

# **DOA-Commissioned Independent Engineering Report**

## **Affirms Santee Cooper Operations and Practices**

Three Key Findings by Black & Veatch:

- Santee Cooper facilities are well constructed, in good condition and appropriately maintained.
- Santee Cooper's operating facilities are well staffed, with appropriate level of personnel with the right knowledge and skill sets to provide effective and reliable operations of the facilities.
- Black & Veatch also conducted a review of Santee Cooper's 2019 Business Plan used by the SC Department of Administration (DOA) as the base case in the Act 95 process and found it to be prudent and consistent with industry practice.

In October 2019, Black & Veatch Management Consulting, LLC (B&V) issued a report affirming that Santee Cooper's operations are healthy and sound. The report, which was commissioned by the SC Department of Administration to provide an independent technical and environmental assessment of Santee Cooper as part of the Act 95 process, reveals a utility that is well-managed and operated, and properly investing in its assets. This finding is supported by Santee Cooper's excellent reliability record.

As the basis for its report, B&V personnel conducted multiple onsite inspections and interviewed Santee Cooper staff and management with operational responsibility. Additionally, B&V reviewed historical performance data and historical and projected operational and capital expenditures related to Santee Cooper's electric system. B&V also reviewed Santee Cooper's related organizational structure. Based on these inspections, interviews, and data reviews, B&V issued the following conclusions.

### **Generation, transmission and distribution operations**

- The facilities are well constructed, in good condition and appropriately maintained.
- Santee Cooper personnel are very knowledgeable and capable of properly maintaining and operating the facilities.
- The performance of Santee Cooper's generation, transmission, and distribution facilities has generally matched or outperformed similar facilities in the region.
- Santee Cooper's operations and maintenance (O&M) practices and procedures are consistent with best industry practices for the assets in its portfolio.
- Proper maintenance and capital investments have been made where appropriate at the facilities, and B&V believes that Santee Cooper has a well-established and effective process for prioritizing asset maintenance and capital improvement projects.
- Technologies and equipment are from well-established and reputable original equipment manufacturers (OEMs) and represent decades of successful operation and evolution of design.

- The age distribution of Santee Cooper's transmission structures appears typical and ages are relatively evenly distributed, which guards against a larger-than-average portion of the system reaching the end of useful life at once.
- Budgeted transmission and distribution O&M is reasonable, given projected growth, which is based on reasonable assumptions.
- Dams on the Santee and Cooper Rivers are in satisfactory condition and adequately maintained, with no conditions adversely affecting the safety, performance, and operational reliability of the dams.

## **Environmental and Safety**

- Santee Cooper's key safety metrics are similar to, or better than, averages for similar utilities, indicating that Santee Cooper's safety programs appear to be having a real and meaningful impact on the overall health and safety of the Santee Cooper employees.
- Santee Cooper has maintained adequate compliance with its applicable environmental permits and requirements; no significant violations or ongoing litigations were identified in the review.
- Records document a generally responsible company with only a reasonably expected range of more minor incidents in the reviewed 2014 to 2019 period, with no major incidents identified.
- The budgeted costs associated with ongoing environmental remediation and decommissioning efforts for Santee Cooper's assets, most notably coal generation ash pond closure, appear reasonable according to the remediation plans provided by Santee Cooper as well as B&V expectations for similar obligations in the region.

## **Santee Cooper Management**

Santee Cooper's operating facilities are well staffed, with appropriate level of personnel with the right knowledge and skill sets to provide effective and reliable operations of the facilities.

In addition to the operational review, B&V also conducted a review of Santee Cooper's 2019 Business Plan used by DOA as the base case in the Act 95 process and found it to be prudent and consistent with industry practice. The plan was also reviewed by E3, another DOA consultant, who also found it to be sound. Santee Cooper has subsequently taken steps to lock in the assumptions made in the plan, further solidifying its foundation. B&V questioned two assumptions – the likelihood of obtaining expected proceeds from the V.C. Summer 2&3 assets and the reliance on the Atlantic Coast Pipeline("ACP") for a natural gas supply to the preferred site for a potential future combined cycle resource generation resource (although B&V noted correctly that Santee Cooper modeled an alternative site that did not rely on the ACP because it was aware there was risk the ACP would not be completed).

Santee Cooper's current plan moderates projections for potential V.C. Summer proceeds to \$100 million (down from \$425 million). We have settled a dispute with Westinghouse over ownership of the assets, and, based on the settlement terms, there is good reason to believe the \$100 million projection is achievable, and likely conservative. With the cancelation of the ACP, Santee Cooper is now focused on the alternative site near VC Summer. Specific findings:

## **Business Plan and Financial Forecasts**

- Overall, the approaches taken by Santee Cooper in development of its 2019 Business Plan appear prudent and consistent with approaches adopted by other similar utilities.
- Overall, the capital and O&M budgets associated with new generation assets appear reasonable for their respective technology types and potential development sites.
- Major assumptions and associated spending behind the Business Plan appear reasonable; however, B&V believes that certain assumptions merit additional investigation and sensitivity analysis because of their materiality to the Business Plan as well as events outside of Santee Cooper's control:
  - The \$425 million of expected proceeds from selling V.C. Summer Units 2 and 3 equipment appears optimistic. (Again, we have updated that projection to a more conservative \$100 million.)
  - The Business Plan heavily features new gas fired generation capacity and assumes gas will be made available through the ACP, which has halted construction because of legal challenges at the time of this report. (Again, we are now focused on our alternative site identified in the Business Plan.)
- Regarding the alternative site for the NGCC, B&V identified no technical issues with interconnecting to the Transco pipeline, and the assumed \$200 million budget for a lateral interconnection appears reasonable.

This independent, third-party assessment by industry professionals engaged on behalf of the State of South Carolina shows that Santee Cooper is managed and operated in line with industry practices, investing adequately in its system, has good safety and environmental practices, and is planning properly for future investments. The full B&V report is available at [www.santeecooper.com/progress](http://www.santeecooper.com/progress).