

SACE Comments Delivered by Chris Carnevale at South Carolina Tea Party Coalition Convention, January 22, 2018

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Good afternoon. It's great to be here today with all of you to talk about the V.C. Summer disaster, in which SCE&G and Santee Cooper poured billions of dollars into a nuclear power plant project, and then cancelled it, creating one of the biggest scandals in South Carolina history. I was asked to talk about what's really going on, who is responsible for the mess, and what's being done to fix it. So that's what I'm going to try to get to today in the next 15 minutes.

I've prepared some remarks that go over some of the finer points of the situation, but really I can sum up the fiasco in just one sentence:

Monopolies, set up by the government, have been taxing us, killing competition, and taking away our freedom.

The V.C. Summer scandal is almost too complicated to understand, but peel it back, layer by layer by layer, and at its core, it is a story of regular people like you and me getting fleeced by an awful deal cooked up to corrupt public policy and take our money to use against us ... And year after year, the money they've collected from every utility customer's bill has been paid out in shareholder dividends, executive bonuses, and overpriced contracts.

Likewise, the solutions to the mess can be terribly complicated, but it all boils down to this: in South Carolina's energy system, are we going to continue the failed path of corrupt monopoly control that brought us to this point, or free our state's electric customers to enjoy customer choice in a fair power market that people can understand?

Now that I've given you the elevator speech on the situation, let me back up and fill you in on some of the many details of the story.

What do you think of when you hear the phrase "V.C. Summer?"

Scandal? Boondoggle? \$9 billion dollars spent on a big hole in the ground, financed by us customers. Many South Carolinians have already paid thousands of dollars for a project that will never ... be ... complete. As an SCE&G customer, I'm now paying 18% of my electric bill for a power plant that will never even burn my toast.

What comes to my mind mostly are the words "corruption" or "scam." I'm guessing many of you may feel the same way.

In thinking about how we got to this point, it might surprise you to hear, but the V.C. Summer scandal is simply a natural continuation of the long-term trend of monopolies rigging the game by controlling the legislative debate and silencing the watchdogs that are supposed to call foul.

A lot of people ask why do we have monopoly utilities anyway? Why isn't there a competitive market? Going back for a century, utilities have been granted monopoly status in exchange for guaranteeing everyone reliable, affordable power supplies.

And who makes sure the monopoly utility keeps its end of the bargain? A public regulator—the Public Service Commission.

But why would our Public Service Commission let the utilities start charging you for a plant that wasn't even built?

In 2007, SCANA—that's the parent company of SCE&G—changed the rules of the game—they wanted the profit before having to finish a plant.

So in 2007 the utilities wrote a bill called the Base Load Review Act to accomplish their purpose and guaranteed passage of the bill by filling up legislators' campaign coffers and flooding the Statehouse with lobbyists. In 2007, SCANA tripled their contributions to your legislators. So of course, the bill passed unanimously in the Senate and almost unanimously in the House. They used your money to lobby politicians for laws to get even more of your money.

Now with the customers on the hook for the bill, SCANA got the V.C. Summer power plant construction project approved with a guaranteed 11% rate of return. With the return guaranteed, the more money SCANA spends on the project, the more money SCANA executives, shareholders and bondholders can take from us utility customers.

Cost overruns and construction delays? ... more money for investors. Can you imagine getting a bonus for doing a bad job?

So over the years that the project was being developed, the estimated cost to complete the project ballooned to over double the initially estimated cost and almost double the estimated timeline to finish construction. And all of this was done on our dime, with constant rate increases. Meanwhile, SCANA made sure legislators got their share, pouring \$1.7 million into candidates' campaigns and PACs since 2008 and another \$1.5 million in those years on employing 8 to 10 State House lobbyists each year while they collected more and more of our money.

Finally, last July, the project was canceled because the lead construction contractor went bankrupt and it became clear there was no way the project could be completed economically, if it could even be completed at all. It is cheaper to simply scrap the project, even with all the sunk costs, and build other energy sources than to keep pouring money into the money pit. As controversial as it was, cancellation was the right call to stop the financial hemorrhaging.

So what does the cancellation of the project mean for South Carolina residents and businesses?

Overall, 9 billion dollars were sunk into the project. Even though the project only made it to being one-third of the way built, and is now cancelled, there are still billions of dollars in bills and someone's got to pay. The question is who will it be?

Ask different people and you'll get different answers, but it all boils down to that there are three parties that could potentially end up holding the bill: the customers, the taxpayers, or the shareholders.

First, there's the customers. The customers who have already been paying toward this project for almost a decade, and are captive to the power companies by law. There is no competition allowed among electricity providers, so since customers can't shop around on the competitive market for an alternative power company, the only way they can protect themselves against skyrocketing energy costs is by improving their home's energy efficiency or installing solar to generate their own power. Making the customers pay is of course the preferred choice of SCANA.

Second, there's the taxpayers. This means that even if your family or business doesn't get power from SCE&G or Santee Cooper, you may be on the hook for some kind of bailout. Watch out for special state tax deals, or some provisions in the sale of Santee Cooper that quietly slip a bill in the pocket of every South Carolina taxpayer.

Third, there's the shareholders and bondholders. The SCANA shareholders—who elect the company officers who were directly responsible for filling the legislators' campaign coffers, lobbying them to pass the Base Load Review Act, and then overseeing the disastrous construction project. The SCANA shareholders have profited handsomely from the V.C. Summer project, with its guaranteed rate of return, for 9 years. Yet now when there is actually some risk to them—risk that an investor intrinsically agrees to when making an investment—SCANA says that making the shareholders pay the balance of the V.C. Summer bill would bankrupt the company. They threaten that if the nuclear surcharges stop, they will go bankrupt and lots of people will lose their jobs.

Fortunately, some fact checking by a third-party audit has revealed this statement to be mostly scare tactics. The audit found that SCANA is unlikely to go bankrupt should it have to pay its share of the costs and could pay for it by reducing or suspending the roughly \$500 million a year in dividends that it pays its shareholders.

The conversation over who's going to pay, and how much has evolved over the past few months. Initially, in August, SCANA proposed that customers keep paying off the bill over 60 years. Now, SCANA is trying to sell out to a bigger power company, but the big condition of the deal is that customers will still have to keep paying 13% of their bill for the abandoned project for the next 20 years.

While 13% is only a slight reduction from what we're paying now, they're offering to sweeten the deal by sending an immediate \$1,000 rebate check. This sounds nice, but when you do the math, you realize it's just a payday lending scheme—they pay us \$1,000 now and we pay them thousands over the next 20 years.

Dominion Energy, from Virginia, is the company currently proposing the merger with SCANA, however, if the deal falls apart, a second company is waiting in the wings. And believe it that

neither of these companies will be satisfied if they don't get South Carolina residents continuing a long-term bailout of the V.C. Summer disaster.

So what comes next?

Please make sure to talk with your legislators to let them know you are counting on them to make fundamental reforms and free our state's electric customers to enjoy customer choice in a fair power market that people can understand.

Also, please be in touch with me and my organization so we can work together.

As SCANA's merger proposal plays out, our legislature will be considering many important bills that have been filed to help with the situation. None of the bills go far enough to truly end the monopoly corruption, but some of the bills tackle essential problems. For example, there are bi-partisan bills filed to:

- repeal the Baseload Review Act, a.k.a. the nuclear tax
- ban campaign contributions from regulated utilities
- promote solar freedom and get rid of the utilities' arbitrary cap on how many customers can sign up for fair terms when installing solar power at their home and business
- remove bureaucratic barriers from utilities using the lowest-cost energy resources
- finally creating a real consumer advocate who can fight bad utility proposals, so that everyday people don't need to spend so much time untangling the self-serving deals that utilities strike

Our state will take years to recover from the disaster of V.C. Summer. But it will go faster if we put into action what we already know about South Carolina's path to a prosperous energy future: we need to end the era of arrogant monopoly utilities acting above the law and holding hostage our public policy process and our wallets.

The bottom line is this: no matter who purchases SCANA, no matter who purchases Santee Cooper, unless we make fundamental reforms and free our state's electric customers to enjoy customer choice in a fair power market that people can understand, you, I, and every customer of SCE&G and every state taxpayer who owns Santee Cooper will still be holding the bill.