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Executive Director

STATE OF SOUTH CAROLINA
OFFICE OF REGULATORY STAFF

1401 Main Street
Suite 850
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May 27, 2016

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

Dear Holly,

In addition to our monthly site visit and document activities, the ORS is in the process of reviewing SCE&G's supplemental responses to the request for records and information that was issued on March 4, 2015 regarding the October 2015 amendment (Amendment) to the Engineering, Procurement and Construction Agreement for the construction of V.C. Summer Nuclear Units 2 & 3. Thus far during our review process, ORS has identified the following concerns:

Costs shown in the Amendment are the result of a negotiation and do not represent a detailed accounting of the costs associated with each and every remaining project activity. Thus far, no rigorous and detailed comparative roll-up of the final costs is available. This presents a challenge as ORS evaluates and assesses the project costs presented in the Amendment. It is unclear in some cases how the costs in the Amendment interface with cost increases in Order No. 2015-661, particularly in the area of Estimated at Completion costs, commonly referred to as "EAC." The ORS continues to work with SCE&G in an effort to obtain a clear path for the dollars in the Amendment, with documentation.

The construction schedule, and in particular the Unit 3 construction schedule, remains an area of concern. The currently available Project Integrated Schedule has several major activities with artificially held and constrained dates that do not adequately reflect the impacts of delayed precursor activities. Last month, this schedule still supported the Guaranteed Substantial Completion Dates from the Amendment of August 31, 2019 for Unit 2 and August 31, 2020 for Unit 3. Recently, however, the estimated completion dates have moved out to November 2019 for Unit 2 and September 2020 for Unit 3. Movement with respect to the completion dates is not abnormal as schedules are revised and mitigated; however, these changes in the early stages of the transition warrant attention. The number of mitigation strategies being employed—in addition to the fact that a detailed schedule including Fluor's complete input for both activities and

resources is not expected to be available until the fall— is a cause for concern. The ORS believes that additional delays may be identified in the project completion dates, especially in Unit 3. These factors make it difficult for the ORS to evaluate the reasonableness or prudence of the proposed schedule changes associated with the Amendment. The ORS continues to meet monthly with Westinghouse Electric Company (WEC) scheduling personnel and SCE&G regarding the status of the schedule.

SCE&G's 1st Quarter 2016 Report includes several estimates for proposed change orders and discussions regarding proposed changes to Owners' Costs. It is challenging for the ORS to evaluate costs associated with unsigned change orders because the backup documentation is not typically complete until a change order is signed. As such, the ORS did not previously have the opportunity to evaluate these estimates. The ORS currently is working with SCE&G to obtain all available backup documentation to support these potential change orders.

With regard to construction progress on the project, the ORS has observed the following:

Positives

- SCE&G completed the concrete fill within the walls of the Unit 2 CA20 structural module on April 5. As the first concrete fill of a major structural module on the site, completion of this item is a significant accomplishment.
- All 17 submodules on Unit 2 CA03 are now standing upright on the stand in the fabrication tent on site, and final welding and outfitting of the module are underway. The module is on schedule for placement in the containment vessel in June.
- Newport News Industrial has made good progress in meeting their most recent schedules for delivery of Shield Building (SB) panels, and the erection of Course 4 of the SB panels has been completed at the construction site.
- Progress has been made on the on-site fabrication of the Unit 3 CA20 module, subassemblies 1 & 2, in the Module Assembly Building (MAB) that supports an August 2016 placement date. Some recent setbacks relating to welding have been identified, but these issues are in the process of being addressed. All 72 submodules for this module have been delivered to the site, and subassemblies 3 & 4 have already been placed in the Unit 3 Auxiliary Building.
- Progress was evident in the MAB on the Unit 3 CA01 module. Six submodules were erected on the stand in a single week in April, which represents the highest production yet on this activity.
- Unit 3 Containment Vessel Ring # 1 installation was completed on April 13.
- Unit 3 CA05 module was set on May 4.

Concerns

- SCE&G received notification on April 21 from WEC of a quality paperwork issue with Mangiarotti components already delivered to the site. The issue involved sub-suppliers of safety-related pressure boundary materials and had the potential to impact the accumulator tanks, core make-up tanks, pressurizers, passive residual heat removal (PRHR) heat exchangers, flued heads, and guard pipes. Currently, the only identified potential impact is to the PRHR heat exchangers. This issue may be a 10 CFR Part 21 reportable infraction.
- The repairs to Turbine Building Bay 1 relating to an unacceptable concrete cold joint have been significantly delayed and are not progressing well. The hydrolasing contractor, who had been removing concrete from the affected area, did not meet promised productivity levels. SCE&G has ceased hydrolasing activities and is now pursuing alternate paths to resolve this issue.
- Progress on the Turbine Buildings continues to be significantly behind schedule (up to 6 months late in some cases), primarily due to craft labor shortages and diversion of labor to Nuclear Island work. SCE&G is working with Fluor and the nuclear construction organization within Westinghouse (WECTEC) to address this issue.
- Continuing commodity shortages have resulted in delays. Fluor is scheduled to assume greater responsibilities in commodities purchasing and control. Commodities had previously been procured on a “just-in-time” basis. The visibility of commodity needs on construction planning documents has been enhanced. As Fluor’s role in the project increases, commodities purchasing and control is an area with opportunities for improvement.
- Construction labor productivity rates and overall productivity improvements have not yet significantly increased, although the activity levels have increased. Craft labor manpower increases will need to occur soon in order to support project completion dates. Process changes in several areas such as welding, procurement, and work-package preparation and closure will also soon need to be implemented to meet completion schedules.
- Progress in completing the areas of the Unit 2 Auxiliary Building that support the SB panels, commonly referred to as the Reactor Containment Areas, has been problematic, primarily due to design changes and commodity shortages. This area is very near critical path and needs additional focus and effort.
- Mechanical module delivery continues to fall behind schedule. As a result, SCE&G and WECTEC are considering moving more fabrication to the site. While this may improve quality and provide better support construction, it will increase the demands on craft labor on-site and may increase project costs.

More activity and project progress were visible during this site visit; however, challenges remain and the full benefits of the transition to the new contracting arrangements are yet to be realized.

We consistently examine our organizational structure to enhance our representation of the public interest in utility matters. Recently, we have implemented changes to improve our service delivery and streamline our business processes. I am pleased to announce the formation of the Utility Rates & Services Team. The Utility Rates & Services Team performs a wide variety of analytical, research, and compliance duties in support of investor-owned electric, natural gas, water and wastewater utility program areas; these duties include the provision of consumer assistance, complaint mediation, and education.

This new Team is comprised of an experienced leadership staff including:

- Dawn Hipp, Director of Utilities, Safety & Transportation. Dawn is a 12-year veteran with the ORS and is currently responsible for daily operations of the Utility Rates & Services Department and the Safety & Transportation Department.
- Willie Morgan, Deputy Director of Utility Rates. Willie is a registered Professional Engineer and is responsible for the regulatory analysis performed to support the various filings of the investor-owned electric, gas, water and wastewater utilities.
- Michael Seaman-Huynh, Senior Regulatory Manager. Michael continues as the lead regulatory analyst responsible for electric fuel proceedings and economic development contract review.
- Sarah Johnson, Deputy Director of Utility Services. Sarah joins the ORS with experience in de-regulated gas market analysis and telecommunications tariff design. Sarah's team will provide consumer education, complaint mediation, and education as well as analyze and research the renewable, demand-side management and energy efficiency programs of the electric utilities.
- April Sharpe, Consumer Services Program Manager. April has been in her role as the supervisor of the Consumer Services department since the ORS was created. Her team of 4 investigators will continue to assist consumers with their questions and complaints related to investor-owned utilities.
- Robert Lawyer, Senior Regulatory Manager. Robert has been with the ORS 9 years in the Auditing Department. His financial review experience will be an asset to the projects he will manage including review and analysis of investor-owned utility distributed energy generation programs, solar leasing, demand-side management and energy efficiency.

Staff has also been hard at work in preparing for the Duke Energy Progress fuel case; the hearing is scheduled for June 9th. Thus far, we have finalized our review and recommended an adjustment of \$73,000. This adjustment was due to removing some purchased power costs as a result of an extended outage at Brunswick Unit 2 in North Carolina. Based on the ORS' analysis, an average residential customer using 1,000 kilowatt hours monthly would see a \$2.77 decrease in their monthly bill, which equates to a 2.64% decrease.

In May, the ORS certified an additional two solar leasing companies. Both of them are serving the small, non-residential customer segment. Currently, 10 solar leasing companies are certified, and 8 applications are pending.

We continue to make progress on the Energy Plan. A first draft of the Phase One report is now in the hands of our Editorial Board. We should be on track to have a document ready for public engagement and comment by late June. 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.

We are participating in the SC Pipeline Emergency Response Initiative (SC PERI). Our office is revising a draft letter to be sent from SC PERI to fire chiefs and other first responders around South Carolina requesting their participation in this initiative. We anticipate that the letter will go out in early June.

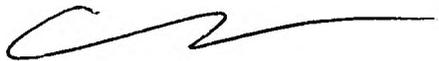
ORS Rail and Safety representatives are collaborating with the SC Emergency Management Division for an exercise that will occur in June. This exercise will simulate conditions similar to what occurred in the 2005 rail incident in Graniteville, South Carolina, but will occur in Aiken. While Graniteville was the result of a mechanical error, this exercise will be cast as an act of terror and will involve a spill of chlorine and acetone.

Over \$3,000 was recovered on behalf of consumers during May through the efforts of our Consumer Services department, which processes consumer complaints and inquiries. Some of the notable recoveries for consumers include the following:

- \$655 that was billed incorrectly to the customer
- \$1,049 via reduction of the back-billed amount to the customer
- \$785 due to removing this amount from the customer's responsibility

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