



C. Dukes Scott
Executive Director

STATE OF SOUTH CAROLINA
OFFICE OF REGULATORY STAFF

1401 Main Street
Suite 850
Columbia, SC 29201

April 29, 2016

Ms. Holly G. Pisarik
1205 Pendleton Street
Columbia, SC 29201

Dear Holly,

The ORS continuously monitors the construction of V.C. Summer Nuclear Units 2 and 3 (Units). ORS representatives met with Carl Churchman, Westinghouse Vice President and Project Director and Jeff Hawkins, Fluor Vice President and Site Director, to discuss the status of the project and their views on the transition process. This was the ORS' first meeting with Fluor's Site Director. Both provided informative and candid responses to the ORS' questions. They recognize the major issues confronting the project and are working diligently to resolve them. Among the major areas discussed were the following:

- **Craft Labor Transition** – Fluor is in the process of assuming direct responsibility for the craft labor and support personnel previously employed by Westinghouse. The official transition was scheduled to occur from April 2 through April 4. As of April 4, all craft labor that is not otherwise subcontracted will be Fluor employees, even changing to Fluor tan-colored hardhats. Westinghouse will retain some employees at the management level.
- **Area Manager Structure** – Fluor is moving the project to an Area Manager structure, with the Area Manager responsible for all construction work within his or her designated area. There are seven Fluor Area Managers on the construction site. This restructuring brings the project into alignment with industry practices as it is the management concept used on most large construction projects.
- **Commodity Procurement and Availability** – Fluor will now be in charge of commodity procurement and will be responsible for ensuring the correct material is available when needed for construction. This is an area that needed significant improvement, and Fluor has an opportunity to resolve the issues in this area that have hindered construction progress.
- **Process and Procedure Review** – Westinghouse and Fluor are reviewing the major site processes and procedures and are instituting improvements where they find opportunities to do so. They anticipate completing these reviews and putting revisions in place by June 2016.

- **Productivity Improvement Plan** – A productivity improvement plan has been developed that sets goals for productivity factors based on overall sustained project completion of 1% per month by the end of June, increasing to 2% per month by the end of the year, and to 3% per month by the end of March 2017. This plan includes implementing a two-shift schedule, with each shift working ten hours per day, six days per week.
- **Module Suppliers** – A summit meeting with all module suppliers was held March 30, 2016, with the goal of familiarizing suppliers with current requirements and accelerating the production and delivery of quality sub-modules to the site. If successful, it will have a positive effect on module production, which is a critical path activity.
- **Fluor Recruiting Network** – Fluor is using its worldwide network to replace certain personnel and to expand the labor force on site. This process is expected to lead to a significant increase in site staffing in the near future.

The ORS is aware of and concerned about recent news media reports regarding the financial stability and viability of Westinghouse's parent company, Toshiba. ORS and SCE&G are both tracking the situation. Toshiba has taken a number of recent steps to improve its financial situation, including selling non-core business units. The EPC contract contains several provisions to help mitigate the risks associated with Toshiba's financial health. Per the EPC contract, Westinghouse is required to provide letters of credit, calculated annually and based on a portion of the estimated construction costs, if Westinghouse's credit rating reaches a certain level. The EPC contract also contains a provision that allows SCE&G to request that certain intellectual property associated with construction be escrowed. SCE&G is in the process of evaluating the extent to which they would like to exercise this escrow provision.

Sub-module delivery and erection continue to be a major cause of construction delays. Progress occurred on the fabrication of the Unit 2 CA03 module in March, and a portion of the concrete fill of the Unit CA02 module was completed in April. Good progress has also been made on the Unit 3 CA05 module, which is complete and ready to be installed; however, sub-module fabrication for the Unit 3 CA01 module and Shield Building panel fabrication continue to be a challenge for the project. Delivery of Unit 2 sub-modules from all vendors also continues to be delayed.

The work activity level has noticeably increased at the site, and monthly progress is more visible than has been previously observed. The attitude of the craft labor also appears to have improved, as was manifested by many friendly greetings during the ORS' site tour. A positive attitude can benefit the work environment and increase productivity.

While significant challenges to the project remain, Westinghouse and Fluor have added leadership to the project to try to effect the required changes and improve project processes and performance. However, the true impact of these recent changes remains to be seen and will need to be closely monitored over the next several months.

We continue to make progress on the Energy Plan. Our Phase One subcommittees have worked hard to provide excellent information that will form the foundation of the report, upon which the policy can be built. Currently, the information from the committees is being compiled and crafted into a document that will be presented for public comment this summer. I appreciate

the help of all involved in this process —we would not be able to accomplish this monumental task without the very capable help of our stakeholders.

SCE&G's electric rates have been reduced to reflect lower fuel costs associated with generating and purchasing power and to allow for recovery of costs associated with promoting energy efficiency programs. The overall 4.5 percent decrease means that residential customers using 1,000 kilowatt hours of electricity per month would see their bill drop \$6.74 beginning in May, going from \$149.58 to \$142.84.

It is expected that this decrease will offset the increase to residential electric rates — to be filed in May and to be effective this fall — related to the two new nuclear units the company is building near Jenkinsville, S.C.

Also in May, SCE&G's residential electric bills will include a new line item labeled, "Renewable Energy Resources." This \$0.34 monthly charge (already factored into the above bill calculations) supports the development of programs to encourage customer investment in renewable energy.

ORS staff met with representatives of Duke Energy to discuss Combined Heat and Power, or CHP. The utility is exploring the possible use of CHP to help meet the energy needs of a significant industrial customer; they have also identified other potential customers for CHP. This process would be a benefit to the rate payer in that it would reduce fuel cost by crediting revenue from steam sale back to the utility's fuel cost expense.

Pipeline Safety staff participated in a teleconference on the Pipeline Data Mart, a system established by PHMSA (Pipeline and Hazardous Materials Safety Administration) for state programs to input their safety statistics. Staff also participated in a State Inspection Calculation Tool webinar; this tool is significant because it determines our staffing levels for the pipeline safety program.

Our Pipeline Safety staff continues to gain expertise and to share best practices. The program supervisor attended the National Association of Pipeline Safety Representatives southern region conference, at which he gave a presentation on the status of pipeline safety in South Carolina. One of our inspectors has participated twice this month in federal training in Oklahoma City.

The Deputy Director of Safety and Transportation is drafting a letter to go out from the SC Pipeline Emergency Response Initiative (SC PERI) to fire chiefs and other first responders in the State asking them to participate in the SC PERI initiative. He also gave a presentation at the Utility Public Safety Alliance national conference in Charleston regarding ESF 12's emergency management responsibilities.

The Emergency Management Division, electric cooperatives, and the ORS are collaborating on a project to improve the mapping tools used at EMD.

ORS Consumer Services investigated 210 consumer complaints and inquiries in the past 30 days and recovered a total of \$3,025. Of this total, notable amounts recovered for individual consumers are as follows:

- \$1,247 for a Duke Energy Carolinas customer due to resolution of bill responsibility
- \$610 for a Duke Energy Carolinas customer due to resolution of bill responsibility

The Water/Wastewater department held its annual water/wastewater workshop on April 15th at the PSC. Over 40 attendees benefited from the useful industry information provided for them at the workshop. Commissioner Howard and I spoke at the event, as did several technical experts.

If you have any questions or concerns, please feel free to contact me. Thank you for your ongoing support of the Office of Regulatory Staff.

Sincerely,



C. Dukes Scott
Executive Director