss of tax exemptions and higher cost of capital, early payment penalties associated with repaying Santee Cooper’s debt, satisfaction of pension and OPEB obligations that will shift from Santee Cooper to the State, and the prohibition on recovery from ratepayers of certain debt repayment costs incurred in connection with its proposed acquisition of Santee Cooper. Despite these challenges, the recommended sale bidder: is offering Santee Cooper customers rates close to those being offered by a reformed Santee Cooper, pays off all of Santee Cooper’s existing indebtedness, provides a roadmap and resources to settle the Cook litigation, and provides cash consideration, together with the anticipated cash on Santee Cooper’s balance sheet at closing, to satisfy pension and OPEB obligations and other

known liabilities and obligations that may face Santee Cooper or the State of South Carolina after the transaction closes. Conversely, and in part in order to ensure certainty in respect of cost recovery, the recommended sale bidder is effectively shifting certain liabilities that currently reside only with Santee Cooper's ratepayers to all South Carolina taxpayers and presenting to you enabling legislation that in some ways, justifiably in the view of the bidder, is nontraditional in respect of investor-owned utilities.

To frame for your review the discussion about Santee Cooper's future, the Department and its advisors discussed with Santee Cooper its reform plan and engaged in extensive negotiations with parties that submitted management proposals and sale bids. These discussions and negotiations improved the reform plan, management proposals, and sale bids for the benefit of the State, its taxpayers, and the customers of Santee Cooper. For example, just in the period between January 15, 2020, and the submission of this Report, the Department was able to obtain from the recommended sale bidder over \$1 billion in additional benefits for ratepayers and taxpayers. The Department and its advisors also supervised negotiations between Santee Cooper, proposing entities, and bidders, on the one hand, and Central Electric Cooperative, Inc., on the other. Finally, the Department and its advisors conducted a detailed evaluation and analysis of the reform plan, management proposals, and sale bids, taking account of all evaluative criteria specified in the Joint Resolution.

The Joint Resolution requires the Department's outside advisors to recommend, from the proposals and bids received, one management proposal and one sale bid. The Joint Resolution also requires the Department's outside advisors to analyze the reform plan put forward by Santee Cooper. As discussed in this Report, the Department's outside professional advisors have determined to recommend the management proposal submitted by Dominion Energy, Inc. and the sale bid submitted by NextEra Energy, Inc. The Department concurs with these determinations.

A. Introduction

In accordance with the requirements of Section 9 of the Joint Resolution (A95, R113, H4287) passed by the General Assembly of the State of South Carolina on May 21, 2019, and signed into law by the Governor of the State of South Carolina on May 22, 2019, the South Carolina Department of Administration (the "Department"), working with Energy and Environmental Economics, Inc. ("E3"), Gibson, Dunn & Crutcher LLP ("Gibson Dunn"), and Moelis & Company ("Moelis," and together with E3 and Gibson Dunn, the "Professional Service Experts"),¹ submits this Report to the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee.

As detailed in this Report, the decision by the General Assembly and the Governor to adopt the Joint Resolution has resulted in the solicitation, negotiation, and improvement of three viable paths forward for the South Carolina Public Service Authority ("Santee Cooper"). It is unfortunate that, despite its well-publicized missteps, Santee Cooper waited to develop and present a path to recovery and improvement until confronted with the prospect of a sale or third-party management as outlined in the Joint Resolution. However, it is evident that the actions of the General Assembly and the Governor have had a meaningful and positive impact. Regardless of what choice the General Assembly and the Governor ultimately make with regard to the future of Santee Cooper, the Bidding Process required by the Joint

¹ A glossary of defined terms used in this Report is attached as Appendix A.

Resolution (and implemented by the Department and the Professional Service Experts) has better positioned the State, its taxpayers, the customers of Santee Cooper, and Santee Cooper itself to benefit from meaningful cost reductions and operational improvements.

To arrive at this point, beginning in June 2019 the Department, as directed by the Joint Resolution, identified, engaged, and then worked with the Professional Service Experts to design and implement the Bidding Process. Along the way, they were assisted by additional outside advisors. The Professional Service Experts contacted 55 parties, and ten ultimately chose to participate in the Bidding Process. Through the late summer and into the fall of 2019, the Department and the Professional Service Experts assembled an extensive Data Room containing information about Santee Cooper; managed a thorough due diligence process for the Participants; and prepared drafts of necessary legal agreements, including a Non-Disclosure Agreement, a Draft Asset Purchase Agreement, and a Draft Power Purchase Agreement. They also developed and shared with the Participants detailed communications about the Bidding Process and detailed financial models to facilitate the organized submission by Participants of essential quantitative information about their Management Proposals and Sale Bids.

Throughout their work, the Department and the Professional Service Experts collected extensive information from Santee Cooper and its outside professional advisors in order to inform and carry out this work. While Santee Cooper provided substantial information and assistance to the Department and the Professional Service Experts, it also delayed and impeded the Bidding Process at certain points and made the overall work more cumbersome, time-consuming, and expensive. Overall, the Department and the Professional Service Experts estimate that Santee Cooper caused total delays of more than two months and required the Department to incur significant additional expenses. Throughout this Report, the Department discusses certain activities of Santee Cooper that caused delays in and disruptions to the Bidding Process. This discussion is not intended to create a negative view of the Reform Plan, but rather reinforces the need for reform of Santee Cooper's structure, management, and culture.

The Department and the Professional Service Experts also engaged in discussions with Central Electric Power Cooperative, Inc. ("Central") in order to prepare themselves and Central for negotiations with Submitting Entities. In accordance with the Joint Resolution, these negotiations occurred after the initial Reform Plan, Management Proposals, and Sale Bids were submitted to the Department.

The Department established November 25, 2019, as the date for the submission of the Reform Plan, the Management Proposals, and the Sale Bids. The Department later changed that date to November 26, 2019 and provided written notice of such change to all Participants. Nonetheless, on November 25, 2019, the Department received the Reform Plan. On November 26, 2019, the Department received all Sale Bids and Management Proposals. Between May 29, 2019, and February 4, 2020, the Department participated in or facilitated more than 350 telephone conferences and in-person meetings with the Professional Service Experts, Participants, Submitting Entities, and Central. These included due diligence meetings, negotiations, informational meetings, planning meetings, and discussions and deliberations

by the Department and the Professional Service Experts. These activities produced not only credible proposals initially, but also significant improvements in all of the submissions, as the Participants agreed to offer ratepayers and taxpayers the potential for hundreds of millions of dollars of additional future benefits, as compared to what was contained in the original proposals they submitted in late November 2019. In the case of Santee Cooper, these activities also prompted it to include in the Reform Plan potentially meaningful changes to governance and decision-making that, if implemented and followed, would help to address concerns about Santee Cooper's accountability and responsiveness to customers and market dynamics.

As a result of the Bidding Process, and after thorough evaluation and analysis, the Professional Service Experts have determined to recommend the Management Proposal submitted by Dominion Energy, Inc. ("Dominion") and the Sale Bid submitted by NextEra Energy, Inc. ("NextEra"). The Department agrees with these recommendations. Sections III, IV, and V of this Report discuss in detail the Reform Plan, the Dominion Management Proposal, and the NextEra Sale Bid, respectively, and, as required by the Joint Resolution, provide a detailed evaluation and analysis of each one.

The Joint Resolution required the Department to present this Report, including the recommendations, evaluations, justifications, and supporting materials, to the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee by January 15, 2020, subject to the Department's right to a one-time, 60-day extension of this deadline. In consultation with the Professional Service Experts, the Department concluded that an extension was necessary to optimize the Sale Bids, Management Proposals, and the Reform Plan, in order to achieve the best possible outcome for the State, its taxpayers, and the customers of Santee Cooper, and to complete the substantial and complex tasks required by the Joint Resolution. Thus, the Department invoked the extension option and so notified the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee on January 10, 2020. A copy of the extension letter is attached to this Report as Exhibit D. The Department concluded, after consultation with the Professional Service Experts, and mindful of the importance of providing the General Assembly with ample time to consider this Report and make decisions, that work would be completed and this Report would be submitted by February 11, 2020.

In presenting this Report, the Department and the Professional Service Experts emphasize that they are not endorsing the Reform Plan or any particular Sale Bid or Management Proposal, nor are they expressing a preference among the three alternatives contemplated by the Joint Resolution and presented in this Report. The Joint Resolution does not invite or require any such endorsement or relative judgment. Rather, as required by the Joint Resolution, this Report analyzes the Reform Plan and presents one bid for the sale of some or all of the assets of Santee Cooper (a "Sale Bid") and one proposal that does not involve a sale of Santee Cooper (a "Management Proposal") selected from the alternatives received during the Bidding Process, and discusses potential benefits of and additional considerations with respect to each. While this Report is intended to assist the General Assembly and the Governor in making a decision, such decision is reserved for the General Assembly and the Governor, in the exercise of their considered judgment and discretion.

As the General Assembly begins its review and consideration of the matters discussed in this Report, the Department and the Professional Service Experts encourage the General Assembly and the Governor to take immediate steps to ensure that the alternatives for Santee Cooper's future contemplated by the Joint Resolution and presented in this Report will remain viable and available until the General Assembly and the Governor have made a decision on the path for Santee Cooper's future. Specifically, the Department recommends that Santee Cooper be directed, through legislation or otherwise, to operate in a manner that will not result in premature implementation of the Reform Plan or the frustration of the Dominion Management Proposal or the NextEra Sale Bid. The Department and the Professional Service Experts believe this requires that Santee Cooper (i) be required to operate its business in accordance with the Santee Cooper 2019 Budget, published in 2018, and (ii) be prohibited from taking actions that would undermine the ability to enter into the Dominion Management Agreement or the NextEra Revised Asset Purchase Agreement, or would amount to a material breach of either one (as if Santee Cooper were already bound by these agreements). To accomplish these goals, the General Assembly may, subject to compliance with bondholder protection statutes:

- Provide that until the General Assembly and the Governor make a decision on Santee Cooper's future, Santee Cooper will be subject to oversight of the State's Office of Regulatory Staff ("ORS"), including pre-execution review of all material contracts and material budget items, such as capital expenditures; and
- Require that Santee Cooper include in each new agreement entered into, a provision specifying that the agreement requires pre-execution ORS review and that the agreement may be terminated by Santee Cooper without penalty on 30 days' notice (with this termination right ending after the Joint Resolution process is completed and the decision of the General Assembly and the Governor is implemented).

Absent these or similar safeguards, Santee Cooper will be left free to make decisions, enter into agreements, or implement operational and financial changes that could, for example, put into effect the measures contemplated by the Reform Plan. Alternatively, Santee Cooper could alter its business and financial characteristics to a degree that would undermine the commercial terms proposed by Dominion and NextEra, thereby negating the viability of the Dominion Management Proposal and the NextEra Sale Bid and undermining the purpose and intent of the Joint Resolution.

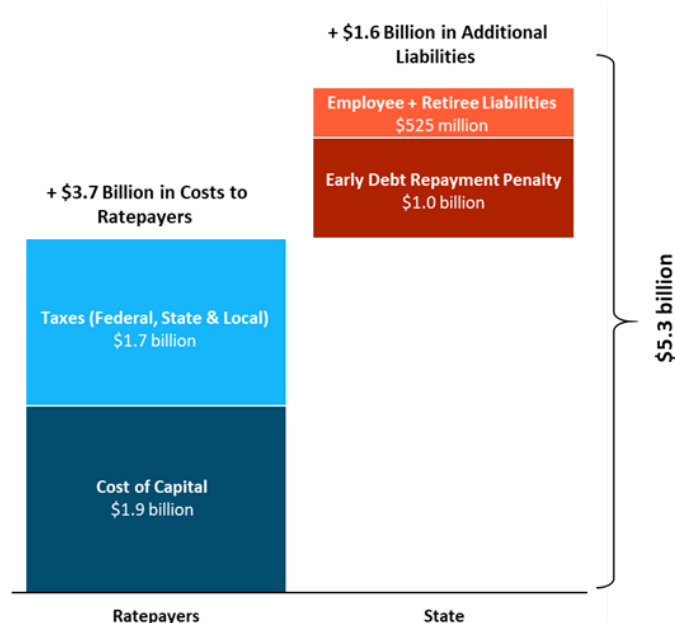
B. Background Context

The Department and the Professional Service Experts believe that background context is critical to the General Assembly's and the Governor's ultimate assessment of the options presented because a sale of Santee Cooper is an extremely complex, challenging, and unprecedented undertaking.

The privatization of Santee Cooper by a generic investor-owned utility ("IOU") would require any prospective buyer to overcome approximately \$5.3 billion in additional costs, on a Net Present Value ("NPV") basis over 20 years, in order to serve customers without

increasing rates or placing additional financial burdens on the State. These additional costs are summarized in Figure 1 below.

Figure 1: 20-Year NPV of Incremental Costs of Generic Privatization of Santee Cooper



Note to Figure 1: Cost of capital calculation assumed \$5.65 billion rate base for both Santee Cooper and hypothetical IOU; 3.5% cost of debt for Santee Cooper; 50/50 debt/equity capitalization structure for the IOU; 10% authorized return on equity and 3.5% cost of debt for IOU. Taxes calculation assumed 25% blended federal and state corporate income tax rate; 2% of net assets in service for property taxes; and \$18 million per year in Santee Cooper sums in lieu of taxes.

As shown, a transaction that results in Santee Cooper becoming an IOU would impose at least two incremental costs to ratepayers:

- Increased cost of capital for an IOU, as compared to a publicly-owned utility, estimated by the Professional Service Experts to be approximately \$1.9 billion (on an NPV basis over a 20-year period); and
- Increased income and property tax expense for an IOU, as compared to a publicly-owned utility, estimated by the Professional Service Experts to be approximately \$1.7 billion (on an NPV basis over a 20-year period).

In addition, a sale transaction would trigger certain additional liabilities that would need to be addressed at the time of the sale:

- The retirement of all of Santee Cooper's outstanding debt (as triggered by a sale) would carry early repayment penalties due to the bondholders, estimated to be \$1.0 billion.

- There would be funding obligations related to employee and retiree liabilities (estimated to be \$525 million). These funds would otherwise have been collected over time from Santee Cooper customers.

These transition costs present a significant challenge for any Sale Bid in the Bidding Process. How these challenges would be addressed was of great importance to the Department and the Professional Service Experts in their evaluation of the Sale Bids. A successful Sale Bid must offset the impact of these costs to ratepayers and taxpayers, to the greatest extent possible.

Current market conditions, which include a unique combination of low interest rates, very low costs of wind and solar power, and low natural gas prices, create an opportunity for a potential buyer to invest in both gas-fired and renewable generation resources to produce meaningful savings for customers relative to Santee Cooper's existing generation resources. This creates a market environment that may be uniquely well suited to facilitate the sale of Santee Cooper to a private owner. However, there are no analogous examples of the privatization of a state-owned utility in recent U.S. history. The Department and the Professional Service Experts believe this underscores the scale of the challenge for any proposed sale, including the one proposed by NextEra.

Separately, the Department and the Professional Service Experts are mindful that Santee Cooper currently faces numerous challenges, which were the impetus for the Joint Resolution. The Reform Plan, the Management Proposals, and the Sale Bids take different approaches to addressing these challenges, thereby providing the General Assembly and the Governor with choices for the future. In addition to what is proposed in the Reform Plan, this Report discusses other steps that the General Assembly and the Governor could consider taking to improve Santee Cooper's governance, transparency, and oversight. The Department and the Professional Service Experts believe that any reforms to Santee Cooper's governance, transparency, and oversight should be reflected in legislation, to ensure adherence to the reforms and to maximize the chance for successful implementation of proposed operational changes at Santee Cooper. As discussed elsewhere in this Report, any such changes would need to be carefully tailored to ensure they do not violate covenants to bondholders contained in Santee Cooper's existing bonds and statutes that protect bondholders.

It is further worth noting that while this Report and the evaluation of each of the Reform Plan, the Dominion Management Proposal, and the NextEra Sale Bid focuses on costs over a 20-year period as directed by the Joint Resolution, the General Assembly and the Governor may choose to consider an even longer time horizon, given the permanency of a sale.

The Department and the Professional Service Experts took account of these considerations, and other relevant context, in evaluating the Reform Plan and in deciding which of the Management Proposals and Sale Bids to recommend.

C. Recommendations Pursuant to the Joint Resolution

The Department and the Professional Service Experts view each of the Reform Plan, the Dominion Management Proposal, and the NextEra Sale Bid as having potential benefits and raising additional issues for consideration. The potential benefits of each are subject to risks and uncertainties, including those outside of the control of the involved parties. Consequently, the achievement of potential benefits is uncertain, and the possibility remains that additional, unforeseen issues will arise.

This Report summarizes and analyzes the Reform Plan first because the Department and the Professional Service Experts believe that it provides helpful and important context for the discussion and analysis of the Management Proposals and the Sale Bids.

1. Santee Cooper Reform Plan

a. Summary of the Reform Plan

The Reform Plan proposes a combination of operational changes and cost-cutting actions that the Professional Service Experts project, if properly implemented, would achieve accelerated debt repayment and defeasance, an increase in the use of natural gas and renewable resources to generate electricity, and a concomitant reduction in the use of coal. The Reform Plan proposes to reduce Santee Cooper's headcount by 10% from 2017 levels to 1,675 full-time employees in 2020, with additional reductions to bring the workforce down to 1,630 employees in 2025 and 1,514 employees by 2028. Santee Cooper intends to accomplish the workforce reductions without layoffs, through a combination of retraining opportunities, retirements, and natural attrition. All of these changes, if properly implemented, would allow Santee Cooper to lower customer rates by \$2.3 billion (on an NPV basis over a 20-year period) as compared to the Santee Cooper 2019 Budget published in 2018.

The situation at Santee Cooper that led to the Joint Resolution resulted from decisions that, in the view of the Professional Service Experts, are attributable in part to a lack of third-party oversight of, and accountability by, Santee Cooper. In their discussions with Santee Cooper about its Reform Plan, the Department and the Professional Service Experts emphasized the significance of its governance and the transparency of its decision-making. In response, Santee Cooper supplemented its original Reform Plan to address these issues. As a result, the Reform Plan proposes several improvements to Santee Cooper's governance, including: (i) term limits and qualification requirements for Santee Cooper Board members, (ii) formation of a resource planning group with representation from key constituencies, (iii) requiring the Santee Cooper Board to hire technical advisors, (iv) increasing transparency (including public hearings on pricing and major projects in which the ORS can intervene), and (v) requiring ORS and potentially South Carolina Public Service Commission ("SCPSC") review of certain major projects.

Before discussing the potential benefits and considerations relating to the Reform Plan, the Department would like to stress that, should the General Assembly choose the Reform Plan, legislative action will be required to codify and enhance the Reform Plan to ensure that the ratepayers and the State receive the benefits of the Reform Plan.

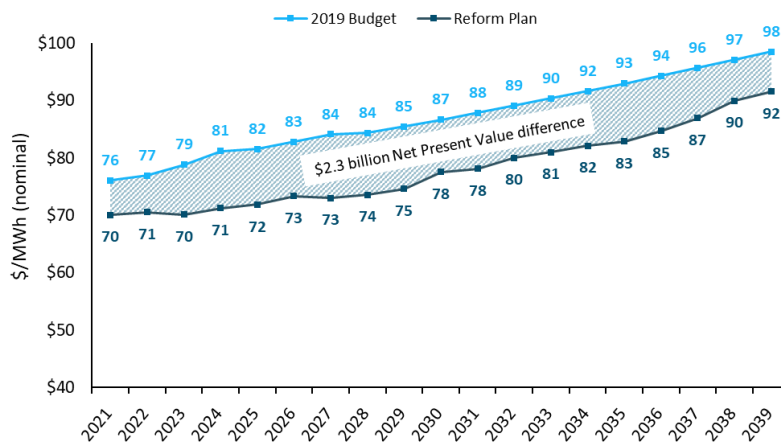
In connection with the submission of the Reform Plan, the Joint Resolution required Santee Cooper and Central (which accounts for more than two-thirds of Santee Cooper's revenue) to negotiate any necessary or desirable changes to the Central Coordination Agreement. Due to ongoing and significant tensions between Santee Cooper and Central, however, the Department and the Professional Service Experts needed to be actively involved in bringing the two parties together for discussions. The Department and the Professional Service Experts arranged and monitored several in-person meetings, and as a result Santee Cooper proposed several modifications to the Central Coordination Agreement, including: (i) a reduction in the term of the agreement by five years and an agreement to explore the possibility of an additional five-year reduction and (ii) removal of any limits on the ability of Central's member cooperatives to install distributed energy resources (subject to reaching agreement on matters relating to cost shifting, system reliability, and the treatment of stranded costs). Central has not agreed to the proposed changes.

b. Potential Benefits and Additional Considerations

As discussed in more detail in Section III of this Report, the Department and the Professional Service Experts believe that the Reform Plan, if executed successfully, offers several meaningful potential benefits:

- Customer rates that are \$2.3 billion lower (on an NPV basis over a 20-year period) than rates in the Santee Cooper 2019 Budget published in 2018 (as reflected in Figure 2);

Figure 2: Projected Rates under Santee Cooper 2019 Budget and Reform Plan



- A revised resource plan with reduced reliance on coal-fired generation and increased use of natural gas and renewables with a resulting decrease in carbon dioxide emissions, as well as lower operating costs and improved flexibility to consider other resource options as conditions change;
- Proposed improvements to board structure, governance, oversight, and transparency;

- Proposed modifications to the current Central Coordination Agreement that seek to respond to a number of Central's expressed concerns about the agreement;
- Workforce reductions through retraining opportunities, retirements, and natural attrition, rather than layoffs;
- Retention by the State of ownership and control over an important asset, including recreational facilities; and
- Lower outstanding indebtedness (approximately \$4.7 billion by 2039, as projected by Santee Cooper), using responsible utility practices while also achieving lower rates.

The Department and the Professional Service Experts recognize that, despite some notable strategic mistakes by Santee Cooper, the dedicated employees of Santee Cooper have provided top-of-class reliable and safe service for customers, well-maintained assets, and relatively high customer approval ratings (with the important exception of Central). In addition, the Department and the Professional Service Experts are mindful that Santee Cooper has a history of charitable giving, economic development, and maintaining recreational facilities for citizens of the State. The Reform Plan can be expected to preserve and potentially enhance these achievements.

In deciding whether to adopt the Reform Plan, the General Assembly and the Governor may wish to consider and/or address the following matters, which are also discussed in more detail in Section III of this Report.

- The critical commercial relationship between Santee Cooper and its largest customer, Central, remains negatively affected by historic friction between the two organizations and fundamental disagreements over certain operating strategies. Central maintains that its customers want more choice to provide their own power, whether that be provided from within their own co-op territories, from a growing competitive wholesale market, or from behind the meters of individual customers. The recent senior management changes at Santee Cooper do not yet appear to have overcome these long-standing tensions.
- Consider whether Central, as well as other stakeholders, should be provided greater participation in oversight and decision-making. The Reform Plan's proposed Integrated Resource Planning Group is helpful, but it is likely insufficient to solve the current issues with stakeholder relationships.
- Consider whether the ORS should have the ability to review all aspects of major projects, not just siting (as Santee Cooper proposed in the Reform Plan), subject to covenants and statutory protections for bondholders (S.C. Code Annotated 58-31-360 and 58-31-30(A)(21)).
- Consider whether information provided to the public in connection with pricing should be the same information that an IOU would provide to the SCPSC.

- The fact that the Joint Resolution and the process it created were necessary to generate the changes in the Reform Plan suggests that the proposals in the Reform Plan regarding governance, transparency, and oversight be codified so that the progress created by the Joint Resolution will not be lost.
- Santee Cooper does not have a history of effecting the kinds of changes contemplated by the Reform Plan, so its ability to achieve the benefits of the Reform Plan remain unclear.
- The Reform Plan does not address the Cook Litigation, which relates to the abandoned nuclear facility construction of the Virgil C. Summer Nuclear Station Units 2 and 3 (“VCSNS 2 and 3”). Consequently, it remains a potential financial risk for ratepayers or taxpayers.

2. **Dominion Management Proposal**

a. **Summary of the Dominion Management Proposal**

The Dominion Management Proposal consists of placing three (or more) Dominion employees (the “Placed Employees”) at Santee Cooper to fill key management roles reporting to the Santee Cooper CEO. In conversations with the Department and the Professional Service Experts, and in its final Management Proposal, Dominion indicated willingness also to place a Dominion employee in the role of CEO of Santee Cooper. Dominion would not charge a management fee (other than reimbursement of its costs). The initial term of the Dominion Management Agreement would be ten years, but it could be terminated by either party upon a change of control of either party.

The Dominion Management Proposal requires that each Placed Employee be reasonably experienced in the management and/or operation of utilities, have demonstrated success in a similar position, and possess relevant qualifications. In addition, each Placed Employee would be required to act in a manner that such Placed Employee in good faith believes is in the best interest of Santee Cooper and to exercise the same degree of skill and care of a reasonably prudent person. The Dominion Management Agreement also provides that one of the Placed Employees would be the primary point of contact for Santee Cooper’s dealings with Central. Finally, it provides for the creation of a committee to evaluate possible cost-saving measures and provides that any such efforts must be approved by the Santee Cooper Board. The Dominion Management Proposal does not contemplate any changes to the workforce.

Central and Dominion agree that no changes to the Central Coordination Agreement would be necessary to implement the Dominion Management Proposal. Consequently, while Dominion and Central discussed the Central Coordination Agreement, no modifications have been proposed.

As a result of numerous discussions among Dominion and the Department and the Professional Service Experts, Dominion agreed to a number of improvements to the Dominion Management Agreement: (i) it removed a requirement that Santee Cooper

indemnify it, (ii) it agreed (as discussed above) to be open to having the Placed Employees include Santee Cooper's CEO, (iii) it agreed to expand the ability of the parties to terminate the Management Agreement upon a change of control, (iv) it clarified the parties' confidentiality obligations, and (v) it agreed to limit the initial costs of the Placed Employees.

b. Potential Benefits and Additional Considerations

As discussed in more detail in Section IV of this Report, the Department and the Professional Service Experts believe the Dominion Management Proposal offers several meaningful potential benefits:

- Minimal incremental cost to the State, its taxpayers, and the customers of Santee Cooper;
- Opportunities to pursue synergistic efficiencies and savings with Dominion, the owner of an adjacent South Carolina utility;
- Limited agreement duration and reasonable termination rights that reduce risk and retain flexibility for the State;
- Assistance from a large regional utility to enhance decision-making and management capabilities within Santee Cooper;
- Central has expressed a positive view of its past dealings with Dominion; and
- The Dominion Management Proposal may be adopted in conjunction with the Reform Plan to ensure the benefits of the Reform Plan.

In deciding whether to select the Dominion Management Proposal, the General Assembly and the Governor may wish to consider and/or address the following matters, which are also discussed in more detail in Section IV of this Report.

- The benefits of the Management Proposal may not be realized without reforms to address the management, structure, and culture of Santee Cooper. Placed Employees would be subject to oversight by the Santee Cooper CEO and the Santee Cooper Board, which, without the Santee Cooper governance changes discussed elsewhere in this Report, may impede the benefits of the Dominion Management Proposal. In addition, the General Assembly may consider whether the Dominion Management Proposal would be more effective if Dominion also provided the Santee Cooper CEO.
- Uncertainty exists around incremental benefits due to the absence of specific proposed cost-saving measures that are not already reflected in the Reform Plan.
- The absence of specific benchmarks or performance criteria may make the benefits of the Dominion Management Proposal less certain.

- Placed Employees may focus more on synergistic efficiency and savings opportunities with Dominion rather than on operational and planning enhancements that benefit only Santee Cooper.
- Some (perhaps a significant) portion of potential benefits and savings might be achieved through collaboration between Dominion and Santee Cooper even without the implementation of the Dominion Management Proposal.
- Potential conflicts of interest exist in light of the outstanding Dominion DCA Claims by Dominion against Santee Cooper relating to VCSNS 2 and 3.
- The Dominion Management Proposal does not address the Cook Litigation. Consequently, it remains a potential financial risk for ratepayers or taxpayers.

3. NextEra Sale Bid

a. Summary of NextEra Sale Bid

NextEra proposes to acquire through a new utility subsidiary, Santee Cooper Power & Light (“SCP&L”), Santee Cooper’s electric utility assets, the wholesale water systems operated by Santee Cooper, and the hydroelectric facilities and other assets operated by Santee Cooper under FERC License No. 199 (the “FERC License”) (including Lake Marion and Lake Moultrie). SCP&L would acquire all of Santee Cooper’s interest in VCSNS 1 and the internal and external nuclear decommissioning trust funds (estimated to be \$232.8 million as of September 30, 2019) as well as all of Santee Cooper’s interest in the VCSNS 2 and 3 real property and related materials and equipment. SCP&L would acquire all of Santee Cooper’s regulatory assets other than regulatory assets directly related to VCSNS 2 and 3 or “Excluded Liabilities” (as defined in the Revised Asset Purchase Agreement). Santee Cooper would retain all restricted and unrestricted cash and investments other than nuclear decommissioning trust funds.

In consideration, NextEra would assume certain liabilities of Santee Cooper as well as:

- Defeasance or repay at closing up to \$6.859 billion of Santee Cooper’s outstanding long-term and short-term debt, plus all defeasance or make-whole costs associated with the defeasance or repayment of such debt, which are estimated to be \$1.05 billion;
- Pay \$500 million to Santee Cooper for the benefit of the State at closing;
- Reimburse \$15 million of the costs and expenses incurred by the State in connection with the Bidding Process;
- Deposit \$100 million into an escrow account to fund post-closing purchase price adjustments for: (i) shortfalls in Santee Cooper’s net working capital, capital expenditures, and nuclear decommissioning funds, (ii) accounting errors in Santee Cooper’s financial statements, and (iii) increases in Santee Cooper’s debt principal

above \$6.859 billion; once all post-closing adjustments are made, the amount, if any, remaining in the escrow account would be released to Santee Cooper for the benefit of the State; and

- Provide \$941 million in customer refunds or rate credits within 180 days after closing as follows:
 - \$541 million to current and former wholesale and retail customers who paid utility bills based upon rates that included VCSNS 2 and 3 costs, which is intended to settle the Cook Litigation; and
 - \$400 million to current wholesale and retail customers.

Table 1 summarizes the monetary terms of NextEra's Sale Bid by the sources and uses of funds.

Table 1: NextEra Sale Bid Sources and Uses of Funds

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

NextEra submitted its Sale Bid, including its Revised Asset Purchase Agreement, on November 26, 2019. NextEra and its advisors and the Department and the Professional Service Experts negotiated the terms of the NextEra Sale Bid. NextEra submitted a revised Sale Bid on January 3, 2020, which reflected the following improvements:

- Increasing the proceeds to Santee Cooper for the benefit of the State by \$100 million, from \$500 million to \$600 million. Of that \$600 million, only \$100 million was a certain payment to Santee Cooper for the benefit of the State at closing, and \$500 million was to be placed in an escrow account for NextEra to use as a source of recovery with respect to post-closing adjustments and indemnification for breaches of representations, warranties, and covenants by Santee Cooper; and

- Improving the resource mix to reflect modern generation plans and to reduce carbon dioxide emissions.

Between January 16, 2020 and the submission of the final NextEra Sale Bid, the following improvements were negotiated by the Department, the Professional Service Experts, and NextEra:

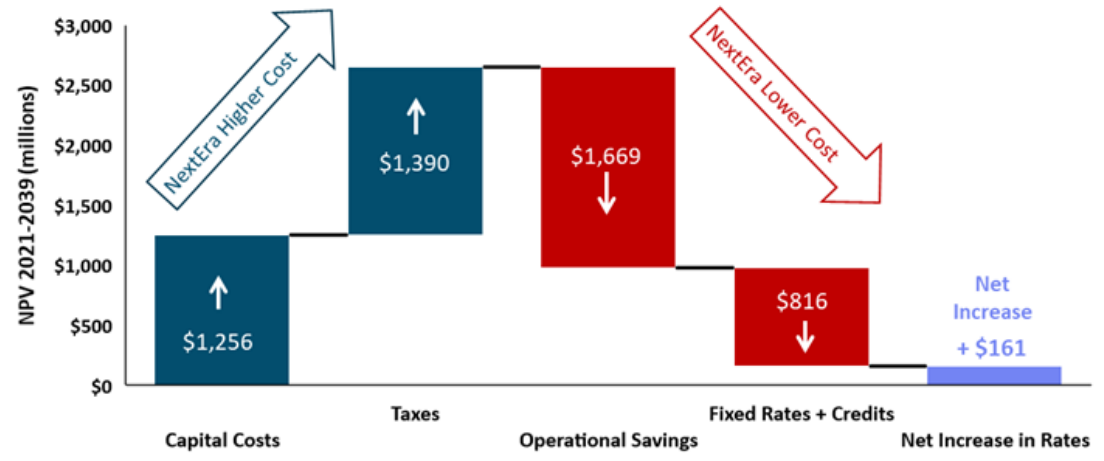
- Increasing the cash certain to be paid to Santee Cooper for the benefit of the State at closing by \$400 million by reducing the escrow amount from \$500 million to \$100 million;
- Limiting NextEra's recourse against Santee Cooper and the State with respect to post-closing adjustments to the \$100 million escrow, which resulted in Santee Cooper's unrestricted cash balances at closing (estimated at \$500 million) being available to satisfy liabilities or for distribution to the State;
- Increasing customer relief by \$550 million, which includes: (i) \$150 million in reduced rates during the first four years after closing and (ii) \$400 million in rate credits to be allocated proportionately to all current customers of Santee Cooper within the first 180 days after closing;
- Structuring the transaction as a customary public company deal to eliminate any indemnification obligation of Santee Cooper or the State with respect to breaches of Santee Cooper's representations and warranties in the Revised Asset Purchase Agreement;
- Eliminating NextEra's option to unilaterally extend the fixed rate period;
- Requiring NextEra to bear the risk of any increases in defeasance or make-whole costs associated with Santee Cooper's long-term debt; and
- Monitoring discussions and encouraging Central and NextEra to come to agreement on the proposed Revised Power Purchase Agreement, while preserving proportionality in reductions in rates between wholesale customers (including Central) and retail customers of Santee Cooper during the first four years of SCP&L's service provision.

Over the course of numerous in-person and telephonic meetings, NextEra and Central reached substantial agreement on the terms of a proposed Revised Power Purchase Agreement that will replace the Central Coordination Agreement and establish the commercial relationship between NextEra and Central, which satisfies the requirements of Section 9 of the Joint Resolution. Certain minor terms remain to be resolved, but NextEra and Central have each indicated that they believe the agreement can be finalized in a timely manner should the General Assembly select the NextEra Sale Bid (subject to approval by Central's board and by its member cooperatives). The Department and the Professional Service Experts were actively involved in monitoring these negotiations and in encouraging

the two parties to work toward a mutually agreeable solution, after initial discussions revealed significant differences between their starting positions. The proposed Revised Power Purchase Agreement will not be considered by Central’s board unless and until the General Assembly selects the NextEra Sale Bid.

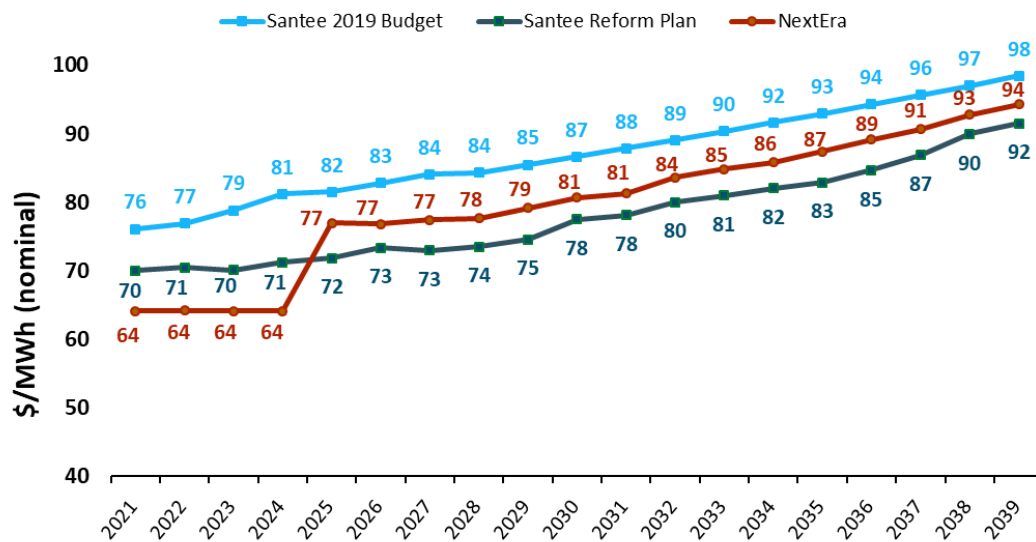
The NextEra Sale Bid includes large investments in newer generation resources that result in substantial cost savings over a 20-year period that, when combined with the rate credits offered, largely offset the higher cost of capital and higher taxes NextEra would face, as compared to the Reform Plan. Figure 3 shows the costs associated with NextEra’s ownership of Santee Cooper and the impact of the steps that NextEra proposes to take to offset those costs.

Figure 3: Transaction Costs and Offsetting Cost Savings reflected in NextEra’s Sale Bid



As shown below in Figure 4, the projected rates for NextEra would be, on average, 10% lower than projected rates under the Reform Plan during the fixed rate period, and 5% higher than projected rates under the Reform Plan following the fixed rate period. The net cost difference to ratepayers would be \$161 million (on an NPV basis over a 20-year period), which is less than 1% of total ratepayer costs. In any event, these rates are significantly lower than the rates reflected in the Santee Cooper 2019 Budget that existed prior to the enactment of the Joint Resolution.

Figure 4: Normalized Rate Projections (Using Market Natural Gas Forecast Prices)



Note to Figure 4: If NextEra achieves the full extent of its proposed operational savings, it could result in rates lower than the normalized projections.

b. Potential Benefits and Additional Considerations

As discussed in more detail in Section V of this Report, the Department and the Professional Service Experts believe that as a result of their negotiations with NextEra, the NextEra Sale Bid offers several meaningful benefits:

- Defeasance or repayment at closing of up to \$6.859 billion of Santee Cooper's outstanding long-term and short-term debt, plus all defeasance or make-whole costs associated with the defeasance or repayment of such debt, which are estimated to be \$1.05 billion;
- \$541 million in refunds or rate credits intended to settle the Cook Litigation;
- An additional \$400 million in rate credits to be allocated proportionately to Santee Cooper's current customers;

- Cash payments of \$515 million to Santee Cooper for the benefit of the State, \$15 million of which is intended to reimburse the State for costs and expenses incurred in connection with the Bidding Process and the remainder of which may be used by the State to cover the cost of liabilities not being assumed by NextEra or otherwise created by the transaction;
- Transfer to the State from Santee Cooper at closing of an additional approximately \$500 million in unrestricted cash (assuming a December 31, 2020, closing date) that is anticipated to be on Santee Cooper's balance sheet at that time. Although this amount was originally at risk in the NextEra Sale Bid, the Department and the Professional Service Experts negotiated away this risk, resulting in a further \$500 million being available to the State to cover the cost of liabilities discussed above;
- A new resource plan with reduced reliance on coal-fired generation and increased use of natural gas and renewables with a resulting decrease in carbon dioxide emissions;
- A proposed Revised Power Purchase Agreement between NextEra and Central (subject to approval by Central's board and by its member cooperatives);
- Opportunities for cost savings through synergies with NextEra's other utilities, Florida Power & Light Company ("FP&L") and Gulf Power Company ("Gulf Power"); and
- NextEra is a large and well-respected IOU with a proven track record.

In deciding whether to select the NextEra Sale Bid, the General Assembly and the Governor may wish to consider and/or address the following matters, which are also discussed in more detail in Section V of this Report.

- The transaction is conditioned on adoption of new comprehensive legislation that requires the General Assembly to address certain matters that are traditionally under the purview of a public service commission.
 - A number of these matters, such as (i) approval of the transaction, (ii) establishment of an initial revenue requirement for the buyer, and (iii) a determination of the buyer's initial return on equity, are a function of the change from a publicly-owned utility—Santee Cooper—to an IOU.
 - Other matters, such as (i) an advance determination of prudence in respect of NextEra's generation resource plan and cost, as further explained below, (ii) the imposition of a four-year fixed rate period, (iii) advanced governmental approval of NextEra's plans for securitization, and (iv) fee-in-lieu of tax provisions, have traditionally been addressed by public service commissions to require utilities to present support for positions and to permit third parties to intervene. The Department and the Professional Service Experts noted the nontraditional nature

of this approach to NextEra but likewise acknowledged NextEra's view that the proposed legislative structure was an essential part of the NextEra Sale Bid.

- The Department and the Professional Service Experts engaged over a period of months in discussions with NextEra about the overall legislative approach it offered.
 - In connection with finalizing the business and legal terms of the NextEra Sale Bid, the Department and the Professional Service Experts and NextEra agreed to certain conforming changes to the legislation.
 - Where the legislation addressed NextEra's views on policy, the Department and the Professional Service Experts suggested changes to NextEra, some of which were accepted and others of which were not. The Department and the Professional Service Experts did not endeavor to impose their policy views on NextEra but rather see that as the purview of the General Assembly and believe it is critical that the General Assembly review the proposed legislation carefully and consider its long-term policy ramifications for the State and the ratepayers.
 - The proposed new legislation would require legislative approval of the costs and contours of a multi-year generation plan, which contemplates capital spending by NextEra of approximately \$2.3 billion. The legislation also would fix certain customer rates and charges during a four-year period after closing of the sale, thereby limiting SCPSC oversight of NextEra in the first four years after closing.
- NextEra's proposal incorporates reductions to Santee Cooper's 2020 budgeted headcount from 1,675 full-time employees to 970 employees by 2025. Until the end of the first full calendar year following the year in which the closing occurs, NextEra would provide each Santee Cooper employee it chooses to hire with: (i) cash compensation that is at least equal to such employee's base pay and cash bonus opportunities at Santee Cooper immediately prior to closing and (ii) employee benefits no less favorable than the employee benefits NextEra provides to similarly situated NextEra employees. SCP&L employees would be given vesting credit for prior Santee Cooper service and would be eligible for NextEra's defined benefit pension plan as well as NextEra's 401(k) plan with employer matching contributions.
- The NextEra Sale Bid, as improved significantly through negotiations between NextEra, the Department, and the Professional Service Experts, will at closing provide for the benefit of the State a \$515 million cash payment from NextEra and the unrestricted cash on Santee Cooper's balance sheet at closing (estimated to be \$500 million on December 31, 2020). This approximately \$1 billion cash amount – made certain through negotiations and representing an important element of the NextEra Sale Bid – will be available to the State immediately to address:
 - All Santee Cooper retained litigation and associated liability (including the attorney's fees in respect of the Cook Litigation and other litigation but excluding

the settlement costs of the Cook Litigation for which NextEra Sale separately provides \$541 million in refunds and rate credits);

- The \$525 million of employment-related liabilities that, absent the sale, would have been paid by Santee Cooper over time out of funds received from ratepayers; and
 - The liabilities that Santee Cooper will retain because NextEra would assume only certain of Santee Cooper's pre-closing obligations, effectively shifting those liabilities from Santee Cooper ratepayers to all South Carolina taxpayers.
- The management team of SCP&L, including the new CEO, would be based in Moncks Corner, but would report to NextEra senior management in Juno Beach, Florida.
 - Closing is subject to the satisfaction of various conditions (in addition to conditions customary for a transaction of this type), including: (i) adoption of NextEra's proposed legislation (as discussed above); (ii) receipt of certain regulatory approvals (including approval from the SCPSC, NRC, and FERC, in each case, subject to applicable standards set forth in the Revised Asset Purchase Agreement); (iii) execution of the proposed Revised Power Purchase Agreement with Central; (iv) execution of certain fee-in-lieu of tax and other tax exemption agreements; and (v) that the pre-closing estimate of the aggregate of all post-closing adjustments not be expected to reduce the overall consideration by more than \$100 million.
 - NextEra would have the right under the Revised Asset Purchase Agreement to make claims against Santee Cooper for breaches of: (i) Santee Cooper's operating covenants relating to the period between signing and closing (which covenants would expire six months after closing) and (ii) its covenants that continue to apply after closing (which covenants would expire according to their terms). In addition, to the extent Santee Cooper breaches these covenants in any material respect, NextEra would have the option to refuse to close the transaction and to terminate the Revised Asset Purchase Agreement without penalty. In light of NextEra's ability to avoid closing because of Santee Cooper's material breaches of its operating covenants during the period between signing and closing, the General Assembly and the Governor are encouraged to take whatever steps they deem necessary and appropriate to ensure that Santee Cooper will not act in ways that could frustrate the objective of completing the sale transaction contemplated by the NextEra Sale Bid, as discussed above in detail in Section I.A.

II. THE PROCESS

Section 1(A)(1) of the Joint Resolution directs the Department to conduct a competitive process for the sale of some or all of the assets of Santee Cooper and to receive separate management proposals designed to improve the efficiency and cost-effectiveness of Santee Cooper's electric operations in lieu of a sale. Separately and simultaneously, Santee Cooper is required "to submit a proposal to the [D]epartment, as an alternative to a sale or management proposal, setting forth its plans for reform, restructuring and changes in operation."

The Joint Resolution directs the Department to engage professional service experts, including financial institutions, investment bankers, legal counsel, industry consultants, and utility consultants, to assist in carrying out its obligations. In this regard, the Joint Resolution requires these experts, working with the Department, to design and oversee the Bidding Process, which "must be established in accordance with commercially reasonable terms that are customary in connection with bids and proposals of this type." This section of the Report describes the engagement of Professional Service Experts and the Bidding Process that the Department and the Professional Service Experts designed and followed in order to implement the requirements of the Joint Resolution.

A. Appointment of Professional Service Experts

The Department ran a broad selection process for the advisory roles directed by the Joint Resolution. In this process, it received assistance from Scott Hempling, an attorney who is a well-known, independent expert in public utility regulation. The Department and Scott Hempling worked together to, among other things, determine what subject matter experts were needed for the Bidding Process, develop the requests for proposals ("RFPs") for those subject matter experts, and evaluate the subject matter experts and their responses to the RFPs.

On June 11, 2019, the Department issued publicly available RFPs for the following:

- M&A Advisory;
- Legal Advisory; and
- Energy Consulting.

The Department received responses to these RFPs from nine potential providers of M&A Advisory services, five potential providers of Legal Advisory services, and six potential providers of Energy Consulting services. The Department conducted phone interviews with the prospective advisors, as well as initial in-person interviews with three M&A Advisory applicants, three Legal Advisory applicants, and one Energy Consulting applicant prior to making final selections. After reviewing all submitted proposals and meeting with the potential advisors, the Department selected, as the Professional Service Experts, Moelis for M&A Advisory, Gibson Dunn for Legal Advisory, and E3 for Energy Consulting.

Prior to their selection, the Professional Service Experts were required to disclose potential conflicts, and the Department considered such potential conflicts in its selection of advisors. Subsequently, Moelis, Gibson Dunn, and E3 were notified on June 25, July 18, and July 26, 2019, respectively, that they had been selected from the RFP process and would be engaged, as described in the Joint Resolution, to assist the Department with its responsibilities under the Joint Resolution. Following their selection, the Department negotiated engagement letters, including fee terms, with the Professional Service Experts and made the engagement letters and contracts public on July 30, 2019.

The Department additionally engaged Black & Veatch Corporation (“Black & Veatch”) on September 5, 2019, as an independent engineer to prepare an Independent Technical and Environmental Assessment of Santee Cooper’s assets. This report was submitted by Black & Veatch on October 25, 2019 (the “Black & Veatch Report”), and was made available to Participants in the Bidding Process. The Department also engaged Pope Flynn, LLC and additional legal professionals² to provide specialist assistance and advice to the Department and the Professional Service Experts on various matters of South Carolina law. Engagement letters for these other advisors were made public on or about December 11, 2019.

B. Pre-Launch Activities and Process Launch

The development and implementation of the Bidding Process was delayed by approximately one month because Santee Cooper initially refused to provide funding, despite the provision of the Joint Resolution directing Santee Cooper to provide any and all resources necessary to assist in the Bidding Process. On July 23, 2019, the Department held initial meetings with Moelis and Gibson Dunn to discuss the timeline for the Bidding Process, overall Bidding Process strategy, and ultimate deliverables.

On July 25, 2019, the Department, Moelis, and Gibson Dunn held separate in-person meetings with Santee Cooper and Central to discuss key Bidding Process deliverables, the overall Bidding Process timeline, and expectations for each entity’s involvement in the Bidding Process, as well as guidelines for future interactions between Santee Cooper and Central. Outside advisors to both Santee Cooper and Central also were present at these meetings. At Central’s request, the Department and the Professional Service Experts held an additional meeting with Central and its outside advisors to discuss the Central Coordination Agreement and Central’s role in the Bidding Process. Subsequently, the Department and Central had additional telephonic and written interactions regarding the Bidding Process.

On August 16, 2019, Moelis reached out to select potential participants to gauge their interest in participating in the Bidding Process, answer any questions, and to hear concerns they might have. Moelis also sought feedback from participants in the previous Santee Cooper sale process, which began in 2018 and concluded without a sale in 2019.

² Specifically, the Department also engaged local law firms Montgomery Willard, LLC and Craver Law Firm, PA for advice on South Carolina law related to potential litigation issues and real property issues, respectively.

In total, Moelis contacted 55 parties, of which 41 were strategic entities (primarily IOUs and owners of IOUs) and 14 were financial entities (e.g., infrastructure funds, pension funds, and private equity funds). Moelis sent each potential participant, for its review, the short summary describing Santee Cooper's business (the "Teaser"), a form confidentiality agreement for the potential participant to execute should it wish to enter the Bidding Process, and a copy of the Joint Resolution. In addition, the Department issued a press release on August 16, 2019, regarding the Bidding Process, encouraging any additional potential participants to contact Moelis directly. Finally, the Department publicly posted the Teaser, the form confidentiality agreement, and the Joint Resolution to its website.³ The Department and the Professional Service Experts believe that, through the outreach coordinated by Moelis as well as the other forms of notice, all potentially interested participants were aware of the Bidding Process and were able to participate if interested.

Ultimately, eight strategic Participants and five financial Participants executed a Participant Confidentiality Agreement with the Department.

C. Process Materials

Throughout the Bidding Process, Santee Cooper (and particularly its dedicated operational employees) provided information and assistance to the Department and the Professional Service Experts, including hundreds of thousands of pages of information for the Data Room, the review of certain portions of the Draft Asset Purchase Agreement, and the preparation of the Disclosure Schedules. However, despite a clear prohibition in the Joint Resolution, Santee Cooper sought early in the Bidding Process to negotiate a long-term power purchase arrangement with a company that had expressed interest in being a Participant. This led to a public controversy that required the Department and the Professional Service Experts to divert their attention away from the Bidding Process for more than a week.

1. Confidentiality Agreements

a. Process Participants

A total of 13 entities entered into a Participant Confidentiality Agreement with the Department in connection with the Bidding Process. Each Participant received a standard form confidentiality agreement and required individualized changes, which were negotiated extensively with the Department and the Professional Service Experts. Each Participant Confidentiality Agreement contains mutual covenants between the applicable Participant and the Department regarding the use of Confidential Information (as defined in each Participant Confidentiality Agreement).

b. Santee Cooper

The Department and Santee Cooper entered into a confidentiality agreement on October 14, 2019 (the "Santee Cooper Confidentiality Agreement"), which, in addition to

³ See www.admin.sc.gov/Santee_Cooper_Project.

customary confidentiality restrictions and protocols, enumerates certain restrictions on the Department's use of Santee Cooper Confidential Information and Santee Cooper's use of Department Confidential Material (each as defined in the Santee Cooper Confidentiality Agreement). The Santee Cooper Confidentiality Agreement, and the obligations of the Department and Santee Cooper set forth therein, will terminate on December 31, 2022. Santee Cooper took substantially longer than any other Participant to negotiate a non-disclosure agreement, simply declining to negotiate for periods of time and also taking positions that ultimately proved unnecessary. Santee Cooper's delays in negotiating and finalizing the Santee Cooper Confidentiality Agreement delayed the commencement of due diligence activities and almost resulted in the last-minute cancellation of a scheduled management presentation to a Participant, which had a negative impact on Participants' confidence in the Bidding Process.

c. Central

Prior to meeting with Santee Cooper and the Submitting Entities, and in order to better inform the negotiations required as part of the Bidding Process, Central requested (from the Department) access to the Reform Plan, each Sale Bid, and each Management Proposal. In consultation with the Professional Service Experts, the Department concluded that the Bidding Process and the intent of the Joint Resolution would be best served by providing such information to Central. In order to facilitate Central's receipt of the Reform Plan, Management Proposals, and Sale Bids, and after obtaining consent from Santee Cooper and each Submitting Entity, Central entered into a Confidentiality Agreement with the Department dated November 18, 2019 (pursuant to which Central agreed not to share any information received with any party other than the party that provided it and the Department). The Department then arranged for the delivery of the Reform Plan, Management Proposals, and Sale Bids to Central. The Department also authorized the Professional Service Experts to share certain financial modeling information with Central to enable it to evaluate the potential future rate implications of the Management Proposals and Sale Bids.

2. Data Room

The Professional Service Experts prepared a comprehensive due diligence request list for Santee Cooper that identified the documents and files they believed would be necessary for Participants' reasonable due diligence requirements. This due diligence request list was intended to supplement and enhance the pre-existing Data Room materials uploaded for the 2018 sale process that concluded in early 2019. The Data Room was expanded dramatically from the prior sales process to include a total of more than 358,000 pages in more than 26,000 separate documents. Moelis managed the Data Room during the Bidding Process.

While Santee Cooper was negotiating and finalizing the Santee Cooper Confidentiality Agreement, it delayed the process of populating the Data Room. These delays required the Department and the Professional Service Experts to engage in numerous internal calls and calls with Santee Cooper in order to ensure the completion of the Data Room.

Access to the Data Room was granted on September 20, 2019, to each Participant that had previously executed a Participant Confidentiality Agreement. Prior to this date, two strategic Participants and one financial Participant withdrew from the bidding process, leaving a total of ten Participants (six strategic Participants and four financial Participants) in addition to Santee Cooper with access to the data room. No Participant (including Santee Cooper) could monitor the activity of any other Participant within the Data Room.

3. Santee Cooper Models

On September 9, 2019, Santee Cooper management publicly disclosed and presented to the Santee Cooper Board the Santee Cooper 2019 Business Forecast—a new baseline 20-year business projection (the “Base Case”). On September 16, 2019, Santee Cooper, the Department and their respective advisors (including the Professional Service Experts) met to review the Base Case in detail. Through this meeting and various follow-up discussions, the Department and the Professional Service Experts concluded that the Base Case, as presented to and approved by the Santee Cooper Board on September 9, 2019, contained overly optimistic views with regards to several key assumptions. Therefore, the Department asked Santee Cooper to develop the Sensitivity Case: an alternative 20-year plan that changed select assumptions to align with more conservative and supported views. This case (the “Sensitivity Case”) became the primary plan that each Participant used to develop its Management Proposal or Sale Bid.

The Sensitivity Case contains three principal changes from the Base Case.

- It assumes there will be no proceeds from a sale (for salvage value) of VCSNS 2 and 3 spare parts, based primarily on the initial conclusions of the Black & Veatch Report. The Base Case had assumed \$425 million of proceeds from such a sale.
- It assumes the Atlantic Coast Pipeline will never achieve commercial operations, and therefore the TransCo pipeline would be utilized for natural gas supply with a new pipeline constructed by Santee Cooper to deliver gas from the TransCo pipeline to new natural gas-fired generation assets located at VCSNS.
- It increases the base natural gas price forecast from Santee Cooper’s own projections to one consistent with the U.S. Energy Information Administration 2019 Mid Case at Henry Hub.

The Base Case and the Sensitivity Case were uploaded to the Data Room and provided to the Participants on October 5, 2019. In addition, the Sensitivity Case was reflected in the Revenue Requirement Model that was provided to Participants to use as the starting model for submitting their proposals (discussed in more detail below).

4. Management Presentation / Confidential Information Packet

Beginning September 16, 2019, the Professional Service Experts worked closely with Santee Cooper management to create the Confidential Information Presentation, which was intended to provide Participants with an overview of Santee Cooper’s business. Following an

initial in-person meeting, Santee Cooper and the Professional Service Experts communicated by telephone and email to develop various portions of the Confidential Information Presentation, review interim drafts, and ultimately finalize the Presentation. The final version was uploaded to the Data Room on October 3, 2019.

Santee Cooper management met with each Participant between October 4 and 24, 2019, accompanied by the Department and the Professional Service Experts, and reviewed the Confidential Information Presentation. In all, Santee Cooper provided six presentations of approximately four hours each.

5. Independent Engineering Report

The Department retained Black & Veatch as an advisor for the primary purpose of producing the Black & Veatch Report, a comprehensive technical and environmental assessment of Santee Cooper's assets and operations. In furtherance of this effort, Black & Veatch conducted site visits in mid-September 2019 to, among other locations, Santee Cooper's headquarters in Moncks Corner, Jefferies Hydro, Cross Station, Winyah, Myrtle Beach Combustion Turbines, Myrtle Beach area Distribution and Transmission lines and substations, Rainey, and VCSNS Unit 1. In addition, Black & Veatch conducted in-person interviews with Santee Cooper management, had multiple follow-up calls and email exchanges with Santee Cooper, and performed due diligence utilizing its proprietary knowledge and professional experience. The Black & Veatch Report was provided to Santee Cooper in draft form for feedback, and the final version was uploaded to the Data Room on October 25, 2019.

6. Asset Purchase Agreement and Disclosure Schedules

The Department and the Professional Service Experts prepared the initial draft asset purchase agreement (the "Draft Asset Purchase Agreement"). It was uploaded to the Data Room on October 26, 2019. A revised version was subsequently uploaded on November 21, 2019. The Department and the Professional Service Experts also solicited and received comments from Santee Cooper and its outside advisors, but the Professional Service Experts, in consultation with the Department, made all final decisions on what modifications to make in response to those comments.

The Draft Asset Purchase Agreement references information contained in the corresponding draft disclosure schedules to the Draft Asset Purchase Agreement posted to Data Room (the "Draft Disclosure Schedules"). The Department and the Professional Service Experts consulted with Santee Cooper and its outside advisors to determine where disclosures would be helpful to clarify or qualify certain information contained in the Draft Asset Purchase Agreement. Santee Cooper and its outside advisors then prepared the Draft Disclosure Schedules. The Department and the Professional Service Experts worked with Santee Cooper and its outside advisors to revise the Draft Disclosure Schedules.

Three versions of the Draft Disclosure Schedules were uploaded to the Data Room. The first version was uploaded on November 21, 2019, along with a revised Draft Asset Purchase Agreement reflecting minor changes necessary to conform it to the Draft Disclosure

Schedules. The second and third versions were uploaded on November 25, 2019 and November 27, 2019, respectively. These versions incorporated additional information provided by Santee Cooper and feedback from the Department but did not require changes to the Draft Asset Purchase Agreement.

7. Power Purchase Agreement

The Department and the Professional Service Experts have determined that any sale of Santee Cooper, and potentially any third-party management arrangement with Santee Cooper, could require replacing the Central Coordination Agreement⁴ with a new power purchase agreement.⁵ This change could be required by applicable law (particularly, the need to modernize what is a dated agreement), the terms of the Central Coordination Agreement, or both.

In anticipation of negotiations between Central and each Submitting Entity, the Department and the Professional Service Experts prepared a draft *pro forma* Power Purchase Agreement (the “Draft Power Purchase Agreement”) to serve as a common starting point for discussing the terms of a potential future commercial relationship between each Submitting Entity and Central. The Draft Power Purchase Agreement reflected what the Professional Service Experts viewed as market-standard terms for an agreement of this type, taking into account the unique features of the commercial relationship between Santee Cooper and Central. The Professional Service Experts received information from Central and its outside advisors in response to questions about various aspects of the Draft Power Purchase Agreement. The Professional Service Experts did not share drafts of the agreement with Central or its outside advisors until providing the agreement to the Participants.

The Draft Power Purchase Agreement was uploaded to the Data Room on October 14, 2019. Given the limited time period available for negotiation, Participants were asked to submit their comments and proposed changes as soon as possible so that they could be shared with Central (on a no-names basis) in advance of the commencement of negotiations with Central. The Department and the Professional Service Experts determined that this approach would enhance the effectiveness of negotiations between Central and each Submitting Entity, while also maintaining the structure of the negotiations required by Section 5 of the Joint Resolution.

8. Process Letter and Addendum

Simultaneous with the due diligence process, to ensure consistency and fairness throughout the Bidding Process, the Department and the Professional Service Experts

⁴ The Central Coordination Agreement has been modified several times since 1980. Generally speaking, the Central Coordination Agreement provides that Santee Cooper will supply all of the wholesale power needs of Central’s member cooperatives located in the State above and beyond power self-supplied by the members or their customers (which are subject to certain limits).

⁵ A power purchase agreement is, in general terms, a contract under which a utility agrees to purchase power from an owner of electric generation at a pre-defined rate.

provided to Participants on October 14, 2019 a Process Letter detailing the expectations and timing of the Bidding Process. This letter was updated with a Process Letter Addendum⁶ on November 15, 2019. Each letter was uploaded to the Data Room on the same day it was provided to Participants.

9. Agreement to Transact / Escrow Agreement⁷

As required by Sections 9(a)(1) and 9(a)(2) of the Joint Resolution, the Department and the Professional Service Experts negotiated an Agreement to Transact with each counterparty (“ATT Counterparty”). The Agreement to Transact sets out the obligations of each ATT Counterparty to comply with the terms of its Sale Bid or Management Proposal, as applicable, if recommended to the General Assembly. The Agreement to Transact also establishes penalties applicable in the event an ATT Counterparty’s Sale Bid or Management Proposal, as applicable, is recommended to and ultimately selected by the General Assembly, but the ATT Counterparty fails to finalize such Sale Bid or Management Proposal, as applicable, on terms and subject to the conditions set forth in the Agreement to Transact. Section 9(a)(2) of the Joint Resolution further requires that each Agreement to Transact must provide for an earnest money deposit to be paid by the applicable ATT Counterparty.

The Department, after consulting with the Professional Service Experts, determined that the financial cost to be imposed on an ATT Counterparty for failing to finalize its Sale Bid or Management Proposal, as applicable, as required by Section 9 of the Joint Resolution and as contemplated by the Agreement to Transact, would be the payment to the State of a \$25 million fee. In addition, each ATT Counterparty was required to confirm, when submitting its Sale Bid or Management Proposals that it was prepared to enter into an agreement consistent with the Agreement to Transact and would deposit \$25 million in cash with an escrow agent as the Earnest Money Deposit if its Sale Bid or Management Proposal were recommended to the General Assembly.

The Department’s draft Agreement to Transact was uploaded to the Data Room on December 20, 2019. On January 6, 2020, a draft Escrow Agreement governing the Earnest Money Deposit, to be appended to the Agreement to Transact, was emailed to the Submitting Entities. JPMorgan Chase Bank, N.A. was named as the escrow agent under the Escrow Agreement and reviewed and approved the Escrow Agreement before it was uploaded to the Data Room.

In the Bidding Process, each ATT Counterparty executed an Agreement to Transact, as well as an Escrow Agreement. Dominion and NextEra each have funded the required

⁶ The Process Letter Addendum supplemented the Process Letter with new information relating to the Fixed Assumptions, a target net working capital for the Draft Asset Purchase Agreement, certain assumptions that Participants should consider, and additional clarifying information relating to the requirements of the Joint Resolution.

⁷ The Dominion Agreement to Transact is attached as Exhibit B.2. The NextEra Agreement to Transact is attached as Exhibit C.3.

\$25 million earnest money deposit into an escrow account, as contemplated by the Escrow Agreement.

Each Agreement to Transact includes a series of covenants that obligates the applicable ATT Counterparty to use commercially reasonable efforts to: (i) finalize the terms of the Sale Bid or Management Proposal, as applicable, upon selection by the General Assembly, and (ii) consummate and make effective the transactions contemplated thereby. Each Agreement to Transact includes provisions setting forth the circumstances under which the Earnest Money Deposit would be disbursed to either the ATT Counterparty or the Department. Finally, each Agreement to Transact also includes a series of conditions to the execution of the Dominion Management Agreement or the Revised Asset Purchase Agreement, as more fully discussed in Section II.G and Section V.A.2.

D. Participant Due Diligence

Participants were provided the opportunity to ask questions of Santee Cooper and the Department and the Professional Service Experts, as well as to visit select Santee Cooper sites, as discussed below. The Department and the Professional Service Experts believe that, as a result of the foregoing diligence activities, all Participants had the opportunity to satisfy their reasonable due diligence needs for a transaction of this nature.

1. Written Questions and Answers, Due Diligence Calls

Throughout the Bidding Process, Moelis utilized a Q&A Log for each Participant to submit due diligence requests to Santee Cooper, as well as the Department and the Professional Service Experts. When sharing the Q&A Log with Santee Cooper, Moelis maintained the anonymity of Participants in order to ensure that no competitive intelligence was disclosed to Santee Cooper. In addition to written questions and answers, Moelis also facilitated due diligence call requests among Participants and Santee Cooper and the Professional Service Experts. Incremental follow-up requests that originated from these due diligence calls were added to the Q&A Log.

Participants provided due diligence requests to Moelis on a rolling basis. Moelis submitted the Q&A Log to Santee Cooper twice a week, updated with any new Participant requests. Santee Cooper provided answers to the Q&A Log requests through written responses, new document uploads to the Data Room, or by teleconference. Santee Cooper provided responses to Moelis three or four times a week, and Moelis in turn provided the responses to Participants. Participants actively participated in the question and answer process.

Participants collectively submitted 1,185 high priority questions and 1,954 questions in total. Prior to the submission of bids on November 26, 2019, the Department and Santee Cooper resolved 99.2% of high priority questions and 99.5% of total questions.

2. Site Visits

Following issuance of the Black & Veatch Report, Participants were provided the opportunity to conduct site visits at select Santee Cooper assets. Three Participants conducted site visits, while the other Participants declined the opportunity. Moelis and Santee Cooper personnel accompanied the Participants on these site visits. The schedule of site visits was as follows.

- *NextEra, October 29 – October 31, 2019:* Rainey, various transmission and distribution assets, Cross Generating Station, Jefferies Hydro, Berkeley County Landfill, and Winyah.
- *Participant A, October 29 – November 1 and 5, 2019:* Various IT facilities, Cross Generating Station, the Lake Moultrie and Lake Marion wholesale water systems, and Rainey.
- *Participant B, November 13 – November 15, 2019:* Various transmission and distribution assets, Cross Generating Station, and Winyah. This group also attempted to visit VCSNS Unit 1 but was unable to do so because of a reactor coolant leak at the unit, requiring the plant to shut down.

E. Preliminary Participant Check-Ins

1. Management Proposal Summaries

Participants interested in submitting a Management Proposal were asked to, and did, submit a term sheet setting forth the material terms and structure of their proposed arrangement and, if known, the identity of the proposed management team prior to submitting their initial Management Proposals on November 26, 2019. The Department and the Professional Service Experts did not discuss these materials with Submitting Entities prior to their final submission. Rather, the Department and the Professional Service Experts used the information to better prepare themselves to address the Management Proposals once submitted.

2. Key Asset Purchase Agreement Issues Lists

In order to prepare the Professional Service Experts in advance of the final submissions, Participants interested in submitting a Sale Bid were asked to submit, as early in the Bidding Process as possible, a key issues list related to the Draft Asset Purchase Agreement and a summary of the proposed transaction structure, including the identity of the proposed management team. Each Submitting Entity (and one Participant that later left the Bidding Process) complied with this request.

3. Comments on Power Purchase Agreement

As requested, each Submitting Entity that submitted a Sale Bid (and one Participant that later left the Bidding Process) also provided a mark-up to the Draft Power Purchase

Agreement with Central, along with a key issues list related to the Draft Power Purchase Agreement, or alternatively stated its belief that the existing Central Coordination Agreement could remain in place and, therefore, a new Power Purchase Agreement was not necessary. These responses were provided to Central on a no-names basis in an effort to prepare Central as much as possible in advance of in-person negotiations, while preserving the anonymity of the Submitting Entities. No feedback was provided to Submitting Entities regarding their mark-ups to the Draft Power Purchase Agreement prior to their submission of Sale Bids or Management Proposals.

F. Negotiations with Central

As required by Section 5 of the Joint Resolution, Central engaged in discussions with each Submitting Entity (including Santee Cooper) regarding each respective proposal to the Department. In the estimation of the Department and the Professional Service Experts, these discussions were productive.

1. Negotiation Process

These discussions included both multiple in-person meetings in Columbia, South Carolina, and multiple teleconferences. At least one, and usually more than one, member or representative of the Department, as well as representatives of the Professional Service Experts, participated in all meetings and teleconferences between Central and a Submitting Entity.

In order to facilitate discussions, as noted above, the Department posted to the Data Room, and thus made accessible to Participants and Central, the Draft Power Purchase Agreement. In addition, as discussed above, the Department provided Central, in advance of these meetings and subject to the terms of the Central Confidentiality Agreement, with copies of the Reform Plan, the Management Proposals, and the Sale Bids. The materials included mark-ups of and comments on the Draft Power Purchase Agreement.

In and subsequent to these meetings: (i) each Submitting Entity provided to Central a presentation on its respective proposal and answered questions posed by Central; (ii) Central exchanged with each Submitting Entity information, including actual and estimated data, written questions, and responses thereto; and (iii) each entity that submitted a Sale Bid (a "Bidding Entity") provided Central with mark-ups to the Draft Power Purchase Agreement (a "Revised Power Purchase Agreement"), to which Central provided comments, orally and in writing.

Among other things, Central expressed to each Submitting Entity a desire for any Revised Power Purchase Agreement or any modification to the Central Coordination Agreement (as may be applicable) to: (i) have a shorter tenure than is currently the case with the Central Coordination Agreement (which runs to 2058); (ii) provide additional flexibility to Central's members to source energy from distributed generation or other renewable generating resources (which the Central Coordination Agreement currently limits to 1.5% of peak load); and (iii) provide Central a greater voice in generation system planning. In addition, Central expressed to each Submitting Entity its perception that it currently has a

difficult working relationship with Santee Cooper because it believes Santee Cooper has paid insufficient attention to Central's needs and wishes. Central has also stated its potential interest in purchasing some or all of Santee Cooper's transmission assets, but Santee Cooper and Central have disagreed about the manner in which this might occur (and about the economic and other potential terms and consequences of such purchases).

Each Bidding Entity, in response, provided a further edited Revised Power Purchase Agreement or a term sheet outlining the salient provisions of a potential Revised Power Purchase Agreement. In each case, these responses represented material concessions by the Bidding Entity in response to Central's expressed goals. Central and each Bidding Entity thereafter engaged in further discussions, negotiations, and exchanges of draft Power Purchase Agreements and/or term sheets.

The Department viewed its role as a facilitator of these discussions between Central and each Submitting Entity. In this role, the Department and the Professional Service Experts organized meetings and teleconferences between the parties. During these meetings and teleconferences, the Department and the Professional Service Experts refrained from expressing positions on any issues or concerns raised, but they encouraged all parties to be forthright in their views, desires, and capabilities, and ensured that all parties adhered to the rules and requirements for such meetings and teleconferences set forth in the Joint Resolution (and in accordance with the various Confidentiality Agreements), as well as the requirement in the Joint Resolution for rate proportionality between Central and Santee Cooper's retail customers.

2. Results

In the estimation of the Department and the Professional Service Experts, the negotiations between Central and the Submitting Entities were productive. Central appeared forthright with the Submitting Entities regarding any concerns or questions, and the Submitting Entities appeared similarly forthright in their responses. The negotiations resulted in Central gaining a better understanding of the Reform Plan, the Management Proposals, and the Sale Bids, and in the Submitting Entities gaining a better understanding of Central's needs and wishes. Central and the Participants were provided multiple and ample opportunities to engage with each other. With respect to each of Santee Cooper, Dominion, and NextEra, the negotiations with Central resulted in the following as of the date of this Report.

- Over the course of several in-person meetings monitored and arranged by the Department, Santee Cooper proposed several changes to the current Central Coordination Agreement, including: (i) a reduction in the term of the agreement by five years and an agreement to explore the possibility of an additional five-year reduction and (ii) removal of any limits on the ability of Central's member cooperatives to install distributed energy resources (subject to reaching agreement on matters relating to cost shifting, system reliability, and the treatment of stranded costs). Central has not agreed to the proposed changes.

- Central has confirmed to the Department that no change to the Central Coordination Agreement would be required if the General Assembly selects either the Dominion Management Proposal or the Reform Plan. However, under the terms of the Central Coordination Agreement, implementation of certain aspects of the Reform Plan, as well as changes to Santee Cooper's system and operations that may result from activities under the Dominion Management Proposal, would be subject to consultation with Central and could trigger certain approval, generation opt out, and purchase option rights already contained in the Central Coordination Agreement.
- NextEra and Central have reached substantial agreement on the terms of a proposed Revised Power Purchase Agreement that will replace the Central Coordination Agreement and establish the commercial relationship between NextEra and Central. Certain minor terms remain to be resolved, but NextEra and Central have each indicated that they believe the agreement can be finalized in a timely manner should the General Assembly select the NextEra Sale bid (subject to approval by Central's board and by its member cooperatives). The proposed Revised Power Purchase Agreement will not be considered by Central's board unless and until the General Assembly selects the NextEra Sale Bid.

G. Department and Advisor Negotiations/Discussions with Participants

The Department and the Professional Service Experts, as permitted by the Joint Resolution, engaged in discussions with Santee Cooper regarding the Reform Plan and engaged in negotiations with each Submitting Entity regarding the terms of its Management Proposal or Sale Bid, as applicable. These discussions and negotiations, which continued through February 4, 2020, sought to improve the Reform Plan, the Management Proposals, and the Sale Bids for the benefit of the State, its taxpayers, and the customers of Santee Cooper. Simultaneously, the Professional Service Experts analyzed and evaluated the Reform Plan, the Management Proposals, and the Sale Bids, taking account of updates and changes to each of them that resulted from the negotiation process, and they discussed their views and consulted regularly with the Department.

Between May 29, 2019, and February 4, 2020, the Department participated in or facilitated more than 350 telephone conferences and in-person meetings with the Professional Service Experts, Participants, Submitting Entities, and Central.⁸

On February 4, 2020, with all negotiations having been completed, the Professional Service Experts finalized their analyses and evaluations, discussed their views with the Department, and determined to recommend the Dominion Management Proposal and the NextEra Sale Bid. The Department concurred in those recommendations.

⁸ Additional teleconferences were facilitated by the Professional Service Experts.

1. Reform Plan

On November 25, 2019, Santee Cooper submitted the Reform Plan. The Department and the Professional Service Experts engaged in numerous conversations with Santee Cooper, including an in-person meeting on December 17, 2019. On January 3, 2020, Santee Cooper submitted a revised supplement to the Reform Plan, which responded to matters raised in its discussions with the Department. In particular, Santee Cooper made improvements related to: (i) the approval process for major projects, (ii) Santee Cooper Board structure and qualifications, and (iii) oversight and transparency. On January 24, 2020, Santee Cooper submitted a revised version of the Reform Plan that incorporated the January 3 supplement into the original Reform Plan submission. As discussed below, the Department and the Professional Service Experts made suggestions to Santee Cooper with respect to governance and transparency, which Santee Cooper elected not to include in the Reform Plan. Santee Cooper stated that it was concerned that such changes would violate S.C. Code Annotated 58-31-360, but indicated a willingness to continue to explore such issues.

2. Management Proposal

On November 26, 2019, Dominion submitted its Management Proposal, which included a detailed term sheet, but did not include a draft of the Dominion Management Agreement. On December 12, 2019, Dominion and its advisors met with the Department and the Professional Service Experts in Washington, D.C., to discuss the Dominion Management Proposal and the term sheet. On December 18, 2019, Dominion delivered to the Department the first draft of the Dominion Management Agreement. The Professional Service Experts reviewed the draft agreement with the Department and had several phone calls with Dominion's advisors. On December 30, 2019, Dominion sent a revised draft of the Dominion Management Agreement that reflected the results of those phone calls. The Professional Service Experts again reviewed the draft with the Department and then engaged with Dominion's advisors. Dominion delivered further revised drafts of the Dominion Management Agreement on January 21, 2020, January 27, 2020, and January 29, 2020 to incorporate the changes requested by the Department. The result of these discussions were improvements to the following aspects of the Dominion Management Agreement: removing an indemnification obligation on Santee Cooper, providing for the possibility that the Placed Employees would include Santee Cooper's CEO, expanding the ability of the parties to terminate the agreement upon a change of control, clarifying the confidentiality obligations, and limiting the initial costs of the Placed Employees.

Following completion of the negotiations with the Professional Service Experts, Dominion executed an Agreement to Transact. The form of the Agreement to Transact was first distributed to Dominion on January 6, 2020. Prior to execution of the Agreement to Transact, Dominion's legal counsel and Gibson Dunn (on behalf of the Department), substantively negotiated a number of provisions including but not limited to: (i) the total Earnest Money Deposit amount, (ii) conditions precedent to management services agreement execution, and (iii) termination rights upon certain events. The Escrow Agreement entered into under the terms of the Agreement to Transact also has been executed. In the event that Dominion breaches its obligation in the Agreement to Transact, the Department is entitled to

terminate the Agreement to Transact and to receive the \$25 million earnest money deposit in full. Dominion is entitled to receive a refund of the earnest money deposit in the event that: (i) the General Assembly fails to enact a joint resolution approving the Management Proposal on the terms and subject to the conditions set forth in the Management Proposal (which would include requiring that Dominion agree to modifications to the Management Agreement in the form included with this Report); (ii) a court has issued an order permanently restraining, enjoining, or otherwise prohibiting execution of the Management Proposal; or (iii) a Material Adverse Effect (as defined therein) occurs.

3. Sale Bid

NextEra submitted its Sale Bid, including its Revised Asset Purchase Agreement, on November 26, 2019. NextEra and its advisors and the Department and the Professional Service Experts met on December 11, 2019 in Washington, D.C., to discuss the terms of the NextEra Sale Bid, including certain provisions of its Revised Asset Purchase Agreement. Following this meeting and a number of subsequent telephonic meetings, NextEra submitted its revised Sale Bid, including a further Revised Asset Purchase Agreement, on January 3, 2020. This draft reflected the following improvements to NextEra's Sale Bid:

- Increasing the proceeds to Santee Cooper for the benefit of the State by \$100 million, from \$500 million to \$600 million. Of that \$600 million, only \$100 million was a certain payment to Santee Cooper for the benefit of the State at closing, and \$500 million was to be placed in an escrow account for NextEra to use as a source of recovery with respect to post-closing adjustments and indemnification for breaches of representations, warranties, and covenants by Santee Cooper; and
- Improving the resource mix to reflect modern generation plans and to reduce carbon dioxide emissions.

NextEra and the Department subsequently met on January 16, 2020 in Columbia, South Carolina, for further negotiation of the terms of NextEra's revised Sale Bid. During this meeting, NextEra and the Department came to a mutual understanding of key deal terms. The Department provided NextEra a further revised version of the Revised Asset Purchase Agreement that incorporated the terms negotiated at the January 16, 2020 meeting. The Department and NextEra met on January 22, 2020 and January 23, 2020 in Denver, Colorado, to refine the Department's draft of NextEra's Revised Asset Purchase Agreement. During the Process, the Department, its Professional Service Experts, NextEra, and its advisors engaged in numerous negotiations. The negotiations after January 15 resulted in improvements to NextEra's Sale Bid, including in particular:

- Increasing the cash certain to be paid to Santee Cooper for the benefit of the State at closing by \$400 million by reducing the escrow amount from \$500 million to \$100 million;
- Limiting NextEra's recourse against Santee Cooper and the State with respect to post-closing adjustments to the \$100 million escrow, which resulted in Santee Cooper's

unrestricted cash balances at closing (estimated at \$500 million) being available to satisfy liabilities or for distribution to the State;

- Increasing customer relief by \$550 million, which includes (i) \$150 million in reduced rates during the first four years after closing and (ii) \$400 million in rate credits or refunds to be allocated proportionately to all current customers of Santee Cooper within the first 180 days after closing;
- Structuring the transaction as a customary public company deal to eliminate any indemnification obligation of Santee Cooper or the State with respect to breaches of Santee Cooper's representations and warranties in the Revised Asset Purchase Agreement;
- Eliminating NextEra's option to unilaterally extend the fixed rate period;
- Requiring NextEra to bear the risk of any increases in defeasance or make-whole costs associated with Santee Cooper's long-term debt; and
- Monitoring discussions and encouraging Central and NextEra to come to agreement on the proposed Revised Power Purchase Agreement, while preserving proportionality in reductions in rates between wholesale customers (including Central) and retail customers of Santee Cooper during the first four years of SCP&L's service provision.

NextEra submitted its final Revised Asset Purchase Agreement on February 7, 2020, a copy of which is attached to this Report as Exhibit C.1.

Following completion of the negotiations with the Professional Service Experts, NextEra executed an Agreement to Transact. The form Agreement to Transact was first distributed to NextEra on January 6, 2020. Prior to execution of the Agreement to Transact, NextEra, NextEra's legal counsel, and Gibson Dunn (on behalf of the Department), substantively negotiated a number of provisions including: (i) the conditions precedent to asset purchase agreement execution, (ii) termination rights upon certain events, (iii) the meaning of "commercially reasonable efforts," and (iv) covenants imposing obligations on the parties thereto. The Escrow Agreement entered into under the terms of the Agreement to Transact also has been executed. In the event that NextEra breaches its obligations in the Agreement to Transact, the Department is entitled to terminate the Agreement to Transact and to receive the \$25 million earnest money deposit in full.

H. Evaluation

In evaluating the Reform Plan, the Management Proposals, and the Sale Bids, the Department and the Professional Service Experts took into account three categories of information: (i) quantitative information and analyses focused principally on revenue requirements and anticipated rates, along with their various additional components; (ii) legal

agreements⁹ and legislation proposed by the Submitting Entities as required by the Joint Resolution; and (iii) additional information provided by the Submitting Entities, including information responsive to the evaluative criteria contained in the Joint Resolution.

1. Quantitative Information

a. Purpose and Use of Financial Model

The Joint Resolution requires the evaluation of the Reform Plan, the Management Proposals, and the Sale Bids along several specific metrics, including, but not limited to, electrical rate projections and projected financial impact to Santee Cooper retail customers. For regulated utilities under standard cost-of-service regulation, a utility is entitled to collect a revenue requirement, which includes all of, and no more than, its prudently incurred costs, including the opportunity for a reasonable financial return. Projection of the revenue requirement involves many different assumptions, including some under the control of the utility (e.g., capital structure and generation portfolio) and some outside the control of the utility (e.g., commodity prices and interest rates).

In order to project revenue requirements and electric rates for each Participant as specified by the Joint Resolution, E3 and Moelis developed the Revenue Requirement Model. This model provided a common framework for each Participant to input specific and unique aspects of its plan while holding constant certain assumptions that are outside the control of the Participants. This framework ensures that the Professional Service Experts evaluated all revenue requirement projections on a consistent basis with the differences between Participants arising from structural differences, plans, strategic advantages, and actual financial commitments specific to each Participant. This Revenue Requirement Model forecasts electric rates over the 2020–2039 period. It was provided to all Participants in the Data Room on October 5, 2019, and was subsequently updated six times over the course of October through November 2019. Per the Process Letter, Submitting Entities were instructed to return, with their submission, a populated version of the Revenue Requirement Model reflective of their Sale Bid or Management Proposal.

b. Fixed, Supported, and Variable Assumptions

Participants were instructed by the Process Letter, when submitting their populated Revenue Requirement Model, to adhere to a number of Fixed Assumptions, Supported Assumptions, and Variable Assumptions (each as defined below) in order to facilitate apples-to-apples comparisons across bid submissions.

“Fixed Assumptions” represent inputs that the Professional Service Experts view as outside the control of any Submitting Entity and thus should not be modified in any Submitting Entity’s base case submission. The Fixed Assumptions were interest rates,

⁹ With respect to the Reform Plan, there were no legal agreements required with Santee Cooper, but the Department and the Professional Service Experts discussed the substance of the Reform Plan with Santee Cooper.

inflation, fuel prices, load forecasts, gypsum prices, Federal Energy Regulatory Commission (“FERC”) hydroelectric license relicensing costs, and cost allocation between retail and wholesale customers. Submitting Entities were allowed, however, to provide supplemental cases with modified Fixed Assumptions if sufficient evidence was provided.

“Supported Assumptions” represent inputs—such as resource costs, improvements or efficiencies to the Santee Cooper system, and operational assumptions and limits—that the Professional Service Experts view as within the control, to a certain extent, of a Submitting Entity, but that require supporting evidence to modify. For example, an assumption that a Submitting Entity could reduce costs by 20% in a particular category would require specific plans and documentation for how those savings would be achieved. To the extent that the Department and the Professional Service Experts were not persuaded by a given Supported Assumption, they reserved the right to revert to assumptions they deemed more reasonable. If a Submitting Entity was willing to contractually commit to providing certain cost reductions, the same level of supporting justification was not required.

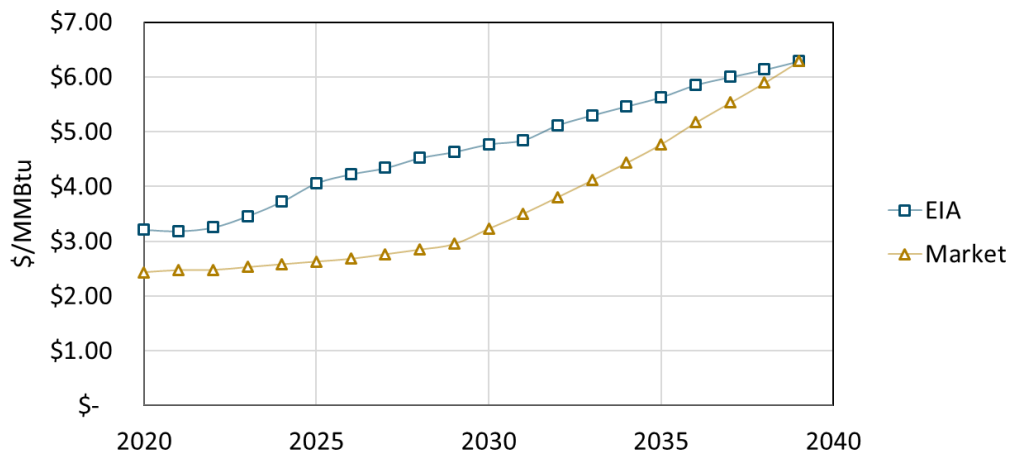
“Variable Assumptions” represent inputs that the Professional Service Experts view as fully within the control of a Submitting Entity. Examples of Variable Assumptions are Santee Cooper’s asset purchase price, regulatory assumptions, resource plans, and financing assumptions.

c. **Sensitivity Analysis and Comparative Assessment**

Once Management Proposals and Sale Bids were received, the Professional Service Experts carried out a normalization process to ensure that the Reform Plan, the Management Proposals, and the Sale Bids presented rate projections that properly reflected the use of Fixed Assumptions and Supported Assumptions in accordance with the instructions provided to all Participants, as discussed above. In cases where a Submitting Entity modified a Fixed Assumption, E3 reverted to the originally specified, fixed value.

One of the most significant assumptions for revenue requirement projections is the fuel price, which is a Fixed Assumption. Participants were provided with, and instructed to adhere to, the U.S. Energy Information Administration projection of natural gas spot prices at Henry Hub published in the 2019 Annual Energy Outlook (the “EIA Case”). Based on supplemental submissions provided by Submitting Entities and deliberations by the Professional Service Experts, each Management Proposal and each Sale Bid was ultimately evaluated using both the EIA Case as well as a case using NYMEX market forward natural gas prices at Henry Hub from 2020–2029, transitioning to the U.S. Energy Information Administration price forecast by 2039 (the “Market Case”). Rate projections for both the EIA Case and the Market Case were used in bid evaluation and are provided in this Report. Figure 5 illustrates these two gas price forecasts.

Figure 5: Natural Gas Fuel Prices Used in Bid Evaluation



Sections III and V of this Report discuss specific modifications to assumptions in the Reform Plan and the NextEra Sale Bid, respectively.¹⁰

2. Legal Agreements

In evaluating the Management Proposals and the Sale Bids, the Department and the Professional Service Experts reviewed and considered the terms of the legal agreements and related documents, including proposed legislation to be adopted by the General Assembly or term sheets describing the key elements of such proposed legislation provided by each entity that submitted a Management Proposal (a “Proposing Entity”) and each Bidding Entity, including the following.

- In the case of Management Proposals: a proposed management service agreement to be entered into by the Proposing Entity and Santee Cooper and proposed drafts of legal opinions required by the Joint Resolution to be provided with each Management Proposal.
- In the case of Sale Bids: mark-ups of the Draft Asset Purchase Agreement; mark-ups of the Draft Disclosure Schedules; proposed drafts of legal opinions required by the

¹⁰ As discussed in Section IV.B.1.b, the Dominion Management Proposal did not provide sufficient substantiation to permit the Professional Service Experts to assess whether savings incremental to those proposed in the Reform Plan could be achieved. Therefore, the Professional Service Experts did not project rates under the Dominion Management Proposal to be any different from those under the Reform Plan (which is what Dominion treated as the starting point for its proposal).

For the sake of completeness, this Report includes in Appendix B the original projected rates (prior to normalization by the Professional Service Experts) that were included in the Reform Plan, the Dominion Management Proposal, and the NextEra Sale Bid. These rate projections should not be used in evaluating or comparing the Reform Plan, the Dominion Management Proposal, or the NextEra Sale Bid, but are included in Appendix B for full transparency.

Joint Resolution to be provided with each Sale Bid; documentation relating to the Bidding Entity's proposed financing; proposed legislation to be adopted by the General Assembly (or a summary of the key terms of such proposed legislation); and a mark-up of the Draft Power Purchase Agreement (or a term sheet thereof) between Central and the Bidding Entity.

- In the case of both Management Proposals and Sale Bids: mark-ups of the draft Agreement to Transact and the Escrow Agreement.

The Department and the Professional Service Experts evaluated these agreements and other documents in light of the evaluative criteria outlined in the Joint Resolution and various other considerations that they considered relevant in their professional opinion, including the manner in which the submissions reflected and implemented the proposed terms of the applicable Management Proposal or Sale Bid; the degree to which a Proposing Entity or a Bidding Entity agreed to be contractually bound to the proposed terms of its Management Proposal or Sale Bid, as applicable, and the degree of variability or uncertainty allowed by the applicable contractual commitments; the allocation of risk as between the Proposing Entity or the Bidding Entity, on the one hand, and the State/Santee Cooper on the other; and the number and nature of conditions precedent to a Management Proposal or Sale Bid and the extent to which they create a material risk that the proposed transaction may not be completed.

Based on this review and evaluation of the agreements and other documents submitted, the Department and the Professional Service Experts provided each Submitting Entity with feedback on potential areas of concern and recommendations on potential modifications that, if addressed, would improve the applicable Management Proposal or Sale Bid. This feedback included changes that the Department and the Professional Service Experts believed would: enhance compliance with applicable provisions of the Joint Resolution; reduce risk to the State and taxpayers; increase benefits to the State, taxpayers, or ratepayers; reduce conditionality; enhance feasibility and long-term viability; and increase the likelihood of successful transaction implementation.

As a result of both in-person and telephonic discussions and negotiations following the initial submissions, on January 3, 2020, each Proposing Entity and each Bidding entity submitted, along with their revised Management Proposals and Sale Bids, modified agreements and other documents. Subsequent to January 3, 2020, the Department and the Professional Service Experts continued to negotiate with the Submitting Entities to improve the terms of their proposals. The Department and the Professional Service Experts also discussed with Santee Cooper and its counsel changes to certain aspects of the Revised Asset Purchase Agreements and the Disclosure Schedules that required input from Santee Cooper and its counsel. As discussed in Sections II.F and II.G, the various legal agreements (with the exception of the proposed Revised Power Purchase Agreement between Central and NextEra) have been finalized.

3. Additional Information to Address Evaluation Criteria Specified in Joint Resolution

Section 9 of the Joint Resolution requires the Department and the Professional Service Experts to carry out a detailed analysis and evaluation of the Reform Plan, the Management Proposals, and the Sale Bids according to criteria set forth in Sections 2, 3, and 4 of the Joint Resolution. To ensure compliance with these legislative directives, the Process Letter (in Appendices A–C thereto) included detailed instructions requiring that each Submitting Entity provide a “legislative appendix” as part of its submission responding to each of the applicable criteria specified in the Joint Resolution. Each Submitting Entity complied with this directive, which enabled the Department and the Professional Service Experts to address the legislatively specified evaluative criteria. Sections III, IV, and V of this Report address all of these criteria.

Where appropriate, the Department and the Professional Service Experts requested additional information or clarification from the Submitting Entities on these matters.

The Department and the Professional Service Experts also took account of all other information that the Submitting Entities made available to them during the Bidding Process.

I. Context for Selection of Dominion Management Proposal and NextEra Sale Bid

1. Management Proposals

When evaluating the two Management Proposals, the Department and the Professional Service Experts contrasted the proposed management fees with the expected cost reductions expected to be achieved through operational efficiencies, economies of scale, and other similar matters. The Department and the Professional Service Experts engaged in significant substantive negotiations with the two Proposing Entities materially improving both Management Proposals.

In selecting the Dominion Management Proposal, the Department and the Professional Service Experts concluded that Dominion represented the better opportunity to achieve net savings. First, there likely are significant synergistic opportunities for cost-sharing between Santee Cooper and Dominion, which owns a neighboring utility. Second, the Dominion Management Proposal represents a low-risk option, as Dominion would not charge a management fee (other than reimbursement of expenses), whereas the other Management Proposal contemplated the payment of substantial management fees. Third, Dominion proposes a shorter duration and its proposal does not involve a broad and extensive integration of the Santee Cooper and Dominion organizations, providing the State with greater flexibility to respond to future options, should the arrangement fail to produce the desired improvements and savings. Fourth, the implementation of the Dominion Management Proposal would not trigger \$525 million in funding obligations related to

retirees and employees of Santee Cooper;¹¹ these obligations would have been triggered by implementation of the other Management Proposal.

Ultimately, the Department and the Professional Service Experts concluded that the Dominion Management Proposal offers the State a relatively low risk, low cost opportunity to achieve potential operational improvements and savings and was therefore more likely than the competing Management Proposal to advance the best interests of the State, its taxpayers, and the customers of Santee Cooper.

Finally, the Department and the Professional Service Experts wish to underscore that if the General Assembly and the Governor decide to proceed with the Dominion Management Proposal, the prospect for meaningful operational improvements and savings would be materially enhanced if it were combined with other reforms included in the Reform Plan, including the adoption and implementation of additional governance and decision-making enhancements at Santee Cooper, as discussed elsewhere in this Report.

The above discussion is intended to explain only the key reasons why the Professional Service Experts preferred the Dominion Management Proposal to the other Management Proposal. It is not intended to list the key benefits or considerations with respect to the Dominion Management Proposal, which are covered elsewhere in this Report.

2. Sale Bids

The Department and the Professional Service Experts analyzed and debated the two Sale Bids that were submitted in the Bidding Process. The Department and the Professional Service Experts also engaged in significant substantive negotiations with the two Sale Bidders, materially improving, for all constituencies (the State, its taxpayers, and customers of Santee Cooper), the terms of both Sale Bids. The Department and the Professional Service Experts found that both Sale Bids were able to offset a substantial amount of the transaction costs associated with a sale, as discussed in Section I.B. The two Sale Bids were competitive, and each had various strengths and weaknesses.

Taking into account all of the evaluative criteria specified in the Joint Resolution, the Professional Service Experts, after extensive discussion with the Department, decided to recommend the NextEra Sale Bid. In addition to all of the potential benefits of the NextEra Sale Bid discussed in detail in Section V, the NextEra Sale Bid provides the General Assembly with a clearer and less risky path to implementation than the other Bidding Entity's Sale Bid (should the General Assembly decide to pursue a sale of Santee Cooper). In particular, the Department and the Professional Service Experts concluded that the most challenging aspects of the NextEra Sale Bid—the contemplated workforce reduction and the breadth, scope, and novel terms of its required implementing legislation—could be weighed and addressed by the General Assembly. By contrast, the other Sale Bid had a challenging and complex

¹¹ The amount of \$525 million is based on the most recently available figures, and the actual liability depends on a number of factors, including the investment performance of the pension trusts and the OPEB Trust.

transaction structure, would not have discharged all of Santee Cooper's debt at closing, and was not backed by a bidder with the financial resources of NextEra. This lack of financial resources could create risk regarding the ability to withstand significant unexpected financial burdens. The above discussion is intended to explain only the key reasons why the Professional Service Experts preferred the NextEra Sale Bid to the other Sale Bid. It is not intended to list the key benefits or considerations with respect to the NextEra Sale Bid, which are covered elsewhere in this Report.

III. SANTEE COOPER REFORM PLAN

The Reform Plan represents significant and meaningful improvements from the Santee Cooper 2019 Budget. In particular, the Reform Plan: (i) is projected to generate, if properly implemented, \$2.3 billion of savings to Santee Cooper's customers, including Central (on an NPV basis over a 20-year period); (ii) includes a plan to reduce its debt and debt service obligations; and (iii) provides for enhanced corporate governance and transparency. Cost reduction was not the overriding driver of the Reform Plan. Rather, the Reform Plan balances cost reduction with competing objectives, including a desire for fuel diversity and concern for existing Santee Cooper employees, whose jobs may be eliminated by more accelerated coal-fired generation retirements.

A. Summary of Reform Plan¹²

The Reform Plan proposes a new power supply roadmap that is intended to preserve system reliability while transitioning Santee Cooper's current largely coal-dependent generating resource portfolio over time to a cleaner, more efficient, more flexible, and more diverse generating resource portfolio. The Professional Service Experts estimate that, under the new power supply roadmap, total carbon dioxide emissions by Santee Cooper's generating facilities would be reduced by 17% between 2020 and 2030. The new portfolio would be more adaptable to future business conditions, reducing financial and planning risks to Santee Cooper via a focus on contracting for, rather than ownership of, necessary major generating resources. Key elements of the Reform Plan's new power supply roadmap are as follows:

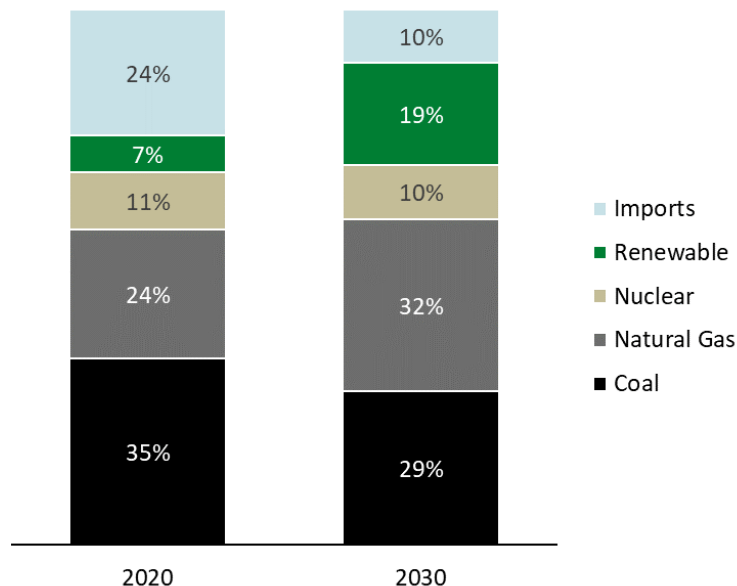
- Retirement of 1,150 MW of coal-fired generating capacity at Winyah by 2027, with the phase-out beginning in 2023;
- Installation of 200 MW dual-fuel (natural gas and oil) turbine technology to preserve reliability;
- Purchase of 1,500 MW of solar capacity from the market to be added to the system by 2031, representing a more than 800% increase over current levels;
- Addition of approximately 950 MW of natural gas-fired generating capacity, including approximately 550 MW to be built in the mid-2020s and approximately 450 MW to be purchased from the market during the 2030s;

¹² In the Reform Plan, Santee Cooper included two financial models for its business plan. One of them did not conform to the requirements of the Process Letter, as it relied upon certain assumptions that varied from those required to be followed by Participants (as discussed in Section II.H.1). The other model conformed to the Process Letter requirements. In analyzing the Reform Plan and preparing this Report, the Department and the Professional Service Experts worked with the conforming model, as they believed this ensured fairness in the Bidding Process because it allowed for comparability among the Reform Plan, the Management Proposals, and the Sale Bids.

- Addition of approximately 200 MW of battery storage, which may be purchased from the market by 2028; and
- In conjunction with partners, 150 MW of demand-side conservation by 2027, with an additional 50 MW to be achieved by 2037.

In connection with the foregoing, and as a result of the retirement of existing coal-fired generating facilities and the increased use of natural gas and renewables (through both construction and third-party purchase arrangements), the forecast for Santee Cooper's overall fuel mix by 2030 projects that energy from coal-fired generation would represent 29% (down from 35% in 2020), natural gas would represent 32% (up from 24%), renewables would represent 19% (up from 7%), and nuclear power from VCSNS Unit 1 and imported electricity would represent the remainder. Figure 6 demonstrates this resource mix change.

Figure 6: Santee Cooper Energy Generation Mix (2020 vs. 2030)



The Professional Service Experts project rate stability to retail and wholesale customers for at least the next seven years. If the Reform Plan is properly implemented, these savings would total approximately \$2.3 billion (on an NPV basis over a 20-year period) and are approximately 10% lower than the 2019 Budget forecasted rates used in Santee Cooper's prior sale process.

Santee Cooper projects that the Reform Plan would result in a reduction over the next 12 years in its total outstanding debt by at least \$3.6 billion, an amount that is nearly equal to its currently outstanding debt from VCSNS 2 and 3. Over the remainder of the 20-year forecast through 2039, Santee Cooper projects additional debt reductions, with a total debt reduction projection of approximately \$1 billion every five years. According to Santee Cooper, projected debt reduction is expected to be achieved via strategic debt refinancings,

deployment of savings from a new power supply roadmap, operational changes, the use of additional internally generated funds, and anticipated proceeds from the sale of salvage equipment from VCSNS 2 and 3.¹³

In addition, to further protect customers, the Reform Plan proposes several governance reforms.

- The Reform Plan proposes adoption of Resource Planning Principles and Pricing Principles to govern Santee Cooper's future decision-making. According to Santee Cooper, the Resource Planning Principles are designed to reduce costs, manage risks, create flexibility, ensure reliability, and promote environmental stewardship. Santee Cooper intends to subject those principles to regular external oversight and review through the creation of an Integrated Resource Planning Group ("IRPG"). The IRPG would be comprised of a variety of South Carolina stakeholders¹⁴ and is intended to subject Santee Cooper's resource plans to customer, general public, and legislative oversight. To implement Pricing Principles, Santee Cooper proposes to expand the current requirement that notice be given on price increases to include a public hearing in which ORS could intervene. Furthermore, the Pricing Principles would be subject to additional external oversight via the initiation of a new annual pricing compliance review by the ORS.
- The Reform Plan provides that the Santee Cooper Board would also require management to hold noticed public hearings in advance of any proposed generation resource additions of 125 MW or above, or transmission additions rated at or above 125 kV. In addition, after the public hearing process, the Santee Cooper Board would work with the ORS to include any proposed recommendations on siting. If the ORS recommendations are not fulfilled, then the project in question would be referred to the SCPSC for consideration and decision, and the SCPSC would have plenary authority, if it so chooses, to review the entire plan.
- The Reform Plan anticipates that the General Assembly codify Santee Cooper's rate-setting process and the conduct of the operations of the Santee Cooper Board. The Department and the Professional Service Experts strongly agree that all governance elements of the Reform Plan should be codified.
- The Reform Plan proposes the implementation of structural changes to the Santee Cooper Board designed to improve guidance and leadership, including: (i) term limits of no more than two consecutive seven-year terms, applied prospectively to current

¹³ The Professional Service Experts believe that the proceeds from the sale of salvage equipment for VCSNS 2 and 3 would be less than those forecast by Santee Cooper. See Section III.B.1.c.

¹⁴ The IRPG members would include representatives from: the Santee Cooper Board, the General Assembly (one House Member and one Senator), customers (residential, commercial, industrial, municipal, impoverished, and Central), the environmental community, and economic development. The IRPG would be chaired by an individual with significant utility industry background

members; (ii) increased qualification requirements consistent with current requirements for SCPSC members; (iii) retention of nationally recognized experts in the technical areas of resource planning, pricing, and finance; and (iv) a requirement that these experts provide affirmation for any increases to customer rates, normalized for customer mix, in excess of the annual rate of inflation.

Santee Cooper's budgeted headcount for 2020 is 1,675 full-time employees, which represents a 10% reduction from 2017 and \$18 million in annual payroll savings. In line with the Base Case, Santee Cooper plans to further reduce headcount by an additional 45 positions by 2025, which represents \$5 million in annual payroll savings, and an additional 116 positions by 2028, which represents \$20 million in annual payroll savings. These reductions arise primarily from the planned closure of Winyah and the elimination of its related support activities. Santee Cooper states that its goal is to accomplish these reductions without layoffs, through a combination of retraining opportunities, retirements, and natural attrition.

As part of the Reform Plan, Santee Cooper also states it would maintain its focus on reliability; emphasis on safety; commitments to economic development initiatives; responsibilities in lake, water, and habitat management; as well as its emphasis on diversity in the workplace.

Finally, Santee Cooper has proposed several changes to the current Central Coordination Agreement (which runs through 2058) in an attempt to improve the overall relationship with Central and in order to address Central's concerns about the agreement. These changes include: (i) reducing the term of the Central Coordination Agreement by five years and agreeing to explore the possibility of an additional five-year reduction, (ii) removal of limits on the ability of Central's member cooperatives to install distributed energy resources (subject to certain terms), (iii) further analysis of transmission asset ownership, (iv) greater resource planning cooperation, and (v) improved communications and energy resource management. Central has not agreed to the proposed changes.

B. Evaluation of Reform Plan

1. Items Listed in Section 4 of the Joint Resolution

a. Santee Cooper Management's Plans for Generation, Power Purchases and Other Resources over the Next 20 Years (JR §4(A)(1))

Under the Reform Plan, Santee Cooper proposes a transition over time from Santee Cooper's current, largely coal-fired generating resource portfolio to one that is cleaner, more efficient, more flexible, and more fuel diverse. More specifically, Santee Cooper proposes to retire 1,150 MW of coal-fired capacity at Winyah in two phases by 2027 and add a mix of 1,500 MW of solar capacity, 939 MW of natural gas-fired combined cycle generating capacity (owned and contracted), 200 MW of dual-fuel (oil and natural gas) power plants, and 200 MW of battery storage. These retirements and additions are shown in Figure 7 and summarized in chronological order below:

- 2023: Retire Winyah units 3 and 4 (580 MW);

- 2022–2024: Add solar capacity via purchase power agreements (1,000 MW);
- 2023–2024: Add dual-fuel (natural gas/oil) generations at Winyah (150 MW);
- 2024–2028: Add batteries with two hours of energy storage (200 MW);
- 2027: Retire Winyah units 1 and 2 (570 MW);
- 2027: Add a dual-fuel (natural gas/oil) generation at Winyah (50 MW);
- 2027: Add natural gas-fired combined cycle power plant at the VCSNS site (549 MW);¹⁵
- 2027–2030: Add solar capacity via purchase power agreements (500 MW); and
- 2033–2039: Add natural gas-fired combined cycle power plant capacity via tolling agreements¹⁶ with existing power plants in the Southeast (40 MW to 390 MW, depending on the year).

These changes to the generating resource portfolio were evaluated by the Professional Service Experts to ensure that the new electric system would reasonably be expected to be reliable. In the view of the Professional Service Experts, with these portfolio changes, the system would have sufficient generating capacity to satisfy Santee Cooper’s planning reserve margin (“PRM”).¹⁷ The system would have less dispatchable capacity following the retirement of Winyah, but this is not expected to adversely impact reliability because Santee Cooper currently exceeds its target PRM by a large margin. In addition, for 2033-2039, Santee Cooper envisions entering into tolling agreements with existing power plants to add capacity as load grows over time.

Figure 7 below shows the total system capacity through 2039 by technology. As shown, coal-fired generation retirements begin in 2023 and are largely replaced through new solar and natural gas-fired generation.

¹⁵ Santee Cooper has indicated that it would build a 2x1 combined cycle power plant with another entity and then would receive half of the output of this facility. This figure of 549 MW corresponds to half of the capacity of the proposed power plant.

¹⁶ A tolling agreement allows a utility to contract with a third-party power plant owner for the output of a power plant. The contract allows the utility to receive power from the power plant when needed, such as during a peak load day or when such generation would be less expensive than alternative sources. The utility typically bears the price risk of providing fuel.

¹⁷ The planning reserve margin is a reliability target that ensures that a utility has enough generating capacity to satisfy energy demand during peak conditions, plus a margin to account for unforeseen circumstances.

Figure 7: Installed Capacity Over Time (Reform Plan)

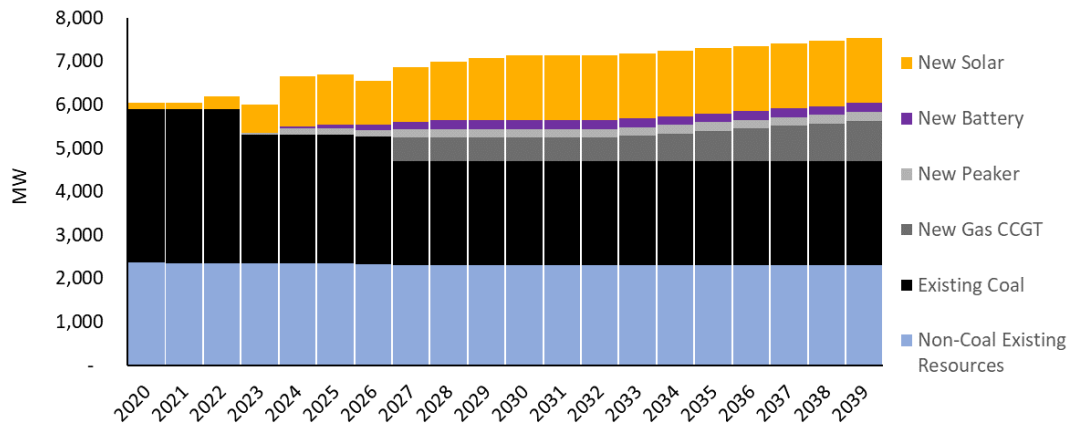
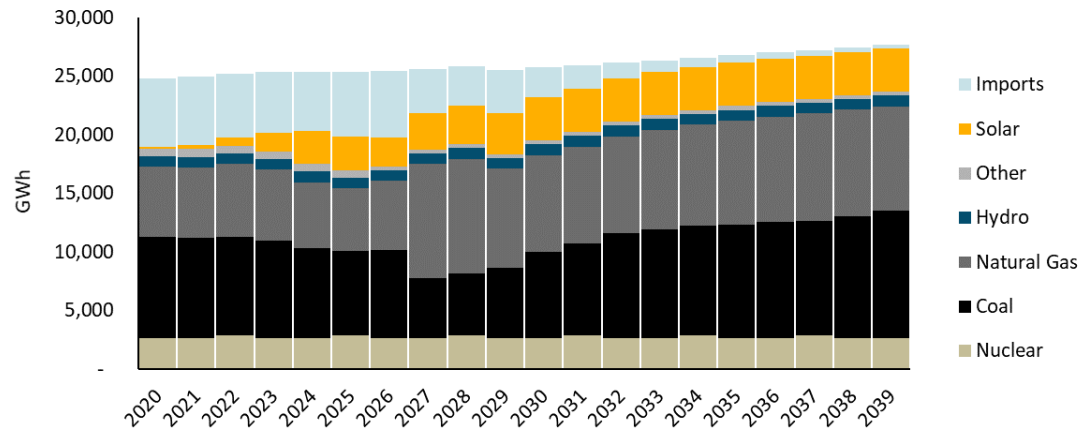


Figure 8 shows the projected fuel mix for energy generated under the Reform Plan over the 20-year period through 2039 based on a model that dispatches the generation portfolio in a least-cost manner to serve load, and is based on the Market Case natural gas price forecast. As shown, the fuel mix shifts materially towards renewable energy (*i.e.*, solar) and natural gas-fired generation following commercial operation of the new combined cycle power plant in 2027.

Figure 8: Generating Energy Mix Over Time (Reform Plan)



The generating resource portfolio contained in the Reform Plan is not set in stone and is subject to change as a result of, among other things, changes to state law, natural gas prices, resource costs, energy demand, and environmental regulations. This flexibility is a benefit of the Reform Plan.

The Professional Service Experts evaluated the projected revenue requirements and average rates (in \$/MWh) across all customer classes, as well as the proposed allocation of costs and average rates to Central, retail, and other customer classes based on information provided by Santee Cooper on its current and past cost allocation and ratemaking practices.

The information provided by Santee Cooper was adequate for the Professional Service Experts to determine that proposed increases or decreases in system costs would be initially proportionate between retail and wholesale customers (including Central), as required by the Joint Resolution. The Professional Service Experts, however, did not have sufficient information to project detailed rates for each customer class with a high degree of accuracy. As a result, the Professional Service Experts present the average system rates for comparison among the options presented in this Report, noting that in each option, cost increases or savings are shared proportionately among retail and wholesale customers.

b. Santee Cooper Management’s Plans for Transmission Investment over the Next 20 Years (JR §4(A)(2))

Table 2 shows Santee Cooper’s projected transmission and distribution capital expenditures under the Reform Plan over 20 years, in five-year intervals. Total transmission capital expenditures over the 20-year period are projected to be \$1.124 billion (on a nominal, not NPV, basis). These planned investments provide for system maintenance and improvements (e.g., replacing old infrastructure) in compliance with the North American Electric Reliability Corporation’s (“NERC”) reliability standards as well as \$228 million in “special project” expenses associated with Winyah retirement. Total distribution capital expenditures over the 20-year period are projected to be \$1.045 billion (on a nominal, not NPV, basis).

Table 2: Transmission and distribution capital expenses (\$000s nominal)

	2020-2024	2025-2029	2030-2034	2035-2039	Total
Transmission	\$300	\$308	\$276	\$241	\$1,124
Distribution	\$255	\$238	\$262	\$290	\$1,045
Total	\$554	\$546	\$538	\$531	\$2,169

c. Management’s Plans to Address the V.C. Summer Debt and the Projected Impact to All Customer Classes of its Ratepayers (JR §4(A)(3))

Santee Cooper does not differentiate between VCSNS debt and all other debt. The Reform Plan provides for the repayment of all of Santee Cooper’s existing debt, including the VCSNS debt, over time. In particular, the Reform Plan projects a reduction in Santee Cooper’s existing debt principal over the next 12 years by at least \$3.6 billion, which equals the amount currently outstanding from VCSNS 2 and 3. Over the remainder of the 20-year forecast through 2039, Santee Cooper projects additional debt reductions, with a total outstanding debt reduction projection of approximately \$1 billion every five years. If achieved, Santee Cooper projects that this debt reduction would reduce its debt to capitalization ratio from an estimated 77% in 2019 to 46% in 2039.

Santee Cooper states that the projected debt reduction is expected to be achieved via strategic debt refinancings, deployment of savings from a new power supply roadmap, operational changes, the use of additional internally generated funds, and anticipated proceeds from the sale of salvage equipment from VCSNS 2 and 3. Regarding the sale of

salvage equipment from VCSNS 2 and 3, the Department and the Professional Service Experts, as supported by Black & Veatch's Independent Engineering Report, believe Santee Cooper may ultimately realize far less than the \$150 million in expected proceeds stated in the Reform Plan, and potentially would realize no material proceeds at all.

Furthermore, Santee Cooper proposes evaluation of securitization to be utilized to specifically isolate debt associated with VCSNS 2 and 3. However, the interest rate difference associated with the securitized debt and the existing debt is not significant, with Santee Cooper projecting saving an incremental \$5.6 million per year, beginning in 2025.

d. ***Proposal for Santee Cooper Reform, Restructuring, and Operational Changes (JR §4(A)(4))***

As discussed above, the Reform Plan contains numerous improvements to Santee Cooper's governance and transparency as discussed above. As also discussed above, the Reform Plan also proposes material changes to Santee Cooper's generation resources over the next 20 years. Overall, in the opinion of the Department and the Professional Service Experts, the Reform Plan represents a generation resource transition plan that provides the State with a cleaner and more cost-efficient power generation portfolio, while maintaining long-term reliability for Santee Cooper customers.

In addition, the Reform Plan contains several other changes to Santee Cooper's operations designed to reduce costs and improve overall performance, including: (i) changes to Santee Cooper's coal procurement strategy including a significant reduction in coal stockpile levels by 14%; (ii) entering into longer-term natural gas hedges beyond 2022, representing 60% of projected natural gas volumes for 2023 and 2024, and 50% of projected natural gas volumes for years 2025 through 2029; (iii) locking in approximately 50% of projected short-term power market purchases for 2020 and possibly 2021; and (iv) continuation of enhancements to energy efficiency programs and introduction of new demand side management programs.

e. ***Any Other Information Santee Cooper Deems Relevant as to Future Operations as a State Asset (JR §4(A)(5))***

As part of the Reform Plan, Santee Cooper has also stated it would maintain its focus on reliability; emphasis on safety; commitments to economic development initiatives; responsibilities in lake, water, and habitat management; as well as its emphasis on diversity in the workplace.

Santee Cooper has demonstrated, through the Reform Plan, that it would not pursue cost reductions above all other goals, but rather would balance other competing objectives, including a desire for fuel diversity and concern for existing Santee Cooper employees whose jobs may be eliminated by more accelerated coal retirements.

Santee Cooper believes public power ownership is beneficial relative to an IOU structure because it can offer lower rates, local control can be assured, and customers receive the benefits of access to federal resources such as hydroelectric power and Federal Emergency

Management Agency funds for storm restoration. Santee Cooper states that public power debt financing at higher levels than those authorized for IOUs, and with a lower interest rate because of their tax-exempt status, positively benefits customers as well. As a publicly-owned utility, Santee Cooper is also exempt from state and federal taxes, which contributes to lower customer rates.

Overall, Santee Cooper believes that it was created by the General Assembly to be a leading resource for improving the lives of all South Carolinians, and that its mission is best left in South Carolina's hands.

f. **Projected Financial Impact on All Customer Classes of Santee Cooper's Retail Customers for the Satisfaction of Existing Debt and Issuance of New Bonds and Finance of Other Indebtedness (JR §4(A)(6))**

The Professional Service Experts believe that this analysis cannot be completed because there is no practical way to isolate these debt costs. Santee Cooper intends to repay this debt in accordance with the Reform Plan and those costs are reflected in its projected customer rates.

g. **Projection of the Jobs Santee Cooper Expects to Eliminate Within Five Years (JR §4(A)(7))**

Santee Cooper's budgeted headcount for 2020 is 1,675 full-time employees, which represents a 10% reduction from 2017. Santee Cooper plans to further reduce headcount by an additional 45 positions by 2025 and an additional 116 positions by 2028. These reductions are primarily related to the planned closure of Winyah and termination of related support activities. Santee Cooper states that its goal is to accomplish these reductions without layoffs, through retraining opportunities, retirements and natural attrition.

h. **Verification of Santee Cooper's Information, Request for Additional Information if Needed (JR §4(B))**

The Department and the Professional Service Experts sought to verify the accuracy of the information that Santee Cooper provided throughout the course of the Bidding Process and in connection with the Reform Plan. The Department and the Professional Service Experts requested additional information and sought clarification of previously submitted information from Santee Cooper and its advisors when they deemed appropriate during their analysis and evaluation of the Reform Plan.

To assist in the General Assembly and the Governor in their consideration of the three alternatives, this Report identifies information that the Professional Service Experts could verify. Phrases such as "Santee Cooper asserts" or "Santee Cooper projects" mean that the Professional Service Experts have not been able to verify such information, but, unless otherwise indicated, have no reason to believe is untrue.

- i. **Comparison of Santee Cooper's Rate Projections with All Other Proposals on a Comparable Basis and Assessment of Risks Associated with Santee Cooper's Projections or Revenue Requirements and Consumer Rates (JR §4(B)(1))**
- (i) **Normalization Adjustments to Reform Plan Implemented by Professional Service Experts**

As discussed in Section II.H.3, the Professional Service Experts normalized the Reform Plan to adhere to the Fixed, Supported, and Variable Assumptions as set forth in the Process Letter. The Professional Service Experts used professional judgement for a number of assumptions relying on industry research and based on their extensive expertise in these areas. Specifically, the Professional Service Experts normalized natural gas fuel prices, capital and operating costs for new natural gas-fired generation capacity, and capital and operating costs for new battery storage capacity. A detailed list of normalization adjustments made to the Reform Plan is provided below.

- **Natural Gas Prices** – Santee Cooper utilized the EIA Case in the Reform Plan. The Professional Service Experts evaluated the Reform Plan using both the EIA Case and the Market Case.
- **2x1 Combined Cycle Gas Turbine Capital Cost** – Santee Cooper forecasts an average upfront cost of \$558/kW for its new natural gas-fired combined cycle power plant. This forecast is below industry estimates for the cost of a new 2x1 combined cycle power plant. The Professional Service Experts used a normalized value of \$700/kW, which is on the lower end of industry estimates¹⁸ but is consistent with cost forecasts included in other proposals and could reflect cost savings from brownfield development compared with greenfield development.
- **2x1 Combined Cycle Gas Turbine Heat Rate** – Santee Cooper forecasts an average heat rate of 6,391 Btu/kWh for the new natural gas-fired combined cycle power plant. Heat rate estimates can vary widely depending on actual operations of a power plant. The Professional Service Experts used across all proposals a normalized value of 6,300 Btu/kWh for new H-class 2x1 combined cycle power plants.¹⁹
- **Annual Firm Transport Fee for Natural Gas** – Santee Cooper forecasts a firm transport fee of \$0.78/MMBtu for firm natural gas delivery from Transco Zone 5 to the new lateral pipeline of the combined cycle power plant. The Professional Service Experts used across all proposals a normalized firm transport fee corresponding to the same delivery path of \$0.23/MMBtu.

¹⁸ E.g., Lazard, Levelized Cost of Energy Analysis – Version 13.0, <https://www.lazard.com/media/451086/lazards-levelized-cost-of-energy-version-130-vf.pdf>.

¹⁹ EIA, Cost and Performance Characteristics of New Generating Technologies, Annual Energy Outlook 2019, https://www.eia.gov/outlooks/aeo/assumptions/pdf/table_8.2.pdf.

- **Battery Storage Capital Cost** – Santee Cooper provides a forecast for the cost of two-hour duration batteries. The Professional Service Experts increased these costs to match a higher forecast of two-hour battery costs based on cost estimates from Lazard²⁰ and other industry sources.
- **Battery Fixed Operations and Maintenance (O&M) Costs** – Santee Cooper provides a forecast for the fixed operations and maintenance (“O&M”) cost of two-hour batteries. The Professional Service Experts increased these costs to match a higher forecast of two-hour battery costs based on cost estimates from Lazard and other industry sources.

Table 3 provides a numerical summary of normalization assumptions that were applied to the Reform Plan.

Table 3: Normalization Assumptions (Reform Plan)

Item	Unit	Submitted	Normalized	Change
Natural Gas Prices		See discussion		
2x1 CCGT CapEx	\$/kW	\$558	\$700	⬆ 25%
2x1 CCGT Heat Rate	Btu/kWh	6,391	6,300	⬇ -1%
Annual Gas Firm Transport Fee		See discussion		⬇ -72%
2024 Battery CapEx	\$/kW	\$378	\$498	⬆ 32%
2025 Battery CapEx	\$/kW	\$378	\$467	⬆ 24%
2026 Battery CapEx	\$/kW	\$380	\$452	⬆ 19%
2027 Battery CapEx	\$/kW	\$380	\$437	⬆ 15%
2028 Battery CapEx	\$/kW	\$383	\$422	⬆ 10%
2024 Battery Fixed O&M	\$/kW-yr	\$2.94	\$13.12	⬆ 346%
2025 Battery Fixed O&M	\$/kW-yr	\$2.94	\$12.17	⬆ 314%
2026 Battery Fixed O&M	\$/kW-yr	\$2.94	\$11.38	⬆ 287%
2027 Battery Fixed O&M	\$/kW-yr	\$2.94	\$10.74	⬆ 265%
2028 Battery Fixed O&M	\$/kW-yr	\$2.94	\$10.21	⬆ 247%

(ii) Normalized Rate Projections

Rate projections for Santee Cooper and the NextEra Sale Bid are shown in Figures 9 and 10 below on a normalized basis under both the EIA Case and the Market Case discussed in Section II.H.1.c. Because the Professional Service Experts determined that it was not possible to separately project normalized rates under the Dominion Management Proposal, this Report does not present a rate comparison between the Dominion Management Proposal

²⁰ Lazard, Levelized Cost of Storage Analysis – Version 4.0, <https://www.lazard.com/media/450774/lazards-levelized-cost-of-storage-version-40-vfinal.pdf>.

and the Reform Plan. The Dominion Management Proposal and the NextEra Sale Bid are discussed in detail in Sections IV and V, respectively.

In the EIA Case, the NPV of NextEra customer rates (after taking into account the rate credit) is \$56 million higher than the Reform Plan over the period from 2020-2039. In the Market Case, the projected rates for NextEra would be, on average, 10% lower than projected rates under the Reform Plan during the fixed rate period, and 5% higher than projected rates under the Reform Plan following the fixed rate period. The net cost difference to ratepayers would be \$161 million (on an NPV basis over a 20-year period), which is less than 1% of total ratepayer costs. Both of these differences take the NextEra four-year fixed rate period and additional rate credits into account. These values are based on the normalized projections from the Professional Service Experts.

Figure 9: Normalized Rate Projections: EIA Natural Gas Forecast Prices

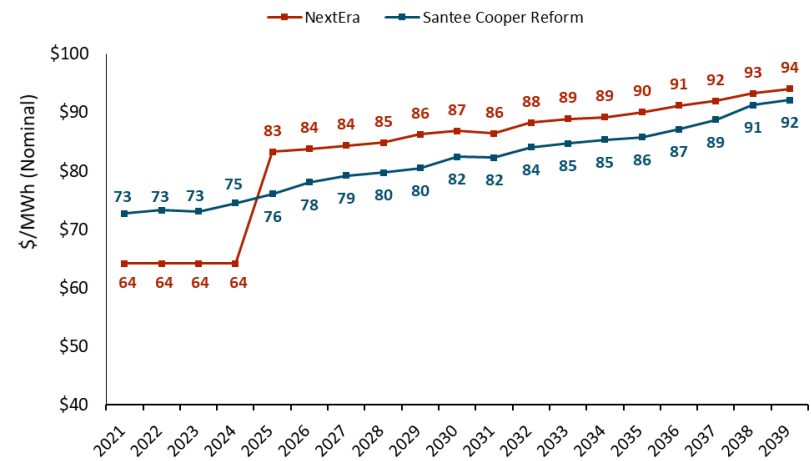
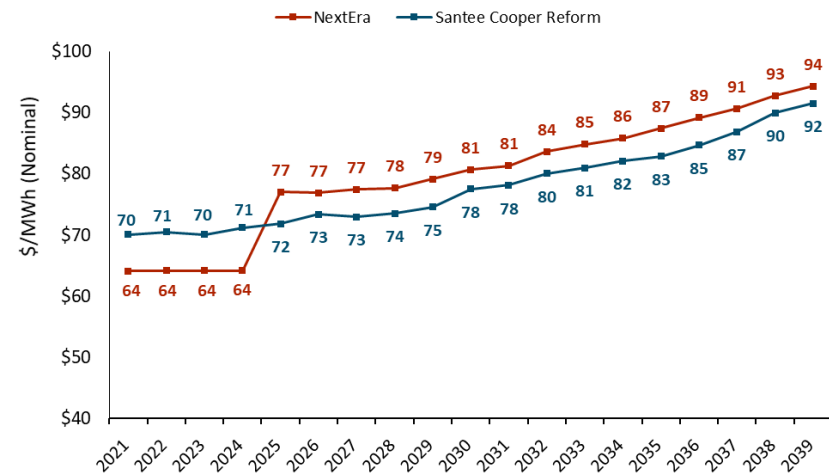


Figure 10: Normalized Rate Projections: Market Natural Gas Forecast Prices



j. ***Analysis of Potential Risks to the State’s Taxpayers, Santee Cooper’s Retail Customers, and Santee Cooper’s Bondholders (JR §4(B)(2))***

The Reform Plan does not provide a roadmap to resolve the Cook Litigation. Consequently, it remains a potential financial risk for ratepayers or taxpayers. Additional considerations, some of which include potential risks, are discussed in Section III.B.3.

k. ***Confirmation that Santee Cooper Will Submit Required Annual Report (JR §4(C))***

The general counsel of Santee Cooper has confirmed to Gibson Dunn (by email communication) that Santee Cooper would submit an annual report to the Governor, the President of the Senate, and the Speaker of the House regarding the implementation of the Reform Plan. Further, in the Reform Plan, Santee Cooper states that it would provide a “Pricing Principles Compliance Report” each year to the ORS.

2. Proposed Central Contract and Advisor Statement (JR §9(A)(1)(b))

The Reform Plan proposes several changes to the current Central Coordination Agreement (which runs through 2058) in an attempt to improve the overall relationship with Central and in order to address Central’s concerns about the agreement. These changes include: (i) reducing the term of the Central Coordination Agreement by five years and agreeing to explore the possibility of an additional five-year reduction, (ii) removal of limits on the ability of Central’s member cooperatives to install distributed energy resources (subject to certain terms), (iii) further analysis of transmission asset ownership, (iv) greater resource planning cooperation, and (v) improved communications and energy resource management.

While acknowledging the changes to the Central Coordination Agreement proposed by Santee Cooper, Central has advised the Department and the Professional Service Experts that it is not satisfied with Santee Cooper’s proposals and remains concerned about its ability to work constructively and effectively with Santee Cooper, particularly in light of what Central considers to be a difficult history of interaction between the two organizations. In addition, Central has advised the Department and the Professional Service Experts that it believes further modifications to the Central Coordination Agreement would be necessary to implement the Reform Plan. Central has not agreed to the changes proposed by Santee Cooper.

It is the view of the Department and the Professional Service Experts that both Central and Santee Cooper negotiated in good faith in the Bidding process.

3. Advisor Recommendations or Concerns (JR §9(A)(1)(c))

As reflected in this Report, the Reform Plan provides a number of improvements to the status quo, including providing material cost savings relative to the Santee Cooper 2019 Budget. The Department and the Professional Service Experts believe the proposed plan for future generation resource requirements is a well-considered and reasonable path to transitioning Santee Cooper’s existing generation portfolio to a cleaner, modern, more

flexible, and cost-efficient portfolio. In addition, the cost advantages of remaining a State-owned entity (e.g., cost of capital, tax advantages, and preferential access to federal hydroelectric power) are a strong benefit of the Reform Plan. The Professional Service Experts reviewed the Reform Plan and the NextEra Sale Bid and normalized both according to what the Professional Service Experts determined to be achievable. The projected rates under the Reform Plan would be, on average, 10% higher than projected rates under the NextEra Sale Bid during the fixed rate period, and 5% lower than projected rates under the NextEra Sale Bid following the fixed rate period. The net cost savings to ratepayers would be \$161 million (on an NPV basis over a 20-year period), which is less than 1% of total ratepayer costs. Finally, other important elements of maintaining State ownership, such as future flexibility and continued support of economic development initiatives, are additional benefits of the Reform Plan.

The Department and the Professional Service Experts are concerned, however, that the governance elements of the Reform Plan do not go far enough. In particular, the Professional Service Experts and the Department recommend that the ORS have the ability to review all aspects of major projects, not just siting as provided in the Reform Plan. In addition, the information provided to the public in connection with rates should be the same information that an IOU would provide to the SCPSC. In response to these suggestions, Santee Cooper stated that it was concerned that such changes would violate S.C. Code Annotated 58-31-360, but indicated a willingness to continue to explore such issues. The Department and the Professional Service Experts believe that the statutory protections of bondholders must be honored, but that Santee Cooper's concerns can be resolved. For example, the General Assembly could consider providing that the ORS's or the SCPSC's ability to countermand the Santee Cooper Board could be constrained so as not to be adverse to bondholders. These legal issues are complicated and this Report does not attempt to resolve them. However, the Department and the Professional Service Experts believe that such statutory provisions should not be a barrier to the reform of Santee Cooper.

The Department and the Professional Service Experts have identified the following potential benefits of the Reform Plan, assuming it is executed successfully.

- Santee Cooper expects to reduce its customer rates so that its customers would save more than \$2.3 billion (on an NPV basis over a 20-year period), or approximately 10%, as compared to the Santee Cooper 2019 Budget used in the prior sale process; The Professional Service Experts believe there is likely further opportunity to lower Santee Cooper costs that management did not pursue due to a balance of other criteria, including fuel diversity and workforce.
- Santee Cooper would retire existing coal-fired generating facilities and increase the use of natural gas and renewables (through both construction and third-party purchase arrangements) so that by 2030, forecast generation from coal would represent 29% of its overall fuel mix (down from 35% in 2020), natural gas would represent 32% (up from 24%), and renewables would represent 19% (up from 7%), with the remainder being nuclear power from VCSNS Unit 1 and imported power.

The Reform Plan both provides Santee Cooper with flexibility to change its resource plan as conditions change and the State with flexibility to consider other options.

- Santee Cooper proposes improvements to board structure, governance, oversight, and transparency, including: (i) term limits and qualification requirements for Santee Cooper Board members, (ii) formation of a resource planning group with representation from key constituencies, (iii) requiring the Santee Cooper Board to hire technical advisors, (iv) increasing transparency (including public hearings on pricing and major projects in which the ORS can intervene), and (v) requiring ORS and potentially SCPSC review of certain major projects.
- Santee Cooper has proposed several changes to the current Central Coordination Agreement with Central (which runs through 2058) in an attempt to improve the overall relationship with Central and in order to address Central's concerns about the agreement. These changes include: (i) reducing the term of the Central Coordination Agreement by five years and agreeing to explore the possibility of an additional five-year reduction, (ii) removal of limits on the ability of Central's member cooperatives to install distributed energy resources (subject to certain terms), (iii) further analysis of transmission asset ownership, (iv) greater resource planning cooperation, and (v) improved communications and energy resource management.
- Although Santee Cooper contemplates a reduction in workforce to 1,630 employees by 2025, it plans to accomplish this without layoffs, through a combination of retraining opportunities, retirements, and natural attrition.
- The Reform Plan contends that Santee Cooper would be able to reduce its outstanding indebtedness by approximately \$4.7 billion over 20 years, while simultaneously using responsible utility practices and lowering rates.
- The State will retain ownership and control over an important asset, including recreational facilities.
- Santee Cooper has an overall excellent track record in safety, reliability, customer satisfaction (with Central as an important exception), and cost, as well as a history of charitable giving, economic development, and maintaining recreational facilities for citizens of the State.

If the General Assembly and the Governor choose to pursue the Reform Plan the following are issues that they may want to consider and/or address:

- While acknowledging the changes to the Central Coordination Agreement proposed by Santee Cooper, Central has advised the Department and the Professional Service Experts that it is not satisfied with Santee Cooper's proposals and remains concerned about its ability to work constructively and effectively with Santee Cooper, particularly in light of what Central considers to be a difficult history between the two organizations. Santee Cooper and Central have several outstanding disagreements

that represent impediments to Santee Cooper's ability to achieve the objectives of the Reform Plan. One of the current disagreements is Santee Cooper's plan for the construction and operation of an extensive bulk power system built to provide long-term, least-cost power for all of its customers. In contrast, Central and its member cooperatives want greater choice as to where and when they buy their energy and what type of energy they buy. The results of the negotiations between Central and the Participants during the Bidding Process underscore the importance of Santee Cooper focusing on greater flexibility and collaboration with both Central and its other customers in developing and designing its future system construction and operating plans. In particular, if Central opts-out of a significant portion of the proposed construction under the Reform Plan, then the benefits of the Reform Plan may not be realized.

- Because of the importance of the relationship between Santee Cooper and Central to the success of Santee Cooper, the Department and the Professional Service Experts believe that Central, as well as other stakeholders, should be provided greater participation in oversight and decision-making. The Reform Plan's proposed Integrated Resource Planning Group is helpful, but not sufficient to solve the current issues with the relationship.
- Consider whether the ORS should have the ability to review all aspects of major projects, not just siting (as Santee Cooper proposed in the Reform Plan), subject to covenants and statutory protections for bondholders (S.C. Code Annotated 58-31-360 and S.C. Code Annotated 58-31-30(A)(21)).
- Consider whether information provided to the public in connection with pricing should be the same information that an IOU would provide to the SCPSC.
- The fact that the Joint Resolution and the process it created were necessary to achieve the benefits in the Reform Plan indicates that the changes in the Reform Plan regarding governance, transparency, and oversight should all be codified by the General Assembly so that the progress created by the Joint Resolution will not be lost.
- Santee Cooper does not have a history of effecting the kinds of changes contemplated by the Reform Plan; so its ability to achieve the benefits of the Reform Plan remain unclear.
- The Reform Plan does not address the Cook Litigation. Consequently, it remains a potential financial risk for ratepayers or taxpayers.

4. Supporting Documents (JR §9(A)(1)(d))

The Reform Plan, as provided to the Department the Professional Service Experts on January 24, 2020, is attached as Exhibit A.

IV. MANAGEMENT PROPOSAL

A. Summary of Dominion Management Proposal

Pursuant to the Dominion Management Agreement, Dominion would initially place three senior-level executives from Dominion with Santee Cooper to assume roles in Santee Cooper's senior management structure, each reporting to the President and CEO of Santee Cooper. Each Placed Employee would be reasonably experienced in the management and/or operation of utilities, would have demonstrated success in a similar position, and would possess relevant qualifications. The initial contemplated positions for the Placed Employees are: (i) Executive Vice President and Chief Operating Officer, (ii) Senior Vice President and Chief Financial Officer, and (iii) Deputy Chief Executive Officer and Chief of Planning, or (iv) other senior officers of Santee Cooper to be agreed upon between the Santee Cooper Board and Dominion. Furthermore, the Dominion Management Agreement provides for the possibility of replacing other Santee Cooper senior level executives, including Santee Cooper's President and CEO, with additional Placed Employees over time, subject to agreement with the Santee Cooper Board. Dominion is a large and well-respected IOU and could be helpful in improving Santee Cooper's operational and planning activities.

In exchange for services provided, Dominion would not receive any management fee from the State or Santee Cooper other than reimbursement for the fully loaded costs of the Placed Employees. Dominion believes that its ownership and operation of South Carolina Electric & Gas Company d/b/a Dominion Energy South Carolina, formerly SCANA ("SCE&G"), which is adjacent to Santee Cooper, could create common incentives and opportunities to pursue synergistic efficiencies and savings. The fact that Dominion is not proposing to charge any management fee and receive only reimbursement of the costs of the employees placed at Santee Cooper supports its contention that there exist, and that it can find, these synergistic opportunities, as those would benefit Dominion. Dominion has agreed that the initial costs of the Placed Employees would not be materially higher than the current costs associated with the Santee Cooper employees being replaced.

In addition, Dominion intends to set up an Operational and Process Improvement Committee ("OPIC"), which would consist of the Placed Employees, the President and CEO of Santee Cooper, and at least three other officers of Santee Cooper. The primary role of the OPIC would be to identify potential: (i) cost and capital savings opportunities that would benefit Santee Cooper alone and (ii) joint savings opportunities that would benefit both Santee Cooper and Dominion. As a result, Dominion expects to benefit materially from sharing in these future cost and capital savings opportunities.

The Dominion Management Proposal is for an initial ten-year term. The term would extend automatically in two-year increments at the end of the ten-year term, unless either party terminates the contract in writing. The ten-year proposed duration, ability of either party to terminate the arrangement at no cost upon a change of control transaction, absence of any management fee, and limited proposed integration between Dominion and Santee Cooper all create a relatively low-cost and low-risk option for the State. It also allows the State

to retain flexibility to explore other options for Santee Cooper in the future if the Dominion Management Proposal does not produce the desired results.

The Dominion Management Proposal does not contemplate any incremental impact to the Santee Cooper workforce as compared to the Base Case.

Furthermore, the Dominion Management Proposal would not trigger any of Central's "change-of-control" rights under the existing Central Coordination Agreement, leaving the current Central Coordination Agreement in full force and effect. Relatedly, given the positive working relationship between Central and Dominion (as reported by both entities), Dominion's involvement in Santee Cooper's operations and decision-making may help to improve the Santee Cooper-Central relationship. During this process, Central suggested that Dominion also provide an employee to serve as the CEO of Santee Cooper. As already indicated above, Dominion has expressed a willingness to do so.

B. Evaluation

1. Items Listed in Section 3 of the Joint Resolution (Plus Opinion Letters)

a. Terms and Conditions of the Proposal, Including the Proposed Time Period (JR §3(A)(1))

The terms and conditions of the Dominion Management Proposal are set forth above.

b. Amount of Projected Rates for Each Customer Class of Santee Cooper's Retail Customers over the Next 20 Years and Plans Demonstrating how these Rates Can Be Achieved (JR §3(A)(2))

The Dominion Management Proposal contemplates improving the Base Case plan by achieving additional savings through efficiency and coordination. The Professional Service Experts reviewed the additional cost savings measures proposed by Dominion and found the measures to be either duplicative of specific initiatives proposed in the Reform Plan or lacking sufficient substantiation for how the savings would be achieved. For these reasons, the Professional Service Experts did not project rates under the Dominion Management Proposal to be any different than under the Reform Plan. This does not mean that additional cost savings would not materialize, just that the Professional Service Experts did not have sufficient information to model them.

c. Fees and Costs to be Paid by Santee Cooper Retail Customers for the Dominion Management Proposal, and any Other Benefits to that Entity Resulting from the Proposal (JR §3(A)(3))

Santee Cooper would not pay any management fee other than the expenses and costs in connection with the Placed Employees, including those related to compensation, salaries, wages, and benefits. Santee Cooper would be solely responsible for costs borne by Dominion for taxes, levies, royalties, assessments, licenses, fees, charges, surcharges, and sums imposed by any federal, state, or local government that Dominion incurs with respect to the Placed

Employees. Dominion has agreed that the initial costs of the Placed Employees would not materially exceed the costs of the Santee Cooper employees who would be replaced by the Placed Employees. Therefore, there would not be any material incremental costs associated with implementing the Dominion Management Proposal.

As discussed elsewhere in this Report, Dominion may benefit from initiatives undertaken at Santee Cooper that have synergistic benefits for the utility that Dominion owns in South Carolina, which is adjacent to Santee Cooper in many parts of the State.

d. **Projected Needs for Generation, Transmission, and Distribution During the Period of the Proposal and how those Needs Would be Met (JR §3(A)(4))**

Dominion's plan for generation, transmission, and distribution during the period of the Dominion Management Proposal is the same as the Reform Plan, which is discussed in Section III.A. The Professional Service Experts did not include or reflect any changes to this plan in evaluating the Dominion Management Proposal.

e. **An Opinion Letter from a Bond Attorney that the Dominion Management Proposal Would Neither Violate Nor Alter the Terms of Santee Cooper's Bonds and Other Indebtedness (JR §3(A)(5))**

The Dominion Management Proposal includes draft opinion letters from McGuire Woods LLP (the "Dominion Opinion Letters" set forth as Exhibit B.3 to this Report), which address, among other matters, whether the Dominion Management Agreement would cause a breach or default under certain identified Santee Cooper financing documents. For purposes of issuing the Dominion Opinion Letters, McGuire Woods states that it has reviewed the Dominion Management Agreement and the identified Santee Cooper financing documents and indicated the scope of management certifications as to factual matters that would be necessary for it to render an opinion. The two versions differ in that in one, the opinion as to breaches or defaults under the financing documents, insofar as it depends on whether the Dominion Management Agreement would cause "a transfer of management or control of Santee Cooper or all or a majority of its electric system," is reasoned due to concerns that the arrangement could possibly cause defaults under Santee Cooper's financing documents. The second opinion cleanly addresses the issue without the reasoning but would be conditioned upon the receipt of consents or waivers from the banks which are parties to Santee Cooper's revolving loan and reimbursement agreements. The Department and the Professional Service Experts do not believe that the banks would regard any such requested consent or waiver to be material, but granting the request would be solely in the banks' discretion.

f. **An Opinion Letter from a Tax Attorney that the Proposal Would not Impact Santee Cooper's Current Tax Status (JR §3(A)(6))**

The Dominion Opinion Letters also address: (i) the continued exemption from federal income taxation of Santee Cooper's income and (ii) the effect of the Dominion Management Agreement on Santee Cooper's bonds under federal tax law. The opinions as to federal tax

law consequences are in the proper form and conclude that entry into the Dominion Management Agreement would not have adverse tax consequences for Santee Cooper.

g. Proposing Entity's Experience with the Type of Arrangement as Proposed with an Investor-Owned Utility and a Publicly-Owned Utility (JR §3(A)(7))

Dominion has extensive experience managing its own IOUs in Virginia, North Carolina, and South Carolina, but does not have experience in the type of arrangement anticipated here: a management services agreement with a publicly-owned utility. However, the Professional Service Experts note that such arrangements are rare in the electric industry. The most prominent example is the publicly-owned Long Island Power Authority, which since 2014 has been operated in large part by New Jersey-based Public Service Enterprise Group, Inc., the owner of IOU Public Service Electric & Gas Company (and before that, by National Grid USA, and before that, KeySpan Energy, which was acquired by National Grid in 2007). There are no other examples of similar size. However, Dominion has partnered with numerous military facilities across the U.S. to provide utility infrastructure for over 500,000 military and civilian personnel. Dominion jointly owns and operates, with cooperatives and utilities, several thousand megawatts of generation assets. Dominion, therefore, has significant experience with partnerships and joint ventures.

h. Impact the Dominion Management Proposal Would Have on Santee Cooper's Employees Including, but Not Limited to, any Projected Elimination of Positions Within the Next Five Years, if any (JR §3(A)(8))

The Dominion Management Proposal assumes the implementation of the workforce reductions at Santee Cooper that are contemplated by the Base Case. No other material workforce changes are contemplated as a result of implementation of the Dominion Management Proposal apart from the Placed Employees' proposed assumption of roles of various senior officers of Santee Cooper.

i. Financial Capability of the Entity Offering the Proposal (JR §3(A)(9))

Dominion, headquartered in Richmond, Virginia, is one of the largest publicly traded utility holding companies globally with a market capitalization of approximately \$70 billion as of January 17, 2020. Dominion is listed on the New York Stock Exchange under the ticker "D." It was organized in 1983 as Dominion Resources, although its predecessor companies date back to 1909. Dominion has strong investment-grade credit ratings of BBB+, BBB+, and Baa2 from S&P Global Ratings, Fitch Ratings, and Moody's Investors Services, respectively. While Dominion's financial capability is substantial and adequate, in view of the terms of the Dominion Management Proposal, the Department and the Professional Service Experts do not believe that the financial capability of Dominion is relevant.

j. **Comparison of the Service Territory in South Carolina of the Entity Offering the Proposal, if the Proposal is Successful, with Investor-Owned Utilities Serving South Carolina (JR §3(A)(10))**

Following its acquisition of SCE&G in 2018, Dominion became the largest IOU serving the State, directly serving approximately 725,000 electric customers in a service territory of approximately 17,000 square miles.²¹ By comparison, Santee Cooper directly serves approximately 185,000 electric customers in a considerably smaller service territory.²² Significant portions of Santee Cooper's electric service territory are adjacent to SCE&G's.²³

k. **Agreement that if Management Proposal is Awarded, Entity Offering the Proposal will Submit an Annual Report Regarding Implementation of the Management Plan Including, but not Limited to, Plans for Next Calendar Year and Accomplishments and Challenges for Prior Year (JR §3(A)(11))**

Section 3(A)(11) of the Joint Resolution requires the Department to consider whether the management bidders agreed to submit "an annual report to the Governor, the President of the Senate, and the Speaker of the House regarding the implementation of the management plan including, but not limited to, plans for the next calendar year and accomplishments and challenges for the prior calendar year." The Dominion Management Agreement provides that Dominion would be obliged to provide such an annual report.

l. **Verification of Proposing Entity's Information, Request for Additional Information if Needed (JR §3(B)(1))**

The Department and the Professional Service Experts sought to verify the accuracy of the information that Dominion provided throughout the course of the Bidding Process in connection with the Dominion Management Proposal. The Department and the Professional Service Experts requested additional information and sought clarification of previously submitted information from Dominion and its advisors when they deemed appropriate during their analysis and evaluation of the Dominion Management Proposal.

To assist the General Assembly and the Governor in their consideration of the three alternatives, this Report identifies information that the Professional Service Experts could verify. Phrases such as "Dominion asserts" or "Dominion projects" mean that the Professional Service Experts have not been able to verify such information, but unless otherwise indicated, have no reason to believe such information is untrue.

²¹ SCE&G also directly serves natural gas customers in a service territory of approximately 22,000 square miles.

²² Santee Cooper does not appear to publish statistics on the physical size of its service territory.

²³ In addition, SCE&G's gas service territory overlaps with the vast majority of Santee Cooper's electric service territory.

m. Analysis of Potential Risks to the State's Taxpayers, Santee Cooper's Retail Customers, and Santee Cooper's Bondholders (JR §3(B)(2))

The Dominion Management Proposal adopts the same underlying assumptions as included in the Base Case. In addition, Dominion estimates approximately \$1.0 billion in incremental cost and capital savings on top of the Base Case. However, many of these incremental savings are also included in the Reform Plan. With regard to incremental savings not included in the Reform Plan, the Department and the Professional Service Experts do not have sufficient information to evaluate the likelihood of such savings.

Given that, under the Dominion Management Proposal, the Santee Cooper Board and Santee Cooper's President and CEO would stay in place and maintain control, the Department and the Professional Service Experts believe that adoption of the Dominion Management Proposal without the Reform Plan would not be sufficient to address the governance and transparency issues at Santee Cooper and would not allow the State to capture the benefits of the Dominion Management Proposal.

As is the case with the Reform Plan, the Dominion Management Proposal does not provide a solution for the Cook Litigation. Consequently, it remains a potential financial risk for ratepayers or taxpayers.

While the Department and the Professional Service Experts believe that reasonable protections have been contemplated and proposed in the Dominion Management Agreement, there remains the risk that the interests of the Placed Employees might remain focused on the best interests of Dominion instead of Santee Cooper, which could result in the Placed Employees being more focused on synergistic savings that would benefit both Dominion and Santee Cooper rather than savings that only benefit Santee Cooper.

Matters relevant to Santee Cooper's bondholders are discussed in Sections IV.B.1.e and IV.B.1.f.

Additional considerations, some of which include potential risks, are discussed in Section IV.B.3.

n. Comparison of Proposing Entity's Financing Options for Anticipated Projects with Financing Options Currently Available to Santee Cooper (JR §3(B)(3))

Dominion, through bond counsel, assesses that entry into the Dominion Management Agreement by Dominion and Santee Cooper would have no adverse effect on:

- The excludability of interest on the Tax-Exempt Obligations from gross income for federal income tax purposes;
- The status of the 2010 "Build America Bonds" or the eligibility of Santee Cooper to receive the interest subsidy thereon; or

- The exemption of the Tax-Exempt Obligations, the 2010 “Build America Bonds” and the interest thereon from all State, county, municipal, and school district, and other taxes and assessments imposed within the State.

Santee Cooper would be able to continue to utilize debt financing consistent with its current and past practices for all anticipated projects, and there would be no negative impact relative to the financing options currently available to Santee Cooper.

o. Consideration of Whether the Proposing Entity Offers to Pay a Franchise Fee or Another Form of Consideration to the State of South Carolina as a Condition of the Management Proposal (JR §3(B)(4))

Dominion is not offering any form of payment to the State, in the form of a franchise fee or otherwise.

2. Proposed Central Contract and Advisor Statement (JR §9(A)(1)(b))

Dominion does not propose that Santee Cooper enter into a new power purchase agreement with Central or otherwise propose changes to the Central Coordination Agreement. Central has advised the Department and the Professional Service Experts that it concurs in the view that implementation of the Dominion Management Agreement would not necessitate any changes to Central Coordination Agreement. This said, insofar as the Dominion Management Proposal relies upon the Reform Plan, Central’s concerns with the Reform Plan, and its desire for changes to the Central Coordination Agreement associated with it, should be equally applicable with regard to the Dominion Management Proposal, as discussed in Section III.B.2.

Central has expressed a positive view of its past dealings with Dominion. Consequently, Dominion’s involvement in Santee Cooper’s operations and decision-making may help to improve the Santee Cooper-Central relationship. Central suggested that Dominion also provide a fourth executive to serve as the CEO and President of Santee Cooper. Dominion has expressed a willingness to expand the Management Agreement to include the CEO if the General Assembly so desires.

It is the view of the Department and the Professional Service Experts that both Central and Dominion negotiated in good faith in the Bidding Process.

3. Advisor Recommendations or Concerns (JR §9(A)(1)(c))

The Department and the Professional Service Experts have identified the following potential benefits of the Dominion Management Proposal.

- The Dominion Management Agreement does not contemplate the payment of any management fee, and Dominion has agreed that the initial costs of the Placed Employees would not initially be materially higher than the current costs associated with the Santee Cooper employees being replaced.

- Dominion owns and operates a natural gas and electric utility in South Carolina (SCE&G), which is adjacent to Santee Cooper. A collaborative arrangement between adjacent utilities would create common incentives and opportunities to pursue synergistic efficiencies and savings. The fact that Dominion is not proposing to charge any management fee and is proposing to receive only reimbursement of the costs of the Placed Employees supports its belief that there exist, and that it can find, synergistic opportunities, as those would make the arrangement financially advantageous to Dominion.
- The ten-year proposed duration, ability of either party to terminate the arrangement at no cost upon a change of control transaction, absence of any management fee, and limited proposed integration between Dominion and Santee Cooper all create a relatively low-cost and low-risk option for the State that allows the State to retain flexibility to explore other options for Santee Cooper in the future if the Dominion Management Proposal does not produce the desired results.
- Dominion is a large and well-respected IOU that can be expected to assist Santee Cooper with improvements to operational and planning activities.
- Central has expressed a positive view of its past dealings with Dominion. Consequently, Dominion's involvement in Santee Cooper's operations and decision-making may help to improve the Santee Cooper-Central relationship. Dominion has proposed that one of its employees serve as the primary point of contact with Central. Central suggested that Dominion also provide a fourth executive to serve as the CEO and President of Santee Cooper. The Professional Service Experts discussed this concept with Dominion, and Dominion expressed a willingness to expand the Management Agreement to include the CEO if the General Assembly so desires.
- Dominion proposes to assist Santee Cooper in pursuing the objectives of the Reform Plan, thereby retaining the opportunity to realize the potential benefits of the Reform Plan as well.

If the General Assembly and the Governor choose to pursue the Dominion Management Proposal, the following are issues that they may want to consider and/or address.

- The decisions and recommendations of employees that Dominion places with Santee Cooper would be subject to oversight by Santee Cooper's CEO (unless the State chooses to accept Dominion's suggestion to have a Placed Employee serve as Santee Cooper's CEO) and the Santee Cooper Board.²⁴ The Dominion Management Proposal

²⁴ Although Dominion has not identified the specific individuals to be placed at Santee Cooper, the Dominion Management Agreement provides for specific criteria that such employees must meet. The Department and a Dominion executive discussed the process that would be used to select the Placed Employees in light of the goal of creating real change at Santee Cooper. The Department

does not address the board-level governance and decision-making concerns at Santee Cooper that are discussed elsewhere in this Report, and unless these are addressed separately (either through adoption of the Reform Plan or otherwise by the General Assembly), they may impede the opportunity for the Dominion Management Proposal to produce meaningful benefits. In fairness to Dominion, these governance and decision-making matters reflect the statutory framework that was adopted to create and govern Santee Cooper, and the Department and the Professional Service Experts do not believe that meaningful improvements in these areas can be made without further legislative action. At the same time, it is worth noting that Dominion's involvement with Santee Cooper offers the potential to achieve meaningful improvements in Santee Cooper's system planning and operations and in its relationship with Central. This observation flows from discussions with Dominion, analysis of Dominion's operational and technical expertise and its historic track record in operating utilities, as well as the positive feedback from Central regarding Dominion and its reputation.

- The Dominion Management Proposal lacks sufficient specificity on potential efficiencies and savings to allow the Professional Service Experts to develop a projection on its potential impact on customer rates. The Professional Service Experts note that the cost reimbursement contemplated by the Dominion Management Proposal should not have any notable impact on rates as compared to the Reform Plan, so rate comparisons were not necessary.
- The absence of specific benchmarks or performance criteria may make the benefits of the Dominion Management Proposal less certain;
- The Placed Employees may be incented to focus on initiatives that have synergistic benefits for both Dominion and Santee Cooper, rather than operational and planning enhancements that benefit only Santee Cooper. To seek to counter this possible misalignment, the Dominion Management Proposal requires each Placed Employee to act in a manner that they believe to be in the best interests of Santee Cooper.
- Some (perhaps a significant) portion of the potential benefits and savings envisioned by the Dominion Management Proposal might be achievable if Santee Cooper simply worked on potential synergistic opportunities with Dominion (whether on its own or at the direction of the State), without having to enter into the arrangement proposed by the Dominion Management Proposal.
- The Dominion Management Proposal does not assist in resolving the Dominion DCA Claims (although Dominion has indicated that if its Management Proposal is selected, it would endeavor to reasonably resolve its outstanding claim against Santee Cooper). These unresolved commercial claims may create inherent conflicts of interest between the two organizations, and while Dominion proposes to exclude the Placed

and the Professional Service Experts view that process as reasonable and appropriate for the circumstances.

Employees from the discussion of any matters relating to those claims, there is a potential negative impact on the overall relationship between the two companies.

- The Dominion Management Proposal does not address the Cook Litigation. Consequently, it remains a potential financial risk for ratepayers or taxpayers.

4. Supporting Documents (JR §9(A)(1)(d))

The following supporting documents are attached to this Report (all of which are provided in their most recent form, as discussed above):

- The Dominion Management Proposal (Exhibit B);
- The Dominion Management Agreement (Exhibit B.1);
- The Dominion Agreement to Transact, including the Escrow Agreement (Exhibit B.2); and
- The Dominion Opinion Letters (Exhibit B.3).

V. SALE BID

A. Summary of NextEra Sale Bid²⁵

1. Key Features of the Sale Bid

The NextEra Sale Bid provides for the creation of SCP&L as a new wholly-owned subsidiary of NextEra, which would acquire and operate the Santee Cooper assets. SCP&L would be one of three wholly owned utility subsidiaries of NextEra, the other two being FP&L and Gulf Power. SCP&L would be headed by a new Chief Executive Officer, Michelle Wheeler, who would report directly to the Chief Executive Officer of NextEra, currently James Robo. Ms. Wheeler is currently Vice President of Regulatory and Political Affairs for NextEra Energy Resources, NextEra's wholly owned subsidiary focused on wholesale electricity supply. The headquarters of NextEra would remain in Juno Beach, Florida. The headquarters of SCP&L would be in Moncks Corner, South Carolina, where Ms. Wheeler and all of her direct reports would be based.

Pursuant to the NextEra Sale Bid, NextEra (through SCP&L) would acquire Santee Cooper's electric utility assets, the wholesale water systems operated by Santee Cooper, and the hydroelectric facilities and other assets operated by Santee Cooper under the FERC License (including Lake Marion and Lake Moultrie). SCP&L would acquire all of Santee Cooper's interest in VCSNS 1 and the internal and external nuclear decommissioning trust funds (estimated to be \$232.8 million as of September 30, 2019) as well as all of Santee Cooper's interest in the VCSNS 2 and 3 real property and related materials and equipment. SCP&L would acquire all of Santee Cooper's regulatory assets other than regulatory assets directly related to VCSNS 2 and 3 or "Excluded Liabilities" (as defined in the Revised Asset Purchase Agreement). Santee Cooper would retain all restricted and unrestricted cash and investments other than nuclear decommissioning trust funds.

In consideration for such assets, NextEra would assume certain liabilities of Santee Cooper as well as:

- Defease or repay at closing up to \$6.859 billion of Santee Cooper's outstanding long-term and short-term debt, plus all defeasance or make-whole costs associated with the defeasance or repayment of such debt, which are estimated to be \$1.05 billion;
- Pay \$500 million to Santee Cooper for the benefit of the State at closing;
- Pay \$15 million to reimburse the State for costs and expenses incurred in connection with the Bidding Process;
- Deposit \$100 million into an escrow account to fund post-closing purchase price adjustments for (i) shortfalls in Santee Cooper's net working capital, capital

²⁵ The calculations included herein have been normalized from the numbers provided in the NextEra Sale Bid.

expenditures, and nuclear decommissioning funds, (ii) accounting errors in Santee Cooper's financial statements, and (iii) increases in Santee Cooper's debt principal above \$6.859 billion; once all post-closing adjustments are made, the amount, if any, remaining in the escrow account would be released to Santee Cooper for the benefit of the State; and

- Provide \$941 million in customer refunds or rate credits within 180 days of closing as follows:
 - \$541 million to current and former wholesale and retail customers who paid utility bills based upon rates that included VCSNS 2 and 3 costs, which is intended to settle the Cook Litigation; and
 - \$400 million to current wholesale and resale customers.

In addition, NextEra commits to fixed rates for the four-year period following closing for all Santee Cooper retail and wholesale customers, including Central, as established by its proposed legislation. However, as a result of overcoming the economic burdens involved in a conversion of Santee Cooper from a publicly-owned utility to an IOU, the Professional Service Experts estimate that the rates charged to customers in aggregate would be \$161 million (on an NPV basis over a 20-year period) above the projected rates in the Reform Plan, which is less than 1% of total ratepayer costs.

NextEra's power supply plan would be pre-approved by the General Assembly as part of the sale and would not be subject to standard prudence and public review processes at the SCPSC. Key elements of the new power supply plan are highlighted below:

- Retirement of 1,150 MW of coal-fired generating capacity at Winyah by 2024, with the phase-out beginning in 2021;
- Addition of 1,250 MW of new natural gas-fired generating capacity in Fairfield County to be built by 2023;
- Addition of 300 MW of capacity upgrades at Rainey;
- Addition of 800 MW of solar by 2024; and
- Addition of 50 MW of battery storage co-located with solar by 2023.

NextEra's proposal incorporates reductions to Santee Cooper's workforce. More specifically, it contemplates the reduction of Santee Cooper's 2020 budgeted headcount from 1,675 full-time employees to 970 employees by 2025. Until the end of the first full calendar year following the year in which the closing occurs, NextEra would provide each Santee Cooper employee it chooses to hire with: (i) cash compensation that is at least equal to such employee's base pay and cash bonus opportunities at Santee Cooper immediately prior to closing and (ii) employee benefits no less favorable than the employee benefits NextEra provides to similarly situated NextEra employees. SCP&L employees would be given vesting

credit for prior Santee Cooper service and would be eligible for NextEra's defined benefit pension plan as well as NextEra's 401(k) plan with employer matching contributions.

The NextEra Sale Bid would be financed with a combination of equity, debt, and securitization proceeds: \$5.4 billion of equity from NextEra, \$2.7 billion of new utility debt at SCP&L, and \$1.3 billion in securitization bonds to be authorized by the General Assembly.

The NextEra Sale Bid provides for NextEra's assumption of a limited number of specified liabilities of Santee Cooper. Importantly, all other liabilities of Santee Cooper, whether known or unknown, would remain with Santee Cooper. Santee Cooper's retention of liabilities effectively shifts the burden of these liabilities from its ratepayers to the taxpayers of South Carolina. The liabilities retained by Santee Cooper may be offset by the consideration contemplated by the NextEra Sale Bid and the unrestricted cash retained by Santee Cooper.

Under the NextEra Sale Bid, NextEra does not assume any liability associated with VCSNS 2 and 3 or the Dominion DCA Claims. NextEra does, however, provide a customer refund of \$541 million to current and former wholesale and retail customers who paid utility bills based upon rates that included VCSNS 2 and 3 costs, which is intended to settle the Cook Litigation.

Further, under the NextEra Sale Bid, NextEra does not assume Santee Cooper's existing pension liabilities and liabilities related to the OPEB Trust for active or inactive employees, and as a result, those liabilities would be shifted to the State, and Santee Cooper would be responsible for all severance costs of its employees. These expenses and liabilities are estimated at \$525 million. The State may choose to use the \$500 million cash proceeds received from NextEra or the unrestricted cash balances of Santee Cooper at closing to pay these employee-related liabilities and costs.

The Revised Asset Purchase Agreement contemplates a \$100 million termination fee payable by NextEra to Santee Cooper for the benefit of the State in the event that NextEra fails to consummate the closing in accordance with the terms and conditions thereof.

2. Conditionality/Legislative and Regulatory Requirements

NextEra's obligation to enter into the Revised Asset Purchase Agreement with Santee Cooper is subject to the satisfaction of various conditions, including: (i) approval of the NextEra Sale Bid; (ii) adoption of NextEra's proposed legislation; (iii) execution of the proposed Revised Power Purchase Agreement with Central; (iv) execution of certain fee-in-lieu of tax and other tax exemption agreements; (v) delivery of a bond opinion from NextEra's counsel; and (vi) finalization of the definitive documentation of the NextEra Sale Bid.

If NextEra and Santee Cooper enter into the Revised Asset Purchase Agreement, closing of the sale is subject to the satisfaction of various conditions (in addition to conditions customary for a transaction of this type), including:

- The receipt of certain regulatory approvals of the transactions contemplated by NextEra's Revised Asset Purchase Agreement, including approvals from the FERC,

the SCPSC, and the NRC, in each case, subject to applicable standards set forth in the Revised Asset Purchase Agreement;

- The following must be in full force and effect as of the closing date: (i) NextEra's proposed legislation; (ii) the proposed Revised Power Purchase Agreement between Central and NextEra; (iii) the agreement among Central, Santee Cooper, and NextEra terminating the Central Coordination Agreement; and (iv) the fee-in-lieu of taxes and other tax exemption agreements;
- The pre-closing estimate of the aggregate post-closing adjustments with respect to (i) changes in Santee Cooper's net working capital, capital expenditures, and/or nuclear decommissioning funds, as compared to targets specified in the Revised Asset Purchase Agreement; (ii) accounting errors in Santee Cooper's financial statements; and (iii) increases in Santee Cooper's debt principal above \$6.859 billion must not be expected to reduce the overall consideration by more than \$100 million; and
- Santee Cooper must have provided NextEra with prompt and ongoing access to Santee Cooper's books, records, officers and employees, and financial information during the period between the execution of the Revised Asset Purchase Agreement and closing.

The proposed legislation submitted with the NextEra Sale Bid includes the following provisions.

- The legislation mandates, and deems prudent, NextEra's proposed power supply plan: 1,250 MW of gas-fired generation, 300 MW added to the Rainey gas-fired plant, 800 MW of solar, and 50 MW of battery storage.
- If a power supply plan resource experiences delay due to permitting or state laws or regulations, NextEra can substitute replacement generation of like amount and cost unilaterally. The substituted generation would need an environmental permit, but it cannot be challenged based on need or location.
- NextEra must use competitive bidding processes to find the best contractors to provide the best overall value for the materials and services necessary for the safe and reliable construction of new assets. However, NextEra and its affiliates would be permitted to compete in the bidding processes, provided that if NextEra or its affiliates participates in a bidding process, such bidding process will be overseen by the SCPSC. In addition, NextEra or its affiliates will be entitled to own the constructed asset, and there is no requirement to consider an arrangement whereby SCP&L would contract for power from a facility owned by a third party.
- For four years, SCP&L's base rates would equal Santee Cooper's rates as of October 1, 2019, subject to certain adjustments to the fuel adjustment clause to meet a total average system rate of \$64/MWh, inclusive of all rate credits. During this period SCP&L could not raise its rates. But as discussed below, it can: (i) book certain

unrecovered costs to charge customers later and (ii) seek “riders” to recover other cost increases.²⁶

- SCP&L could defer as a regulatory asset the unrecovered net book value for coal-fired generation facilities retired during the four-year fixed rate period and could earn a return until fully amortized over 30 years, with such recovery and amortization to begin when new rates are set after the fixed rate period. This provision is consistent with standard regulatory practice.
- If SCP&L begins construction on plants called for by its supply plan, but then stops construction, it could recover its costs only if its failure to complete the plants is due to changes in federal or state laws or regulations.
- For one year after the sale, SCP&L would be exempt from existing South Carolina law in these areas: (i) net metering (except that SCP&L would continue Santee Cooper’s net metering program during the first year), (ii) mandatory utility purchases of renewable energy, (iii) retail customers’ voluntary renewable energy purchases, (iv) issuances of securities (provided that SCP&L issues no securities that change its equity ratio from 52.2%), and (v) the community solar program.
- NextEra’s proposed legislation includes no “ring-fencing”—a set of measures that attempts (but does not guarantee) protection of the utility and its customers from the business risks created by NextEra’s other holdings.
- For approximately \$1.3 billion of debt, NextEra proposes securitization. Securitization is used by NextEra as an additional source of funds with a low cost of capital by: (i) causing customer payments to flow nearly automatically to the lenders, and (ii) placing the State’s guarantee behind those payments.

²⁶ More specifically, SCP&L could charge customers after the four-year period for the following categories of costs incurred during that period: (i) all costs associated with the legislatively-approved power supply plan (subject to the above-described guarantees); (ii) any gypsum contract cost above a forecasted threshold; (iii) all costs “related to . . . significant events leading to state emergency declarations, including storms, sabotage, or other attacks; . . . significant cybersecurity or cyber events”; (iv) costs incurred to retire or dismantle the Cross and Winyah generating units; and (v) cost resulting from changes in laws or regulations that would have been applicable to Santee Cooper. For categories (ii) through (v), that later recovery is available only if the costs are both outside SCP&L’s control and prudently incurred. The SCPSC also must approve reasonable costs, incurred during the four-year period, relating to “storm losses, changes in tax rates, and changes in laws or regulations.”

B. Evaluation

1. Items Listed in Section 2 of the Joint Resolution

a. Financial Capability of Bidder (JR §2(A)(1))

NextEra is the largest publicly traded utility holding company globally with a market capitalization of approximately \$125 billion as of January 17, 2020. NextEra is listed on the New York Stock Exchange under the ticker “NEE” and has been in continuous existence since 1925, when it was originally organized as Florida Power & Light. NextEra currently has high investment grade credit ratings of A-, A-, and Baa1 from S&P Global Ratings, Fitch Ratings, and Moody’s Investors Services, respectively. NextEra has full financial capabilities to complete the transaction. NextEra proposes to form a new, wholly-owned subsidiary (SCP&L) to own the acquired assets of Santee Cooper and operate the business of Santee Cooper. NextEra is contractually obligated as the buyer under the NextEra Revised Asset Purchase Agreement, and thus its financial resources stand behind the contractual obligations in the agreement (including making all payments required to be made by the NextEra Revised Asset Purchase Agreement). Once the transaction is closed, the acquired Santee Cooper business will be owned and operated by SCP&L. As is true for any legally separate subsidiary of a holding company such as NextEra, once NextEra’s obligations under the Revised Asset Purchase Agreement are satisfied, the holding company (NextEra) and its other subsidiaries would not be legally obligated to provide ongoing funding or other financial support to SCP&L. This corporate ownership structure (a holding company with wholly owned subsidiaries, each of which operates a utility) is common among IOUs like NextEra that operate multiple utilities. This is the structure that NextEra already has in place for its existing utilities, both of which are financially sound, with substantial assets and broad access to a range of financing alternatives.

b. Bidder’s Plan to Address Santee Cooper’s Bonds and Other Indebtedness (JR §2(A)(2))

The NextEra Sale Bid proposes to defease or repay at the closing up to \$6.859 billion of Santee Cooper’s outstanding debt, including a \$6.553 billion payment in respect of Santee Cooper’s long-term debt and a \$306 million payment in respect of Santee Cooper’s short-term debt. Additionally, NextEra would be responsible for all of the defeasance or make-whole costs associated with Santee Cooper’s long-term debt, which are estimated to be \$1.05 billion as of December 31, 2019. NextEra would bear the full risk should such defeasance or make-whole costs exceed \$1.05 billion.

The NextEra Sale Bid includes a draft opinion letter from Hogan Lovells US LLP supporting the plan outlined above (the “NextEra Opinion Letter” set forth as Exhibit C.4 to this Report). The NextEra Opinion Letter concludes both that the NextEra Sale Bid would not violate the resolutions under which Santee Cooper’s outstanding debt was issued and that, beyond discharging the debt and satisfying Santee Cooper’s obligations under the resolutions, the bid would not otherwise impact the State. NextEra has agreed to provide an additional opinion at the time of signing of NextEra’s Revised Asset Purchase Agreement to

the effect that the execution and delivery of NextEra's Revised Asset Purchase Agreement would not adversely affect the tax exemption of Santee Cooper's bonds.

NextEra would defease all of Santee Cooper's debt at closing, and following the fixed rate period, SCP&L would charge customers according to its costs and standard regulatory rate-making practices.

c. **Consideration, in Cash, to be Paid by the Bidder to the State for the Benefit of South Carolina and its Taxpayers (JR §2(A)(3))**

As discussed in Section V.A.1, the NextEra Sale Bid provides for defeasance or repayment of up to \$6.859 billion of Santee Cooper's outstanding long-term and short-term debt, along with the payment of any defeasance or make-whole costs related to Santee Cooper's long-term debt. It also provides for cash payments of \$515 million by NextEra to Santee Cooper for the benefit of the State that can be used by the State to help cover the cost of various liabilities not being assumed by NextEra and that the State would be left to address because Santee Cooper would cease to be an operating entity upon the closing of the sale transaction. It is worth noting that the cash on Santee Cooper's balance sheet (estimated by Santee Cooper to be approximately \$500 million on December 31, 2020) is an excluded asset under NextEra's Revised Asset Purchase Agreement and would be retained by Santee Cooper for the benefit of the State.

d. **Projected Rates and Revenue Requirements for Retail Customers over Next 20 Years, Plans Demonstrating how these Rates Can Be Achieved, and the Bidder's Willingness to Contractually Agree to those Rates (JR §2(A)(4))**

(i) **Normalization Adjustments to Bidder's Proposal Implemented by Professional Service Experts**

As discussed in Section II.H.1, the Professional Service Experts applied normalization adjustments to the NextEra Sale Bid to adhere to the Fixed, Supported, and Variable Assumptions as set forth in the Process Letter in order to facilitate comparison on a consistent basis with the Reform Plan, the Management Proposals and the other Sale Bid. The Professional Service Experts used their professional judgement for a number of assumptions based on industry research and their expertise in these areas. Normalization adjustments were applied to natural gas fuel prices, general and administrative expenses, transmission and distribution capital cost and operating expenses, nuclear generation operating expenses, coal-fired generation operating expenses, natural gas-fired generation operating expenses, and additional investments required to maintain reliable operation. A detailed description of the normalization factors applied to the NextEra Sale Bid follows.

- **Natural Gas Prices** - NextEra proposed utilizing financial hedges to procure gas at Henry Hub at under \$3/MMBtu through 2031. For 2032 through 2039, NextEra utilizes the EIA Case. The Professional Service Experts evaluated the NextEra Sale Bid using both the EIA Case and the Market Case, as discussed in Section II.H.1.c.

- **Debt Interest Rate** - NextEra's submitted rate projections include an assumed average cost of debt of 2.75% for each year in the rate projection period (2020-2039). This interest rate was normalized upwards by the Department's Professional Service Experts and held constant at 3.19% throughout the forecast period. This adjustment reflects a more realistic expectation of the utility's average cost of debt financing. The Professional Service Experts assumed that SCP&L would have access to debt at a credit rating of A- (S&P), which is consistent with NextEra credit rating.²⁷ The Professional Service Experts assumed an average debt tenor of 15 years. Current market yields for "A" rated utility bonds are at 2.73% (ten-year) and 3.40% (20-year), indicating an expected 15-year rate for an "A-" utility of 3.19%, inclusive of a 12.5 basis-point spread from "A" rated securities.²⁸
- **General and Administrative Expenses** - NextEra forecast significant savings relative to the Sensitivity Case across three categories of expenses: Customer Accounts (savings of 77%), Sales Expense (savings of 68%), and Administrative & General (savings of 33%). The NextEra Sale Bid describes its plans to achieve these savings by moving a substantial portion of these functions from Moncks Corner to NextEra's headquarters in Juno Beach, Florida. This transition would include moving many of Santee Cooper's existing processes and software systems to those used by NextEra and its subsidiaries FP&L and Gulf Power, as well as reducing staff at the Moncks Corner offices.

While it is possible that NextEra may be able to achieve the full extent of its proposed savings, there is uncertainty around the likelihood, amount, and timing of these savings. After decades of Santee Cooper operating using its own internal systems and processes, the transition of many critical functions to Juno Beach may result in challenges and additional costs, which are hard to estimate at this time. The NextEra Sale Bid provided inadequate information to justify the expectation that all cost savings would be realized as proposed, nor did it contractually agree or commit to delivering these savings. Accordingly, to support the reasonableness and likelihood of achievement of rate projections, the Department's Professional Service Experts reduced NextEra's projected savings to the following values: Customer Accounts (savings of 50%), Sales Expense (savings of 50%), and Administrative and General (savings of 25%). The effect of these normalization adjustments is a reduction from \$1.2 billion in savings in NextEra's proposal compared to the Base Case to \$892 million in savings in the normalized projection over the 20-year forecast period.

- **Transmission and Distribution Operations and Maintenance Expenses** - The NextEra Sale Bid forecasts substantial savings in annual O&M expenses for

²⁷ NextEra, "Investor Relations: Financial Outlook," <<http://www.investor.nexteraenergy.com/fixed-income-investors/financial-strength>> accessed January 21, 2020.

²⁸ Bloomberg Utility Index Yields as of December 27, 2019. Basis spread from "A" to "A-" is imputed from an average 25-point spread between 10-year and 20-year "A" and "BBB+" securities.

transmission (savings of 50%) and distribution (savings of 30%) relative to the Sensitivity Case. Insufficient cost breakdowns, cost-cutting programs, or other measures were provided to justify the projected cost reductions, and NextEra did not contractually agree or commit to delivering these savings.

The Professional Service Experts conducted their own analysis to evaluate the reasonableness of the projections by comparing NextEra's forecast for SCP&L distribution O&M to FP&L's historic performance. The Professional Service Experts found SCP&L projections to be comparable to significantly higher across several different comparison metrics, which the Professional Service Experts believe would be further exacerbated by differences in geography and asset conditions. The Professional Service Experts normalized these assumptions to savings of 25% on transmission O&M and savings of 15% on distribution O&M by 2024, held constant thereafter. The cumulative effect of these normalization adjustments is an increase in \$274 million over the 20-year forecast period.

- **Distribution Capital Expenditures** - NextEra forecasted an increase in distribution capital expenditures relative to the Santee Cooper Reform Plan. NextEra did not provide sufficient justification for these increases in capital expenditures so the Professional Service Experts normalized this downward such that it incurred only \$111 million in additional capital expenditures relative to the Reform Plan. The Professional Service Experts did not normalize NextEra's transmission capital expenditure forecast because there were not material differences between NextEra's Sale Bid and Reform Plan.
- **Myrtle Beach Transmission Solution** - Analysis by Santee Cooper suggests that 200 MW of new local generation is needed to maintain reliability in the Myrtle Beach area following the retirement of the Winyah Generating Station. NextEra assumed this could be solved with a low-cost synchronous condenser, but prior power flow analysis shows this would not fully resolve the issue. The Professional Service Experts added \$90 million in transmission upgrade costs to complement the synchronous condenser to ensure network reliability in NextEra's plan.
- **Nuclear Operations and Maintenance Expenses** - NextEra assumed total nuclear O&M expenses (fixed plus variable) at V. C. Summer to be lower than the amount included in the Revenue Requirement Model. The Professional Service Experts do not expect NextEra to be able to deliver these savings because Dominion, not Santee Cooper, is the operator of this power plant and thus determines maintenance schedules, budgets, costs, etc. The Professional Service Experts fixed this assumption to be consistent across all proposals.
- **Cross Operations and Maintenance Expenses** - NextEra's proposal forecasts a 20% reduction in fixed O&M expenses at the Cross Generating Station, but it did not provide sufficient support for how these savings would be achieved or contractually commit to providing these savings. Conversations between the Professional Service Experts and Santee Cooper suggest that this level of savings is unattainable without

partial retirement of the plant, which NextEra is not proposing. The Professional Service Experts reduced these projected savings to 10% below Santee Cooper baseline levels. The effect of this adjustment is an increase of slightly more than \$100 million over the 20-year forecast period.

- **Annual Gas Firm Transport Fee** - NextEra envisions contracting for firm transportation delivery of natural gas from Henry Hub to the new gas-fired combined cycle power plant at the V.C. Summer site. NextEra did not provide documentation for this assumption, and the Professional Service Experts do not believe this is a competitive advantage relative to Santee Cooper or any other owner or manager. The Professional Service Experts assumed procurement of gas in Transco Zone 5 and delivery to the combined cycle pipeline lateral at a cost of \$0.23/MMBtu.²⁹
- **2x1 Combined Cycle Gas Turbine Fixed Operations and Maintenance Expenses** - NextEra assumes fixed O&M to be \$4.63/kW-year. This value is very close to the combined cycle fixed O&M cost provided in the Revenue Requirement Model, which the Professional Service Experts used as the normalized value.
- **2x1 Combined Cycle Gas Turbine Variable Operations and Maintenance Expenses** - NextEra forecasts variable O&M and major maintenance together to amount to slightly more than \$2/MWh. This is very close to the combined cycle variable O&M cost provided in the Revenue Requirement Model, which the Professional Service Experts used as the normalized value.
- **2x1 Combined Cycle Gas Turbine Heat Rate** - NextEra forecasts an average heat rate of 6,053 Btu/kWh for the new gas-fired combined cycle power plant. Heat rate estimates can vary widely depending on actual operations of a power plant. The Professional Service Experts used a slightly higher value of 6,300 Btu/kWh³⁰ which was used for new H-class 2x1 CCGT plants across proposals.

²⁹ The NextEra resource plan results in a planning reserve margin well above the reliability target, starting in 2024. For years when the planning reserve margin is exceeded by a significant margin, the firm transport fee is reduced to only cover the portion of the plant's capacity that is needed to meet the target planning reserve margin.

³⁰ EIA, Cost and Performance Characteristics of New Generating Technologies, Annual Energy Outlook 2019, https://www.eia.gov/outlooks/aeo/assumptions/pdf/table_8.2.pdf.

Table 4 provides a numerical summary of normalization assumptions that were applied to the NextEra Sale Bid.

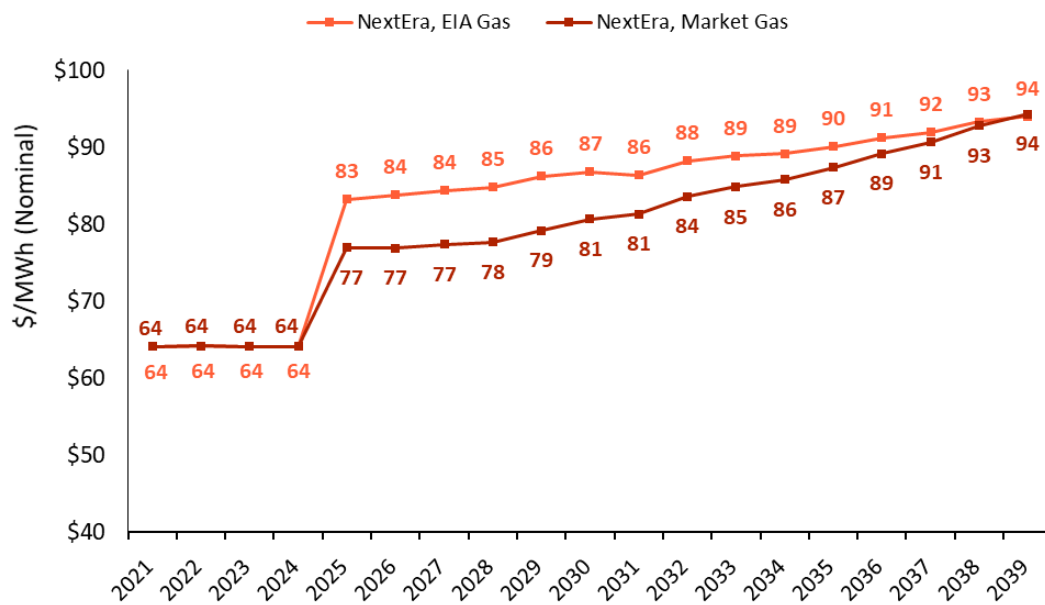
Table 4: Normalization Assumptions (NextEra Sale Bid)

Item	Unit	Submitted	Normalized	Change
Natural Gas Prices		See discussion		
Debt Interest Rate	%	2.75%	3.19%	▲ 16%
General & Administrative		See discussion		
Transmission O&M		See discussion		
Distribution O&M		See discussion		
Distribution CapEx		See discussion		
Myrtle Beach Transmission	\$MM	\$9.5	\$100.0	▲ 953%
Nuclear O&M		See discussion		
Cross O&M		See discussion		
Annual Gas Firm Transport Fee		See discussion		
2x1 CCGT Fixed O&M	\$/kW-yr	\$4.63	\$4.90	▲ 6%
2x1 CCGT Variable O&M	\$/MWh	\$2.06	\$2.35	▲ 14%
2x1 CCGT Heat Rate	Btu/kWh	6,053	6,300	▲ 4%

(ii) Normalized Rate Projections

Rate projections on a normalized basis for the NextEra Sale Bid over the next 20 years are shown in Figure 11. These projections are shown under both the EIA Case and the Market Case price forecasts discussed above.

Figure 11: NextEra 20-Year Rate Projections



The Professional Service Experts evaluated the projected revenue requirements and average rates (\$/MWh) across all customer classes, as well as the proposed allocation of costs and average rates to Central, retail, and other customer classes based on information provided by Santee Cooper on its current and past cost allocation and ratemaking practices. The information provided by Santee Cooper was adequate for the Professional Service Experts to determine that proposed increases or decreases in system costs would be initially proportionate between retail and wholesale customers (including Central), as required by the Joint Resolution. The Professional Service Experts, however, did not have sufficient information to project detailed rates for each customer class with a high degree of accuracy. As a result, the Professional Service Experts present the average system rates for comparison among the options presented in this Report, noting that in each option, cost increases or savings are shared proportionately among retail and wholesale customers.

e. **Bidder's Plans for Generation, Power Purchases, and Other Resources over Next 20 Years (JR §2(A)(5))**

NextEra proposes to transition from Santee Cooper's generating resource portfolio that is largely coal-dominated today to one held by SCP&L that is cleaner, more cost-efficient, and more diverse. NextEra proposes to retire Winyah, a 1,150 MW coal-fired power plant, in two phases by 2024; and add 800 MW of solar capacity, a 1,250 MW natural gas-fired combined cycle power plant, 50 MW of battery storage, and up to 200 MW of natural gas-fired capacity via tolling agreements with existing power plants. These retirements and additions are shown in Figure 12 and are summarized in chronological order below:

- 2021: Loss of Santee Cooper's SEPA allocation (151 MW);
- 2021: Retire Winyah units 1 and 2 (570 MW);³¹
- 2021: Upgrade the Rainey combustion turbines (approximately 300 MW);
- 2023: Retire Winyah Units 3 and 4 (580 MW);³²
- 2023: Add a 2x1 natural gas-fired combined cycle power plant in Fairfield County (1,250 MW);
- 2022–2024: Add solar capacity (800 MW); and
- 2022–2023: Add batteries with four hours of energy storage (50 MW).

The Professional Service Experts evaluated these change to the generating resource portfolio to ensure that the new electric system would reasonably be expected to be reliable.

³¹ NextEra proposes retiring these units part way through the year, which is why the chart includes these units in 2021.

³² NextEra proposes retiring these units part way through the year, which is why the chart includes these units in 2023.

Based on this analysis, the Professional Service Experts have determined that the system under NextEra's proposal would have ample generating capacity to satisfy SCP&L's PRM.³³ In addition, starting in 2023 when the combined cycle power plant would come online, the system would have significantly more capacity than needed to satisfy the PRM. By 2038, load growth requires additional capacity to ensure reliability, and NextEra envisions entering into tolling agreements with existing power plants during this time.

Figure 12: Installed Capacity Over Time (NextEra Sale Bid)

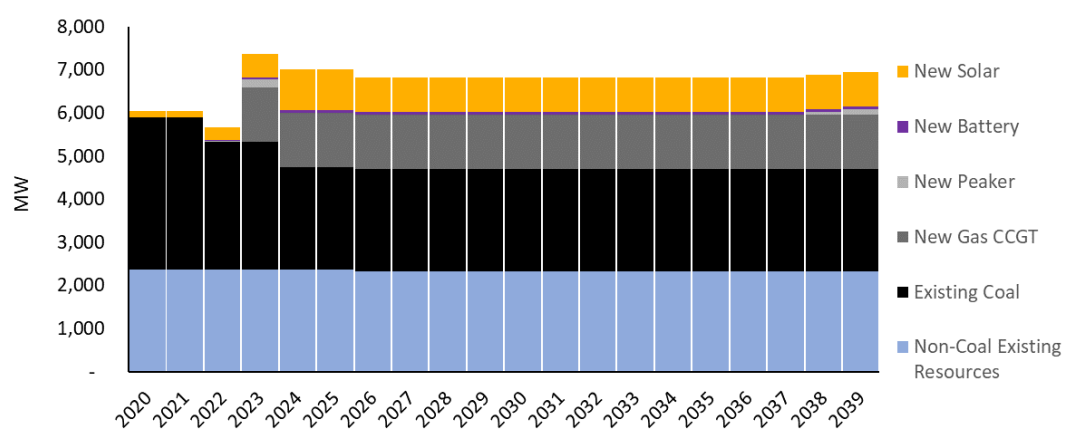
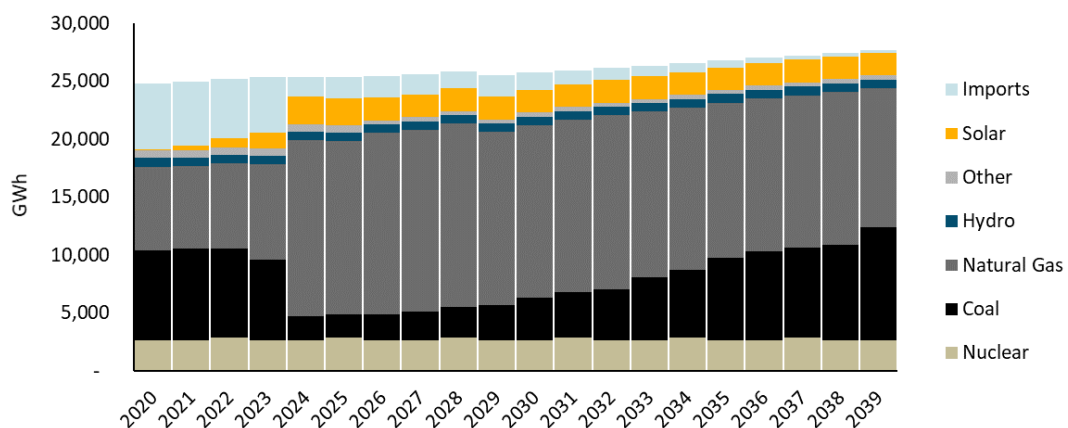


Figure 13 shows the projected fuel mix for energy generated by NextEra's proposed resource portfolio over the 20-year period through 2039. It is calculated using the Revenue Requirement Model that dispatches the generation portfolio in a least-cost manner to serve load and is based on the Market Case natural gas price forecast. The energy mix shifts to more renewable energy (solar) and significantly more natural gas-fired generation following the construction of the new natural gas-fired combined cycle power plant.

Figure 13: Generation Energy Mix Over Time (NextEra Sale Bid)



³³ The PRM is a reliability target that ensures that a utility has enough generating capacity to satisfy energy demand during peak conditions, plus a margin to account for unforeseen circumstances.

NextEra proposes a resource plan in the near term that would be authorized and mandated through legislation. Beyond these initial legislated resources, the resource plan is not set in stone and would be subject to change based on, among other things, changes to state law, gas prices, resource costs, energy demand, and environmental regulations.

f. **Bidder's Plans for Transmission Investment over Next 20 Years (JR §2(A)(6))**

Table 5 shows the transmission and distribution capital expenses over the 20-year study period, summed over five-year intervals from 2020 through 2039. The Professional Service Experts normalized the distribution capital expenditures, as discussed in Section V.B.1.d(i). The transmission capex over the 20-year period totals \$1,235 million, and the total distribution capex over the same period is \$1,185 million (in nominal dollars, not NPV).

Table 5: Transmission and distribution capital expenditures (\$000s nominal)

	2020-2024	2025-2029	2030-2034	2035-2039	Total
Transmission	\$195	\$261	\$379	\$400	\$1,235
Distribution	\$258	\$290	\$336	\$302	\$1,185
Total	\$453	\$550	\$715	\$702	\$2,420

g. **Bidder's Willingness to Bear any Costs Required by FERC to Mitigate Market Power Resulting from an Acquisition of Santee Cooper (JR §2(A)(7))**

The Joint Resolution requires evaluation of “the bidder’s willingness to bear any costs required by the FERC to mitigate market power resulting from an acquisition of Santee Cooper.”

The potential for the FERC to require market power mitigation arises from the fact that, as recognized in its bid, SCP&L would require prior approval of FERC under Section 203 of the Federal Power Act in order to acquire the electric transmission and generating assets of Santee Cooper. FERC can be expected to grant such approval if it finds, among other things, that a proposed transaction would have no adverse effect on competition in the market for wholesale electric power. If FERC instead finds that a proposed transaction may have an adverse effect, as a condition of approving the transaction, it may require market power mitigation measures including, but not limited to, divestiture of electric generating assets by either the buyer or Santee Cooper.

NextEra has not committed in its bid to bear any costs that may result if FERC imposed market power mitigation but notes that it “does not anticipate that any mitigation of horizontal market power would be required.” The Department and the Professional Service Experts agree that it is unlikely that any mitigation measures would be required because NextEra neither owns nor is affiliated with any electric generation in close geographic proximity to the acquired assets. Accordingly, it is unlikely that FERC would find that the purchase of Santee Cooper’s assets by SCP&L would have an adverse effect on competition and so require market power mitigation.

h. Bidder's Provision of Reasonable Financial and Other Protections for Santee Cooper Employees and Retirees (JR §2(A)(8))

The NextEra Sale Bid requires the State to pay for the current unfunded pension and other liabilities to the OPEB Trust for active and inactive Santee Cooper employees out of the cash payment from NextEra and/or cash on Santee Cooper's balance sheet that the State would retain at close. Santee Cooper's estimated unfunded pension and OPEB Trust balance totals \$511 million. Santee Cooper would also be required to pay an aggregate of approximately \$14 million of accrued vacation to its employees upon consummation of the sale. These liabilities total \$525 million. The former SCP&L employees would no longer be eligible for the State's benefits, but NextEra would provide SCP&L employees with vesting credit for prior Santee Cooper service and SCP&L employees would be eligible for NextEra's defined benefit pension plan, 401(k) plan, and employer matching contributions commencing at closing.

NextEra has no obligation to hire any of Santee Cooper's employees. Until the end of the first full calendar year following the year in which the closing occurs, NextEra would provide each Santee Cooper employee it chooses to hire with: (i) cash compensation that is at least equal to such employee's base pay and cash bonus opportunities at Santee Cooper immediately prior to closing and (ii) employee benefits that are no less favorable than the employee benefits NextEra provides to similarly situated NextEra employees (rather than benefits similar to what those employees currently receive from Santee Cooper). SCP&L employees would be given vesting credit for prior Santee Cooper service and would be eligible for NextEra's defined benefit pension plan as well as NextEra's 401(k) plan with employer matching contributions. Those employees not hired by SCP&L would remain employed by Santee Cooper until terminated.

i. Projection of Jobs Bidder Expects to Eliminate Within Five Years if it Acquires Santee Cooper (JR §2(A)(9))

The NextEra Sale Bid provides for reductions in workforce from Santee Cooper's budgeted 2020 headcount of 1,675 employees. Table 6 shows NextEra's projected headcount through 2025.

Table 6: NextEra Sale Bid Projected Employees 2021-2025

	2021	2022	2023	2024	2025
Employee Headcount	1,330	1,115	1,015	970	970

j. Bidder's Proposed Location for its Headquarters Post-Acquisition (JR §2(A)(10))

The headquarters of SCP&L would be in Moncks Corner. However, the headquarters of NextEra would remain in Juno Beach, Florida. According to email communication between NextEra and Moelis, the CEO of SCP&L and all of her direct reports would be based in Moncks Corner, but would report to NextEra executives in Juno Beach.

k. **Whether Bid Included or Excluded the Assets Collectively Included Under FERC Project No. 199 License (JR §2(A)(11))**

The NextEra Sale Bid includes the transfer of the FERC License and all related hydroelectric assets (including associated recreational facilities at Lake Moultrie and Lake Marion). A license transfer can only occur with FERC approval, which requires a finding that the transferee is qualified to hold the license and operate the project. NextEra has a history of operating hydroelectric facilities under FERC license. More specifically, NextEra, through FPL Energy Maine, owned and operated 29 hydroelectric facilities and seven storage facilities in Maine from 1999 to 2012 which included the requirement to maintain more than 300 FERC and non-FERC licensed public recreation sites.

l. **Bidder's Capacity and Willingness to Partner with the State for Future Economic Development Projects (JR §2(A)(12))**

Although NextEra would not be contractually committed to do so, its Sale Bid says that NextEra intends to: (i) maintain Santee Cooper's existing charitable contributions, (ii) continue to support the State's effort to attract and retain businesses, including the establishment of an economic development team in South Carolina to work closely with the South Carolina government and assist with the development of economic incentives, and (iii) ensure that Santee Cooper continues to provide an economic development tariff.

m. **Comparison of Bidder's Service Territory, if the Bid is Successful, with Investor-Owned Utilities Serving South Carolina (JR §2(A)(13))**

NextEra does not currently operate a utility in South Carolina. SCE&G, which is now owned by Dominion, directly serves approximately 725,000 electric customers in a service territory of approximately 17,000 square miles.³⁴ If NextEra acquires the business of Santee Cooper, it would directly provide electric service to approximately 185,000 South Carolina customers throughout a considerably smaller service territory.³⁵ Significant portions of Santee Cooper's electric service territory are adjacent to SCE&G's.³⁶

n. **Any Terms or Conditions Bidder Would Require to Complete the Purchase of Santee Cooper (JR §2(A)(14))**

See discussion of conditions in Section V.A.2.

³⁴ SCE&G also directly serves natural gas customers in a service territory of approximately 22,000 square miles.

³⁵ Santee Cooper does not appear to publish statistics on the physical size of its service territory.

³⁶ In addition, SCE&G's gas service territory overlaps with the vast majority of Santee Cooper's electric service territory.

o. Submission of Historical Regulatory Filings (JR §2(A))

Section 2(A) of the Joint Resolution requires each Bidding Entity to submit “its regulatory filings within the past seven years from each state where the bidder provides electric service that are related to the bidder’s forecasts for electric generation, transmission, and distribution; requests for generation and/or transmission projects; electric rate requests made by the bidder; and requests to acquire, merge with, or manage another electric utility, and the final disposition of each request.” NextEra complied with this requirement.

Specifically, NextEra submitted materials relating to numerous dockets initiated by FP&L. These dockets related to forecasts of generation and transmission needs; construction and siting of new generation and transmission; increases in base rates; requests for recovery of costs relating to fuel and capacity purchases, environmental compliance, energy conservation investments, nuclear plant uprates; and FP&L’s acquisition of the electricity system owned and operated by City of Vero Beach. In addition, NextEra provided materials on its unsuccessful efforts to acquire Hawaiian Electric Industries and the Texas utility Oncor.

These regulatory filings revealed no reason for concern or to favor or disfavor NextEra. The regulatory filings, whether submitted by attorneys, company officials, or expert witnesses, were of a professional quality typical of such submissions.

p. Verification of Bidder Information, Request for Additional Information if Needed (JR §2(B)(1))

The Department and the Professional Service Experts sought to verify the accuracy of the information that NextEra provided throughout the course of the Bidding Process in connection with the NextEra Sale Bid. The Department and the Professional Service Experts requested additional information and sought clarification of previously submitted information from NextEra and its advisors when they deemed appropriate during their analysis and evaluation of the NextEra Sale Bid.

This Report does not constitute an endorsement of the Reform Plan, the Dominion Management Proposal, or the Next Era Sale Bid. To assist in the General Assembly and the Governor in their consideration of the three alternatives, this Report identifies information that the Professional Service Experts could verify. Phrases such as “NextEra asserts” or “NextEra projects” mean that the Professional Service Experts have not been able to verify such information, but unless otherwise indicated, have no reason to believe is untrue.

q. List of Items Excluded from Sale (JR §2(B)(2))

NextEra proposes the exclusion of certain items as more fully described in Section 2.3 of the Revised Asset Purchase Agreement (with such capitalized terms used below and not defined in this Report having the respective meanings given to them in NextEra’s Revised Asset Purchase Agreement):

- Cash and Cash Equivalents (exclusive of cash in Nuclear Decommissioning Trusts and other restricted funds);

- All books and records that Santee Cooper is prohibited from disclosing or transferring to a buyer;
- All Santee Cooper Marks and rights and names;
- All accounting records and internal reports related exclusively to assets of Santee Cooper that are not Purchased Assets;
- Any refund or credit that is received within two taxable years after the Closing Date with respect to taxes related to the business, Purchased Assets, or the Assumed Obligations;
- Certain insurance policies, and rights, claims, or causes of action thereunder;
- Certain Benefit Plans and all assets related to any Benefit Plan;
- All rights, claims, causes of action, and defenses against third parties to the extent directly and exclusively relating to any Excluded Asset or any Excluded Liability;
- Rights of Santee Cooper arising under or in connection with NextEra's Revised Asset Purchase Agreement;
- Records and litigation databases maintained by Santee Cooper or Santee Cooper's counsel with respect to Retained Actions;
- Any employment agreement or retention agreement entered into between Santee Cooper and any current or former director, officer, or employee that does not constitute an Assigned Employment Agreement;
- Any indemnification, reimbursement, or similar agreement between Santee Cooper and any current or former director, officer, employee;
- The Central Coordination Agreement, the SEPA Contract, other scheduled contracts or agreements, contracts described in clauses (i) through (xxvii) of Section 5.8(a) of the Revised Asset Purchase Agreement that exist on the Execution Date but are not disclosed on Schedule 5.8(a) of the Revised Asset Purchase Agreement, and any contract entered into by Santee Cooper after the Execution Date in violation of Section 7.1 that Buyer elects not to assume;
- Corporate seals and Organizational Documents of Santee Cooper;
- Regulatory assets directly related to Excluded Liabilities and any regulatory assets directly related to VCSNS 2 and 3;
- Any membership in, stock, membership interests, limited liability company interests, partnership interests, or other equity or ownership interests (or rights to acquire,

securities convertible into, or securities exercisable for equity or ownership interests) in The Energy Authority, Inc. or TEA Solutions, Inc.;

- Any properties, assets, or rights that are not used (or held for use) in connection with, and are not otherwise related to or necessary for, Santee Cooper's business;
- The hedge agreements relating to Santee Cooper's business (excluding certain scheduled agreements), and any hedge transactions thereunder; and
- Certain other scheduled assets and other rights.

r. ***Analysis of Potential Risks to the State's Taxpayers, Santee Cooper's Retail Customers, and Santee Cooper's Bondholders (Including Loss of Tax-Exempt Status, Impact of Economic Development, and Preclusion of Full Value Recovery) (JR §2(B)(3))***

Based on the NextEra Sale Bid, current Santee Cooper bondholders would receive payment in full including all defeasance penalties, provided that there are no increases to the principal amount of Santee Cooper's bond obligations above \$6.55 billion. NextEra would bear the full risk should the defeasance penalties be greater than expected. Given NextEra's financial capabilities, the Department and the Professional Service Experts see no material risks to Santee Cooper's bondholders arising from the proposed transaction.

The State and its taxpayers face ongoing risks because NextEra would only assume a limited amount of specified liabilities. All other liabilities relating to pre-closing periods, known or unknown, will remain with Santee Cooper. The Department and the Professional Service Experts are unable to estimate the magnitude of such liabilities.

The NextEra Sale Bid relies on the achievement of projected cost savings, including significant budget cuts in General & Administrative expenses and Operations & Maintenance expenses. Should these cost savings fail to materialize either due to lack of execution or conditions outside of NextEra's control, SCP&L would need to increase rates (after the four-year, fixed rate period) beyond what is currently projected. As discussed above, costs incurred during the fixed rate period may be deferred and recovered after the fixed rate period, including coal-fired generation retirement costs and unforeseen costs such as storm recovery.

The NextEra Sale Bid also relies on significant new investments in fossil-fuel generation. To the extent that new regulations impact the economic life or overall cost of operating these assets in the future, this could be a material risk that would likely ultimately be borne by SCP&L's customers.

As part of NextEra's required legislation, on which its proposal is fully conditioned, NextEra is requiring several regulatory elements to be guaranteed up front versus what might be expected in a standard course SCPSC prudency review process. These elements include, among other things: (i) a fixed starting rate base figure, (ii) a 10.2% return on equity ("ROE") and 52.2% equity layer for calculating Allowance for Funds Used During Construction

(“AFUDC”), and (iii) pre-approval of \$2.3 billion of capital expenditures through 2024 (primarily related to new generation investments) to be included in future rate base without any subsequent SCPSC prudence review. This construct poses risks to SCP&L’s retail customers should these guaranteed outcomes lead to higher overall rates relative to a normal course SCPSC prudence review process during the same time period. NextEra provides a four year fixed rate period for both retail and wholesale customers, including Central. After the fixed rate period, retail rates would be subject to normal course SCPSC prudence review process for future investments and determination of allowed returns, and rates under the Revised Purchase Agreement with Central would be subject to the formula rate contained therein and related FERC processes. Finally, certain categories of expenditures incurred during the four year fixed rate period can be deferred and recovered after the expiration of the fixed rate period, including gypsum costs above a forecasted threshold, significant unforeseen events including storms, cyber events, costs associated with retiring coal-fired plants, and changes in applicable laws or regulations.

During and beyond the proposed fixed rate period, the NextEra Sale Bid contemplates providing additional rate certainty for customers by entering into hedges for natural gas on behalf of SCP&L. These hedges would extend through 2031 and would shield ratepayers from market changes for the 10-year period. As such, in the event that natural gas prices are higher than the hedges, customers will have avoided rate increases. However, in the event that market prices are lower than the hedged price, ratepayers will have missed out on the opportunity for lower rates.

NextEra in its Sale Bid says that it intends to: (i) maintain Santee Cooper’s existing charitable contributions, (ii) continue to support the State’s effort to attract and retain businesses, including the establishment of an economic development team in South Carolina to work closely with the South Carolina government and assist with the development of economic incentives, and (iii) ensure that Santee Cooper continues to provide an economic development tariff. But NextEra would not be contractually committed to do so.

Additional considerations, some of which include potential risks, are discussed in Section V.B.3

The Department and the Professional Service Experts conducted a competitive bidding process designed to obtain full value for Santee Cooper. In addition, in the Bidding Process, extensive negotiations substantially increased the value to all stakeholders. Ultimately, the competing Sale Bids offered similar overall value to stakeholders, thereby confirming the competitive nature of the process.

s. **Comparison of Bidder’s Financing Options for Anticipated Projects with Financing Options Currently Available to Santee Cooper (JR §2(B)(4))**

NextEra is the largest publicly traded utility holding company globally with a market capitalization of approximately \$125 billion as of January 17, 2020. In addition, NextEra currently has investment grade credit ratings of A-, A-, and Baa1 from S&P Global Ratings,

Fitch Ratings, and Moody's Investors Services, respectively. NextEra has ample and efficient access to both the public equity and debt capital markets for ongoing financing of its capital needs. In addition, NextEra has lines of credit and revolving credit facilities in place with its lender banks for ongoing liquidity and capital management purposes.

NextEra proposes to form a new, wholly-owned subsidiary (SCP&L) to own the acquired assets of Santee Cooper and operate the business of Santee Cooper. NextEra would be contractually obligated as the buyer under the NextEra Revised Asset Purchase Agreement, and thus its financial resources would stand behind the contractual obligations in the agreement (including making all payments required to be made by the NextEra Revised Asset Purchase Agreement). The proposed holding company/separate subsidiary structure that NextEra proposes for its ownership of SCP&L is discussed in Section V.B.1.a.

Through its proposed legislation, NextEra is requiring that SCP&L have an initial equity capitalization ratio of 52.2% equity and 47.8% debt, which is generally in-line with both recent SCPSC rate case decisions as well as recent utility rate case decisions in other states nationwide. The equity component would be financed via an initial equity infusion from NextEra and maintained with additional equity infusions and internally generated cash flows over time in-line with rate base growth. Likewise, the debt component (other than the securitization) would be financed via an initial public market debt offering and maintained via incremental debt capital over time in-line with rate base growth. After the fixed rate period, SCP&L's capital structure would be subject to ongoing SCPSC review and may fluctuate depending on actual capital structure used to finance rate base.

NextEra assumes an allowed ROE of 10.2% and a 52.2% equity layer for calculating AFUDC during the fixed rate period, as well as a cost of debt of in-line with the weighted average interest rate on SCP&L debt raised to help finance the transaction. Based on Utility Index yields from December 2019, sourced from Bloomberg, SCP&L would be expected to pay an interest rate between 2.73% and 3.41% for 10- to 30-year bonds.

Section 2(B)(4) of the Joint Resolution requires that these arrangements be compared to financing options currently available to Santee Cooper. While the cost to Santee Cooper of municipal debt is generally a lower cost option than NextEra's weighted average equity and debt costs, Santee Cooper must generally bear all costs of imprudence or other non-used-and-useful costs that can be disallowed by a Public Service Commission for an IOU. In this event, shareholders of the IOU would bear these costs.

- t. **Exclusion from Projected Ratebase for all of Santee Cooper's Retail Customers of any Portion of Debt Attributed to V.C. Summer Nuclear Units Two and Three That is Not Considered to be Useful, as Determined by the Professional Service Experts and ORS (JR §2(B)(5))**

NextEra proposes excluding all portions of debt associated with VCSNS 2 and 3 from SCP&L projected rate base in the NextEra Sale Bid.

u. **Consideration of Whether the Bidder is Committed to Keeping its Headquarters in South Carolina Post-Acquisition (JR §2(B)(6))**

While the headquarters of SCP&L would be in Moncks Corner, the headquarters of NextEra, SCP&L's parent company, would remain in Juno Beach, Florida.

v. **Consideration of Whether Bidder Intends to, and Has Capability to, Provide Electric Services in South Carolina for at Least 20 Years (JR §2(B)(7))**

NextEra's existence dates to 1925 (as Florida Power and Light Company) and is the largest publicly traded utility holding company by market capitalization globally. NextEra is a sophisticated entity and states that it has made commitments to being a long-term partner to the State. The NextEra Sale Bid provides for the construction of multiple electric generation facilities and entering into long-term power purchase agreements, including the proposed Revised Power Purchase Agreement with Central. The Department and the Professional Service Experts do not see any material risks with regard to NextEra's capabilities to provide electric services in South Carolina for at least 20 years.

w. **Confirmation of Third-Party Administration and Procurement Confirmation, Assurance of Accuracy (JR §2(B)(8))**

The Joint Resolution requires the Department to designate a third party to administer the procurement and dissemination of information from Santee Cooper to Participants in order to ensure consistency, proper characterization, and accuracy of information provided. In accordance with the Joint Resolution, the Department designated Moelis, E3, and Gibson Dunn to work collectively to gather information from Santee Cooper for the assimilation of the Revenue Requirement Model, Confidential Information Presentation, IE Report, and for select portions of the Draft Asset Purchase Agreement, including the Disclosure Schedules. Additionally, the Department and the Professional Service Experts worked with Santee Cooper to confirm accuracy of all the aforementioned process materials as well as to gather additional required information and materials provided to participants via the Data Room. The Professional Service Experts provided the same process materials and Data Room access to all participants in a consistent and fair manner.

2. Proposed Central Contract and Advisor Statement (JR §9(A)(1)(b))

Over the course of numerous in-person and telephonic meetings, Central and NextEra reached substantial agreement on the terms of a proposed Revised Power Purchase Agreement that will replace the Central Coordination Agreement and establish the commercial relationship between Central and NextEra. Certain minor terms remain to be resolved, but NextEra and Central have each indicated that they believe the agreement can be finalized in a timely manner should the General Assembly select the NextEra Sale bid (subject to approval by Central's board and by its member cooperatives). The proposed Revised Power Purchase Agreement will not be considered by Central's board unless and until the General Assembly selects the NextEra Sale Bid.

In its current form, the proposed Revised Power Purchase Agreement provides for fixed rates for four years, a cost-based formula rate for the balance of the term (which runs until December 31, 2058), the right of Central to opt-out of new generation placed in service after 2035, and an increased ability of Central, its members, and their retail customers (as compared to the Central Coordination Agreement) to utilize renewable and distributed generation resources. A copy of the agreement as most recently provided by NextEra to Central is attached as Exhibit C.2 hereto.

It is the view of the Department and the Professional Service Experts that both Central and NextEra negotiated in good faith in the Bidding Process.

3. Advisor Recommendations or Concerns (JR §9(A)(1)(c))

The Department and the Professional Service Experts have identified the following potential benefits of the NextEra Sale Bid.

- At closing of the sale of Santee Cooper to NextEra, NextEra would in cash defease or repay up to \$6.859 billion of Santee Cooper's long-term and short-term debt, plus all defeasance or make-whole costs associated with the defeasance or repayment of such debt, which are estimated to be \$1.05 billion. The combined cost to NextEra for the repayment and defeasance of this debt is expected to be approximately \$7.9 billion as of December 31, 2019.
- NextEra proposes to provide Santee Cooper customers with \$541 million in refunds and rate credits that, based on NextEra's discussions with and a letter from the law firms representing the plaintiffs in the Cook Litigation, is an arrangement that those law firms indicate they would recommend to their clients as an acceptable settlement of the Cook Litigation. The NextEra Sale Bid also includes a negotiated, proposed settlement agreement with the plaintiffs' lawyers. The State would be responsible for any attorney fees awarded in connection with such case.
- NextEra also proposes an additional \$400 million in rate credits to be allocated proportionately to Santee Cooper's current customers.
- NextEra would pay to Santee Cooper at closing \$515 million in cash for the benefit of the State consisting of:
 - \$475 million direct cash transfer,
 - The release of the \$25 million Earnest Money Deposit, and
 - \$15 million cash payment intended to reimburse the State for costs and expenses incurred in connection with the Bidding Process.
- The State also may receive cash in excess of \$515 million, to the extent: (i) some or all of the \$100 million escrow is not used to compensate NextEra for post-closing adjustments to the overall consideration in respect of any (a) shortfalls in Santee

Cooper's net working capital, capital expenditures, and/or nuclear decommissioning funds, as compared to targets specified in the Revised Asset Purchase Agreement; (b) accounting errors in Santee Cooper's financial statements; and (c) increases in Santee Cooper's debt principal above \$6.859 billion; and (ii) at closing Santee Cooper has unrestricted cash balances (which the State would retain). Such additional amounts, if any, also could be used by the State to help fund other known and unknown (including contingent) liabilities. The Professional Service Experts are unable to provide a reliable estimate of the amount of additional cash – if any – the State may receive from the \$100 million escrow fund or from the unrestricted Santee Cooper cash balances at closing. Based on historic performance, Santee Cooper estimates it will have approximately \$500 million of unrestricted cash as of December 31, 2020.

- NextEra has agreed that the unrestricted cash on Santee Cooper's balance sheet at closing (estimated to be \$500 million on December 31, 2020) would be a retained asset, and therefore would be available to benefit the State. Although this amount was originally at risk in the NextEra Sale Bid, the Department and the Professional Service Experts negotiated away this risk, resulting in a further \$500 million being available to the State, which the General Assembly could use to cover the cost of liabilities, as discussed below.
- As discussed in Section V.B.1.e, NextEra proposes a new resource plan with reduced reliance on coal-fired generation and increased use of natural gas and renewables, which would result in a decrease in carbon dioxide emissions.
- Over the course of numerous in-person and telephonic meetings, NextEra and Central reached substantial agreement on the terms of a proposed Revised Power Purchase Agreement (subject to approval by Central's board and by its member cooperatives) that will replace the Central Coordination Agreement and establish the commercial relationship between Central and NextEra. The agreement provides for fixed rates for four years, a cost-based formula rate for the balance of the term (which runs until December 31, 2058), the right of Central to opt-out of new generation placed in service after 2035, and an increased ability of Central, its members, and their retail customers (as compared to the Central Coordination Agreement) to utilize renewable and distributed generation resources. A copy of the agreement as most recently provided by NextEra to Central is attached as Exhibit C.2 hereto.
- NextEra provides an opportunity for the ratepayers to benefit from synergistic costs savings as a result of NextEra's ownership and operation of multiple utilities and related businesses.
- NextEra is a large and well-respected IOU holding company with a proven track record.

If the General Assembly and the Governor choose to pursue the NextEra Sale Bid, the following are issues that they may want to consider and/or address:³⁷

- The transaction is conditioned on adoption of new comprehensive legislation that requires the General Assembly to address certain matters that are traditionally under the purview of a public service commission.
 - A number of these matters, such as (i) approval of the transaction; (ii) establishment of an initial revenue requirement for the buyer; and (iii) a determination of the buyer's initial return on equity, are a function of the change from a publicly-owned utility – Santee Cooper – to an IOU.
 - Other matters, such as (i) an advance determination of prudence in respect of NextEra's generation resource plan and cost as further explained below, (ii) the imposition of a four-year fixed rate period, (iii) advanced governmental approval of NextEra's plans for securitization, and (iv) fee-in-lieu of tax provisions, have traditionally been addressed by public service commissions to require utilities to present support for positions and to permit third parties to intervene. The Department and the Professional Service Experts noted the nontraditional nature of this approach to NextEra but likewise acknowledged NextEra's view that the proposed legislative structure was an essential part of the NextEra Sale Bid. Issues considered by the Department and the Professional Service Experts in respect of this include:
 - § IOUs in the State almost always must go before the SCPSC for prudence reviews of all proposed generation resource investments. This prudence review would evaluate the proposed need for the investment as well as the potential cost of the investment relative to other options to procure the necessary power resources (i.e., power purchase agreements).
 - § While there are several key benefits of an IOU owning its own generation resources, the SCPSC helps determine when those benefits are sufficient to justify the likely incremental costs to retail customers relative to a Power Purchase Agreement.
 - § For a period of four years after the closing of the sale, while customer rates would be fixed, the new legislation would largely displace the SCPSC and allow NextEra to operate an electric utility in South Carolina free from much of the regulatory oversight that the SCPSC exercises over other IOUs in South Carolina.

³⁷ Note that the Agreement to Transact provides that the earnest money payment of \$25 million will be paid to the State only if NextEra fails to execute its Revised Asset Purchase Agreement as negotiated (including the draft legislation). Therefore, NextEra is not obligated to execute a modified version (or agree to changes to its proposed legislation).

- The Department and the Professional Service Experts engaged over a period of months in discussions with NextEra about the overall legislative approach it offered.
 - In connection with finalizing the business and legal terms of the NextEra Sale Bid, the Department and the Professional Service Experts and NextEra agreed to certain conforming changes to the legislation.
 - Where the legislation addressed NextEra's views on policy, the Department and the Professional Service Experts suggested changes to NextEra, some of which were accepted and others of which were not. The Department and the Professional Service Experts did not endeavor to impose their policy views on NextEra but rather see that as the purview of the General Assembly and believe it is critical that the General Assembly review the proposed legislation carefully and consider its long-term policy ramifications for the State and the ratepayers.
 - The proposed new legislation would require legislative approval of the costs and contours of a multi-year generation plan, which contemplates capital spending by NextEra of approximately \$2.3 billion. The legislation also would fix certain customer rates and charges during a four-year period after closing of the sale, thereby limiting SCPSC oversight of NextEra in the first four years after closing. More specifically, the generation plan and associated costs to be included in and approved by the new legislation contemplates more than \$2.3 billion of capital spending to construct new generation (including a 1,250 MW natural gas-fired combined cycle plant) over the first four years following the closing. This would reduce the operating flexibility of the business in the future, and if market conditions change materially from expectations (such as an increase in the price of natural gas above projected levels), customer rates could increase as a result of this long-term investment.
- NextEra's proposal incorporates reductions to Santee Cooper's 2020 budgeted headcount from 1,675 full-time employees to 970 employees by 2025. Until the end of the first full calendar year following the year in which the closing occurs, NextEra would provide each Santee Cooper employee it chooses to hire with: (i) cash compensation that is at least equal to such employee's base pay and cash bonus opportunities at Santee Cooper immediately prior to closing and (ii) employee benefits no less favorable than the employee benefits NextEra provides to similarly situated NextEra employees. SCP&L employees would be given vesting credit for prior Santee Cooper service and would be eligible for NextEra's defined benefit pension plan as well as NextEra's 401(k) plan with employer matching contributions.
- The NextEra Sale Bid, as improved significantly through negotiations between NextEra, the Department, and the Professional Service Experts, will at closing provide for the benefit of the State a \$515 million cash payment from NextEra and the unrestricted cash on Santee Cooper's balance sheet at closing (estimated to be \$500 million on December 31, 2020). This approximately \$1 billion cash amount –

made certain through negotiations and representing an important element of the NextEra Sale Bid – will be available to the State immediately to address:

- All Santee Cooper retained litigation and associated liability (including the attorney’s fees in respect of the Cook Litigation and other litigation but excluding the settlement costs of the Cook Litigation for which NextEra Sale separately provides \$541 million in refunds and rate credits);
 - The \$525 million of employment-related liabilities that, absent the sale, would have been paid by Santee Cooper over time out of funds received from ratepayers; and
 - The liabilities that Santee Cooper will retain because NextEra would assume only certain of Santee Cooper’s pre-closing obligations, effectively shifting those liabilities from Santee Cooper ratepayers to all South Carolina taxpayers.
- The management team of SCP&L, including the new CEO, would be based in Moncks Corner, but would report to NextEra senior management in Juno Beach, Florida.
 - The closing of the proposed transaction is conditioned on a number of additional factors, including: (i) adoption of NextEra’s proposed legislation, (ii) receipt of certain regulatory approvals (including approval from the SCPSC, NRC, and FERC, in each case, subject to applicable standards set forth in the Revised Asset Purchase Agreement), (iii) execution of the proposed Revised Power Purchase Agreement with Central, (iv) execution of certain fee-in-lieu of tax and other tax exemption agreements; and (v) that the pre-closing estimate of the aggregate of all post-closing adjustments not be expected to reduce the overall consideration by more than \$100 million.
 - NextEra would have the right to make claims against Santee Cooper for breaches of: (i) Santee Cooper’s operating covenants relating to the period between signing and closing (which covenants expire six months after closing) and (ii) its covenants that continue to apply after closing (which covenants expire according to their terms). In addition, to the extent Santee Cooper breaches these covenants in any material respect, NextEra would have the option to refuse to close the transaction and to terminate the Revised Asset Purchase Agreement. In light of NextEra’s ability to avoid closing because of Santee Cooper’s breaches of its operating covenants during the period between signing and closing, the General Assembly and the Governor are encouraged to take whatever steps they deem necessary and appropriate to ensure that Santee Cooper will not act in ways that could frustrate the objective of completing the sale transaction contemplated by the NextEra Sale Bid.

4. Supporting Documents (JR §9(A)(1)(d))

The following supporting documents are attached to this Report (all of which are provided in their most recent form, as discussed above):

- The NextEra Sale Bid (Exhibit C);
- The NextEra Asset Purchase Agreement (Exhibit C.1);
- The proposed Revised Power Purchase Agreement (as most recently provided by NextEra to Central) (Exhibit C.2);
- The NextEra Agreement to Transact, including the Escrow Agreement (Exhibit C.3);
and
- The NextEra Opinion Letter (Exhibit C.4).

VI. CONCLUSION

The Joint Resolution established a process that has resulted in three viable options for the State, its taxpayers, and customers of Santee Cooper to realize substantial benefits, including meaningful cost reductions and operational improvements at Santee Cooper. The Reform Plan provides for improved governance and substantial savings, and the Dominion Management Proposal and the NextEra Sale Bid provide alternatives worthy of consideration by the General Assembly and the Governor. The Department and the Professional Service Experts appreciate the opportunity to assist the General Assembly and the Governor with this process and are available to answer any questions or provide further assistance.

The Department and the Professional Service Experts also wish to thank all of the Participants, Central, and the various other outside professional advisors who were involved throughout the Bidding Process for their cooperation, attentiveness and hard work.

Appendix A

Glossary

“Agreement to Transact” means an agreement in the form agreed to by the Department and each ATT Counterparty that submitted a Sale Bid or a Management Proposal, as applicable, as required by the Joint Resolution. A copy of the Agreement to Transact with NextEra, including the Escrow Agreement, is attached to this Report as Exhibit C.3. A copy of the Agreement to Transact with Dominion, including the Escrow Agreement, is attached to this Report as Exhibit B.2.

“Ancillary Documents” means those agreements, instruments, documents, proposed legislation, and other writings included with and related to the Reform Plan, the Dominion Management Proposal, or the NextEra Sale Bid, and required to be executed, adopted and/or delivered in connection with the implementation of any of the foregoing.

“ATT Counterparty” means each Proposing Entity and each Bidding Entity.

“Base Case” means the annual Santee Cooper Business Forecast published on September 9, 2019 that covers the 2020 fiscal year and was posted to the Data Room.

“Bidding Entity” means each entity that submitted a Sale Bid.

“Bidding Process” means the process established by the Joint Resolution and implemented by the Department for the Department’s receipt (and subsequent discussion with Santee Cooper) of the Reform Plan and the Department’s simultaneous receipt and negotiation of Management Proposals and Sale Bids. The Bidding Process also includes the negotiations between Central and each of Santee Cooper and the parties that submitted Sale Bids or Management Proposals, as required by Section 5 of the Joint Resolution. In addition, the Bidding Process includes the verification, evaluation, and analysis carried out by the Department and the Professional Service Experts of the Reform Plan, the Management Proposals, and the Sale Bids.

“Black & Veatch” means Black & Veatch Corporation.

“Black & Veatch Report” means the Independent Technical and Environmental Assessment, dated October 25, 2019, performed by Black & Veatch and prepared for the Department, which was made available to Participants in the Bidding Process.

“Central” means the Central Electric Power Cooperative, Inc.

“Central Coordination Agreement” means the Power Systems Coordination and Integration Agreement dated as of December 31, 1980, as amended (but without regard to any modifications offered by Santee Cooper during the Bidding Process). Generally speaking, the Central Coordination Agreement provides that Santee Cooper will supply all of the wholesale power needs of Central’s member cooperatives located in the State above and beyond power self-supplied by the members or their customers (which are subject to certain limits).

“Confidential Information Presentation” means the Confidential Information Presentation dated October 2019, prepared by Moelis and posted to the Data Room.

“Conform Plan” means the plan created by Santee Cooper for the Bidding Process in conformity with the Process Letter.

“Cook Litigation” means the lawsuit *Jessica S. Cook et al. v. South Carolina Public Service Authority et al.* (case no. 2017-CP-25-00348 filed in the Hampton County, S.C., Court of Common Pleas).

“Data Room” means the virtual data room hosted by Intralinks as updated and maintained by the Professional Service Experts for the purpose of administering the Bidding Process.

“Department” means the South Carolina Department of Administration.

“Dominion” means Dominion Energy, Inc.

“Dominion DCA Claims” means claims relating to proceedings against Dominion as well as taxes and fees assessed on Dominion relating to VCSNS 2 and 3 for which Santee Cooper may have liability pursuant to the Design and Construction Agreement between Santee Cooper and Dominion dated October 20, 2011.

“Dominion Management Agreement” means the Management Services Agreement between Santee Cooper and Dominion in the form included with the Dominion Management Proposal and attached to this Report as Exhibit B.1.

“Dominion Management Proposal” means the Management Proposal submitted by Dominion (including the Dominion Management Agreement and all Ancillary Documents) and reflecting the results of negotiations with the Department and Central after November 26, 2019, attached to this Report as Exhibit B.

“Dominion Opinion Letters” means the draft opinion letters from McGuire Woods LLP regarding federal tax and financing implications of the Dominion Management Agreement.

“Draft Asset Purchase Agreement” means the draft asset purchase agreement prepared by the Department and its Professional Service Experts posted to the Data Room.

“Draft Disclosure Schedules” means the draft disclosure schedules to the Draft Purchase Agreement posted to Data Room.

“Draft Power Purchase Agreement” means the draft *pro forma* Power Purchase Agreement with Central posted to Data Room.

“E3” means Energy and Environmental Economics, Inc.

“Earnest Money Deposit” means the \$25 million deposit from each ATT Counterparty that entered into an Agreement to Transact, which is provided pursuant to, and subject to the terms of, each such entity’s Agreement to Transact and Escrow Agreement.

“EIA Case” means the U.S. Energy Information Administration projection of natural gas spot prices at Henry Hub published in the 2019 Annual Energy Outlook.

“Energy Consulting” means economic consulting services sought by the Department for the Bidding Process.

“Escrow Agreement” means an escrow agreement governing the Earnest Money Deposit in the form entered into by the Department, the Escrow Agent, and the applicable ATT Counterparty, in accordance with such entity’s Agreement to Transact.

“FERC” means the Federal Energy Regulatory Commission.

“FERC License” means the hydroelectric operating license issued by FERC to Santee Cooper for Project No. 199.

“Fixed Assumptions” means the list of assumptions provided in the Process Letter and the Revenue Requirement Model, utilizing inputs consistent with those used to develop the Sensitivities Spreadsheet, namely: inflation, fuel prices, load, gypsum prices, FERC relicensing costs, cost allocation between retail and wholesale customers, and underlying interest rates.

“FP&L” means Florida Power & Light, a wholly-owned utility subsidiary of NextEra.

“General Assembly” means the General Assembly of the State.

“Gibson Dunn” means Gibson, Dunn & Crutcher LLP.

“Gulf Power” means Gulf Power Company, a wholly-owned utility subsidiary of NextEra.

“IOU” means investor-owned utility.

“IRPG” means the Integrated Resource Planning Group proposed by Santee Cooper under the Reform Plan.

“Joint Resolution” means the Joint Resolution (A95, R113, H4287) passed by the General Assembly on May 21, 2019, and signed by the Governor of the State on May 22, 2019.

“Legal Advisory” means legal services sought by the Department for the Bidding Process.

“M&A Advisory” means mergers & acquisitions and corporate advisory services sought by the Department for the Bidding Process.

“Management Proposal” means a proposal that does not involve a sale of Santee Cooper, but is designed to improve the efficiency and cost-effectiveness of Santee Cooper’s electric

operations including, but not limited to, a management arrangement, joint venture, or alternative arrangement, and that was submitted to the Department through the Bidding Process on November 26, 2019.

“Market Case” means a case using NYMEX market forward natural gas prices at Henry Hub from 2020-2029, transitioning to the U.S. Energy Information Administration price forecast by 2039.

“Moelis” means Moelis & Company.

“NERC” means the North American Electric Reliability Corporation.

“Net Present Value” or **“NPV”** means the current value of a stream of future cash flows (both positive and negative) based on an assumed interest or discount rate of 7%.

“NextEra” means NextEra Energy, Inc.

“NextEra Sale Bid” means the Sale Bid of NextEra (including the NextEra Revised Asset Purchase Agreement and all Ancillary Documents) and reflecting the results of negotiations with the Department and Central after November 26, 2019 in the form attached to this Report as Exhibit C.

“NRC” means the Nuclear Regulatory Commission.

“O&M” means operations and maintenance expenses.

“OPEB” means Other Post-Employment Benefits.

“OPEB Trust” means the South Carolina Public Service Authority OPEB Investment Trust established pursuant to the OPEB Investment Trust Agreement, dated November 18, 2010, by and between Santee Cooper and Synovus Trust Company, N.A.

“OPIC” means the Operational and Process Improvement Committee contemplated in the Dominion Management Proposal.

“ORS” means the South Carolina Office of Regulatory Staff.

“Participant” means each entity that participated at any point in the Bidding Process as a potential provider of a Sale Bid or a Management Proposal, including each entity that did not submit a Sale Bid or a Management Proposal. The term “Participant” also includes Santee Cooper but does not include Central.

“Participant Confidentiality Agreement” means a confidentiality agreement entered into between the Department and a Participant.

“Placed Employees” means the employees to be placed at Santee Cooper, as proposed under the Dominion Management Proposal.

“PRM” means planning reserve margin.

“Process Letter” means the Process Letter dated October 14, 2019, as amended by the Process Letter Addendum, dated November 15, 2019, copies of which are attached to this Report as Exhibit F.

“Professional Service Experts” means E3, Gibson Dunn, and Moelis.

“Proposing Entity” means each entity that submitted a Management Proposal.

“Q&A Log” means the question and answer log utilized by Moelis during the Bidding Process in order to facilitate Participant diligence.

“Rainey” means the Rainey Generating Station, a 1,170 MW natural gas-fired, six-unit generating facility in Anderson County, South Carolina, consisting of one 540 MW combined cycle unit, two 180 MW simple cycle units, and three 90 MW simple cycle units.

“Reform Plan” means the plan setting forth Santee Cooper’s plans for reform, restructuring, and changes in operation that was submitted by Santee Cooper to the Department on November 25, 2019, and as subsequently modified by Santee Cooper following discussions with the Department and Central after November 26, 2019 (including all Ancillary Documents), a copy of which is attached to this Report as Exhibit A

“Report” means the report of the Department that contains the required recommendations of the Reform Plan, one Management Proposal, and one Sale Bid, together with evaluations, justifications and other information, all in accordance with Section 9 of the Joint Resolution.

“Revenue Requirement Model” means the revenue requirement model prepared by E3 and Moelis and posted to the Data Room that calculates forecasted Santee Cooper revenue requirements.

“Revised Power Purchase Agreement” means, with respect to any Sale Bid or Management Proposal, the Draft Power Purchase Agreement as modified by the Bidding Entity or Proposing Entity, as applicable: (a) initially, for inclusion with its Sale Bid or Management Proposal, as applicable, and (b) subsequently through negotiations with Central (as contemplated by the Joint Resolution). A copy of the proposed Revised Power Purchase Agreement with NextEra, as most recently provided by NextEra to Central, is attached to this Report as Exhibit C.2.

“Revised Asset Purchase Agreement” means, with respect to any Sale Bid, the Draft Asset Purchase Agreement as modified by the Bidding Entity: (a) initially, for inclusion with its Sale Bid and (b) subsequently through negotiations with the Department after November 26, 2019 (as contemplated by the Joint Resolution). A copy of the proposed Revised Asset Purchase Agreement with NextEra is attached to this Report as Exhibit C.1.

“RFP” means request for proposals.

“ROE” means return on equity.

“Sale Bid” means a bid for the sale of some or all of the assets of Santee Cooper that was submitted to the Department through the Bidding Process on November 26, 2019.

“Santee Cooper” means the South Carolina Public Service Authority.

“Santee Cooper 2019 Budget” means the annual Santee Cooper Budget published in 2018 that covers the 2019 fiscal year.

“Santee Cooper Confidentiality Agreement” means the Confidentiality Agreement entered into between the Department and Santee Cooper on October 14, 2019.

“Santee Cooper Board” means the Board of Directors of Santee Cooper.

“SCE&G” means the South Carolina Electric & Gas Company d/b/a Dominion Energy South Carolina.

“Scott Hempling” means Scott Hempling, Attorney at Law LLC.

“SCP&L” means Santee Cooper Power & Light, an entity that would be a newly-formed, wholly-owned subsidiary of NextEra and would acquire the assets and assume certain liabilities of Santee Cooper pursuant to NextEra’s Sale Bid.

“SCPSC” means the South Carolina Public Service Commission.

“Sensitivities Spreadsheet” means the Electric – Sensitivities Output spreadsheet posted to the Data Room.

“Sensitivity Case” means the Financial Forecast: DOA Scenario Calendar Year 2020-2039 dated September 2019, provided by the Department and uploaded to the Data Room.

“SEPA” means the Southeastern Power Administration of the U.S. Department of Energy, which is a federal Power Marketing Administration that sells power to preference customers, which typically consist of publicly-owned and cooperatively-owned utilities.

“SERP” means Supplemental Executive Retirement Plan.

“State” means the State of South Carolina.

“Submitting Entities” means Santee Cooper, the Proposing Entities, and the Bidding Entities.

“Supported Assumptions” means the following list of assumptions provided in the Process Letter: resource costs, improvements or efficiencies to the Santee Cooper system, and operational assumptions and limits.

“Teaser” means the short summary describing Santee Cooper’s business prepared by Moelis and attached to this Report as Exhibit E.

“Variable Assumptions” means the following list of assumptions provided in the Process Letter: purchase price, regulatory assumptions, resource plan, and financing assumptions.

“VCSNS” means the Virgil C. Summer Nuclear Station, composed of one active nuclear facility (Unit 1) and two abandoned nuclear facilities (Units 2 and 3).

“VCSNS 2 and 3” means Units 2 and 3 of the VCSNS, which are the sites of the abandoned nuclear facility construction.

“Winyah” means the Winyah Generating Station, Santee Cooper’s 1,150 MW coal-fired, four-unit generating facility in Georgetown County, South Carolina.

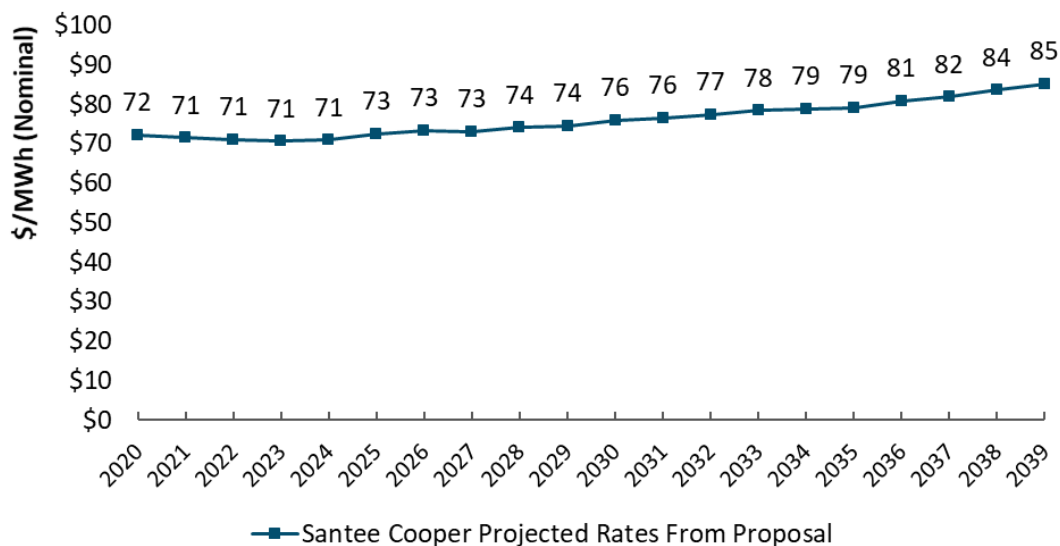
Appendix B

Projected Rates From Proposals

As discussed in the main body of this Report, the Professional Service Experts carried out a normalization process to ensure that the Reform Plan, the Management Proposals, and the Sale Bids presented rate projections that properly reflected the use of Fixed Assumptions and Supported Assumptions in accordance with the instructions provided to all Participants. The rate projections discussed in the body of this Report should be used in evaluating and comparing the Reform Plan, the Dominion Management Proposal, or the NextEra Sale Bid.

In contrast, this Appendix includes the original projected rates from each of the Reform Plan, the Dominion Management Proposal, and the NextEra Sale Bid, included without any normalization modifications. These projections are based on assumptions held by the applicable Participants and have not been vetted in any way by the Professional Service Experts. The single largest discrepancy in these rate projections, as compared to the normalized rate projections, is the fuel price commodity forecast. These rate projections should not be used in evaluating or comparing the Reform Plan, the Dominion Management Proposal, or the NextEra Sale Bid, but are included here for full transparency.

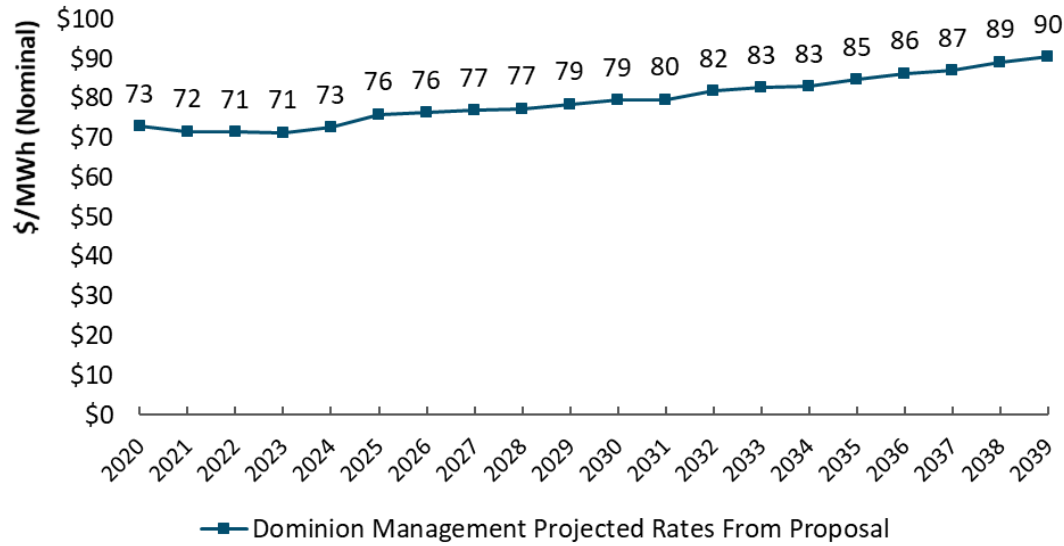
Santee Cooper



In the Reform Plan, Santee Cooper included two financial models for its business plan, with only one of the two models conforming with the Process Letter requirements. These projected rates reflect the nonconforming plan submitted to the Department. The most significant difference in this model is the assumption of very low natural gas prices. These gas prices likely correspond to gas from the proposed and controversial Atlantic Coast Pipeline, which is still in permitting stages and has an uncertain future. These low gas prices enable a significantly lower rate forecast. In addition, this model assumes the Atlantic Coast Pipeline can provide firm gas service to the Pee Dee site, enabling a lower-cost portfolio of

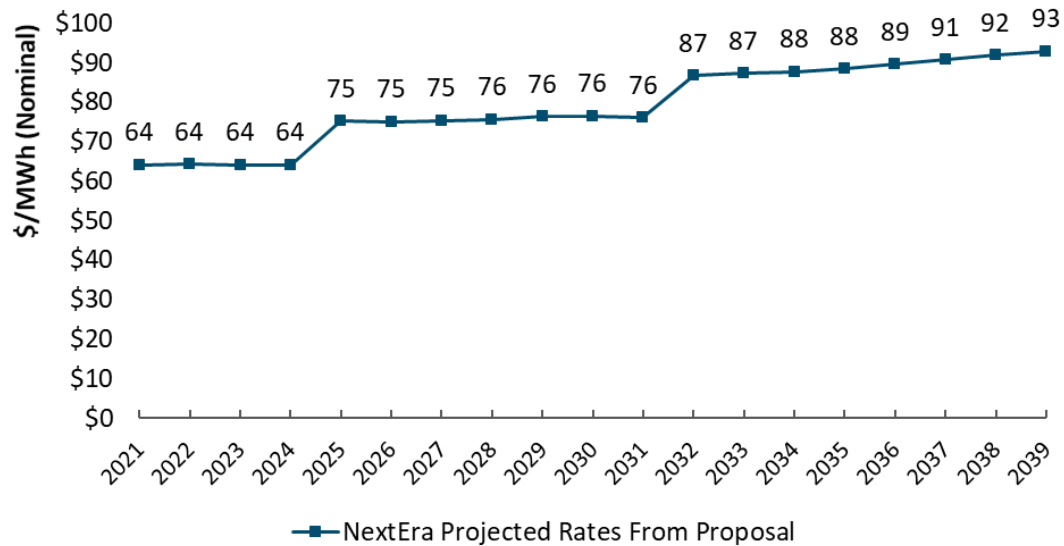
new gas resources to provide for local capacity needs. Finally, a number of normalization modifications are not reflected in these rates.

Dominion Management



Dominion submitted the Revenue Requirement Model as part of the Dominion Management Proposal with the default values provided therein and proposed cost savings associated with anticipated synergies.

NextEra Energy



These projected rates reflect the proposals as submitted without any vetting by the Professional Service Experts. A number of normalization changes are not reflected in these rate projections, including the gas commodity price forecast used throughout the period.