



James E. Brogdon, Jr.
Senior Vice President and
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May 18, 2005

Michael N. Couick, Esquire
Director of Research
Senate Judiciary Committee
101 Gressette Senate Office Building
Columbia, SC 29202

Re: CSFB Documentation

Dear Mike:

Enclosed herewith are copies of documentation received from CSFB regarding Board involvement in the preparation of the study completed by that entity.

Should you need anything further, please do not hesitate to contact me.

With regards, I am

Very truly yours,

James E. Brogdon, Jr.

JEBjr:kays

Enclosures

PENGAD 800-631-6289
EXHIBIT
22
5-19-05

BY FACSIMILE & FEDERAL EXPRESS

May 17, 2005

James Brogdan, Esq.
General Counsel
Santee Cooper
One Riverwood Drive
Moncks Corner, SC 29481-2901

Dear Mr. Brogdan:

In response to the May 12th letter from Lonnie N. Carter, Esq., and our discussion on Friday, May 13th, we enclose the requested communications between CSFB LLC and the following individual members of the Santee Cooper Board of Directors:

Patrick T. Allen
Paul G. Campbell Jr.
Richard H. Coen
Clarence Davis
G. Dial DuBose
Carl O. Falk
Guerry E. Green
J. Calhoun Land, IV
Keith D. Munson
James W. Sanders

We understand that Santee Cooper intends to produce these communications to Michael Couick, counsel to the South Carolina Senate Judiciary Committee.

Please note that the enclosed communications were collected from the currently available Microsoft Outlook mailboxes of CSFB employees who worked on the engagement, and reflect communications occurring after the date of the engagement letter, dated November 19, 2004. In order to provide a timely response to the request, CSFB did not initiate the time consuming and expensive process of restoring and searching email back-up tapes, nor has it searched any email archival system for responsive material.

Please do not hesitate to contact me with any questions you may have concerning the enclosed documents.

Sincerely,



Deborah Burstein

cc: Michael N. Couick, Esq. (w/o encl.)

Steffen, Susan

From: Davies, Adam
Sent: Monday, January 10, 2005 1:08 PM
To: Keith D. Munson (E-mail)
Cc: Dowd, Laetitia
Subject: Central Agreement

Keith,

Further to our call earlier today, please find attached a summary put together of the key contract provisions which may impact any potential transaction were one to happen.

If you feel we are missing additional relevant considerations I would be very appreciative of your input.

Kind regards,



Central
Agreement.pp

ADAM S. DAVIES
Vice President, Mergers & Acquisitions
Credit Suisse First Boston LLC
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<mailto:adam.davies@csfb.com>

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PROJECT SC



CONFIDENTIAL | JANUARY 2004
PRELIMINARY | SUBJECT TO FURTHER REVIEW AND EVALUATION

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Central Coordination Agreement Key Provisions

Coordination Agreement, December 31, 1980

Executive Committee (Article II (A))

- ▶ Executive Committee formed of one member of the board of directors of SC, one member of the board of trustees of Central, the CEO of SC and the general manager of Central plus a secretary revolving on a two year basis chosen in an alternate fashion by each of SC and Central. The Executive Committee shall meet at least semi-annually with the purpose of enforcing the provisions of the Central Agreement, resolving disputes, and any other matters as may be agreed.

Generating Resources (Article IV)

- ▶ It is the intent of both parties to preserve the all-requirements provision of the Agreement.
- ▶ It is SC's responsibility to construct or otherwise acquire new generating resources as required to meet demand and energy requirements determined by a joint SC / Central planning committee which meets at least annually to consider and agree a 20 year demand and energy forecast.

Dispatching and Operation of Capacity Resources and Transmission System (Article X)

- ▶ SC shall be Central's sole agent for entering into short-term energy transactions with other utility systems. Accordingly, purchases of energy from others to serve the requirements of the Combined SC-Central System shall be made by SC.

Term (Article XIV (A))

- ▶ See Contract Amendment.

Central Coordination Agreement Key Provisions (cont'd)

Successors and Assigns (Article XIV (E))

- ▶ Agreement may be assigned to a successor or assign of either party upon written consent of the other, and shall be binding upon and apply to such successor and assigns as if original party to the Agreement.

Selling or Leasing of SC System (Article XIV (F) & (G)) / Contract Amendment §12 (G)

- ▶ If SC's system (generation and/or transmission) is sold or leased to another entity, Central has the right to terminate any existing leases of Central facilities to SC. Central will pay SC the excess of net book value of such system or part thereof over the principal remaining. To the extent principal remaining is greater than net book value, SC will pay Central. Central has six months from receiving notice of sale or lease of assets to exercise its option to purchase.
 - ▶ Additionally, Central has a right of first refusal to purchase SC's system if it becomes available for sale during the term of the Agreement, subject to applicable law.
 - ▶ SC has a similar right of first refusal in the event of a sale of Central.
- ## Governing Law (Article XIV (Q))
- ▶ The provisions of the Coordination Agreement shall be construed and governed in accordance with the laws of the State of South Carolina.
- ## Allowance for Capital Improvements (Exhibit I, Appendix A (VI))
- ▶ SC is able to include in its Cost of Service rate to Central an allowance for capital improvements, not to exceed 8.5% of SC's operating revenues and other income. This amount may be increased above 8.5% to the extent required to maintain the level of debt service coverage, as defined in the Agreement.

Central Coordination Agreement Key Provisions (cont'd)

Contract Amendment – March 31, 1988

IV (B) (1)

- ▶ Central rescinded its rights to construct its own generating facilities or to acquire an ownership interest in any present or future generating facilities of SC, except as provided in (2) below.

IV (B) (2)

- ▶ (a) if ownership, management or control of SC or of all or a majority of its electric system assets is transferred, sold or leased to any person, corporation, or other entity (other than an agency of the State Government), Central may construct or acquire generating resources subject to two years notice. If SC's bonds lose their tax exempt status, Central may similarly construct or acquire generating resources subject to five years notice. Central's rights provided by this section (2) shall be forfeited if it supports or promotes such change in SC's status.

IV (B) (3)

- ▶ Central agrees not to participate in or support, by corporate action, the sale, transfer, or lease to any person, firm, corporation or other entity, the ownership or control of SC, or of all or a majority of its electric system assets.

V (F)

- ▶ Whenever SC offers any industrial rate to any new or expanded direct service customer, SC must offer the same wholesale rate to Central for any new or expanded load served by Central, provided that such load, if it were the load of a direct service customer of SC, would qualify for such industrial rate.

Term (\$10 (A))

- ▶ The Agreement shall remain in full force and effect for an initial term of 35 years commencing upon the effective date of the Contract Amendment, and will automatically renew for consecutive 35 year terms.
- ▶ The Agreement can be terminated upon written notice by either party at the end of the initial term subject to at least 10 years prior notice and at any time subsequent time subject to at least 10 years prior notice.
- ▶ If ownership, management or control of SC or of all or a majority of its electric system assets is transferred, sold or leased to any person, corporation or other entity, Central shall be entitled to terminate the Agreement at any time upon 90 days written notice.

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Steffen, Susan

From: Dowd, Laetitia
Sent: Thursday, February 03, 2005 9:12 AM
To: 'kmunson@wcsr.com'
Cc: Davies, Adam
Subject: Rate comparison



fax1.tif

Keith,

Per your voice mail to Adam, please find attached the rate comparison between Santee Cooper and other utilities in the region.

Kind regards,

Laetitia Dowd
CREDIT | FIRST
SUISSE | BOSTON
Eleven Madison Avenue, 20th Floor
New York, NY 10010
Phone: (212) 325-2347
Mobile: (404) 210-3574
Fax: (646) 935-8196 (desktop)
email: laetitia.dowd@csfb.com

Rate Comparison

A comparison of the Authority's average monthly bills at selected usage levels with the average monthly bills of the three investor-owned utilities that serve in the State, based on rates on file with the South Carolina Public Service Commission (the "PSC") as of July 31, 2004, is set forth below.

	Residential Electric Service			
	500 kWh	1,000 kWh	2,000 kWh	3,000 kWh
Authority	\$42.46	\$78.08	\$149.31	\$220.54
Duke Energy Corporation	38.35	70.51	145.39	220.26
Carolina Power & Light Company	46.01	85.51	164.52	243.53
South Carolina Electric & Gas Company	47.96	90.26	180.40	270.54

	Commercial Electric Service		
	3,000 kWh	5,000 kWh	7,500 kWh
Authority	\$218.20	\$359.10	\$535.23
Duke Energy Corporation	209.19	346.10	506.58
Carolina Power & Light Company	254.96	376.64	528.74
South Carolina Electric & Gas Company	263.65	448.53	673.38

	Industrial Electric Service			
	1,000 kW 500,000 kWh	2,000 kW 1,000,000 kWh	9,000 kW 5,000,000 kWh	40,000 kW 25,000,000 kWh
Authority	\$25,000.20	\$48,800.40	\$228,651.80	\$1,085,708.00
Duke Energy Corporation	24,024.36	45,122.86	210,267.36	1,014,075.86
Carolina Power & Light Company	28,430.00	56,435.00	265,675.00	1,227,675.00
South Carolina Electric & Gas Company	25,445.00	49,690.00	232,240.00	1,099,350.00

Kozlowski, Peter

REDACTED

-----Original message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Thursday, February 24, 2005 8:45 PM
To: Mandanas, MaryBeth
Subject: RE: Santee Cooper Update

Please see Confidentiality Notice before reading email.
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I checked with our Tax guys and this is a topic outside their expertise. I spent several hours trying to just "spot the issues" and all I could determine is that it is a very complicated issue and that there is a lot of political pressure from IOU's to restrict Public Powers ability to use tax-exempt bonds for "private use." For example, if Public Utility builds a generating plant with tax-exempt bonds and sell 1/2 its power on the open market, the IOU's cry foul. To the extent that the end result of the shift would be something that an IOU could do (for example, if tax-exempt bonds are available for NOX smokestack reduction equipment) then you could rebut that criticism. However, if the Public Utility has already paid for its NOX reduction equipment and you are in essence "mortgaging" this asset with tax-exempt bonds in order to retire other bonds that are going to lose their tax exempt status, that might raise another problem - that is, that the tax-exempt bond capacity was there to encourage the adding the NOX reduction equipment, once it is there, mortgaging it with tax exempt bonds is hard to justify from this policy standpoint. The IRS has an entire section on Tax Exempt Bonds and you may ultimately need a letter ruling from the IRS to feel completely comfortable with any position. Sorry I couldn't be of more help.

When do you think you will be in a position to have a long pre-report telephone conference with the crowd you met with in Columbia (and a couple others) to discuss the preliminary findings and what they might suggest? I thought you told me you were shooting for the end of February - is that still about right? We are ready at your earliest convenience and hope it can be soon. KEITH

Keith D. Munson
Womble Carlyle Sandridge & Rice, PLLC
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104 S. Main Street
Greenville, South Carolina 29601
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864.255.5480 (Fax)
kmunson@wcsr.com
www.wcsr.com

-----Original Message-----

From: Mandanas, MaryBeth [mailto:marybeth.mandanas@csfb.com]
Sent: Friday, February 18, 2005 9:52 PM
To: Munson, Keith
Subject: RE: Santee Cooper Update

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5/16/2005

Keith,

Apologize for the delay in my response. We are moving along. Did you have anyone that could work with us on the tax-exempt issue? It would be helpful to have someone consider the possibilities of being able to get the tax-exempt debt assigned to certain properties so that the entire debt capital structure would not need to be refinanced upon an IPO type transaction.

I'll check into our involvement in Sara Lee...

Best regards, Mary Beth

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]

Sent: Monday, February 14, 2005 1:32 PM

To: Mary Beth Mandanas (E-mail)

Subject: Santee Cooper Update

Please see Confidentiality Notice before reading email.
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Mary Beth: Just checking it to see how it is going. We have a meeting next Monday and if there is any thing you need me to look into, let me know. On a totally different subject, I saw yesterday that Sara Lee is spinning off it Branded Apparel Division (Hanes, etc.). Are you guys involved in that deal? I suspect the new Branded Apparel Company will remain HQ in Winston Salem. We are the biggest firm in NC and 250 of our lawyers are in Winston Salem, so it would be pretty natural match.

KEITH

Keith D. Munson
Womble Carlyle Sandridge & Rice, PLLC
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Steffen, Susan

From: Munson, Keith [KMunson@wcsr.com]
Sent: Wednesday, March 02, 2005 3:19 PM
To: Davies, Adam
Cc: Mandanas, MaryBeth
Subject: RE: First call

Please see Confidentiality Notice before reading email.

Perfect. I will set up a bridge Conference call so you can call in from anywhere. Keith

-----Original Message-----

From: Davies, Adam [mailto:adam.davies@csfb.com]
Sent: Wed Mar 02 14:06:43 2005
To: Munson, Keith
Cc: Mandanas, MaryBeth
Subject: RE: First call

Keith, how about 10am on Wednesday 9th?

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Wednesday, March 02, 2005 12:53 PM
To: Davies, Adam
Cc: Mary Beth Mandanas
Subject: RE: First call

Please see Confidentiality Notice before reading email.

Adam: 11th is a no go all day (as well as the tenth). What else you got? I am in San Diego and my secretarty may be scheduling stuff, so the sooner you have possible dates, the better. Morning is best. I might be able to do it this the 4th, if you want to try for this week. Keith

-----Original Message-----

From: Davies, Adam [mailto:adam.davies@csfb.com]
Sent: Tue Mar 01 21:22:33 2005
To: Munson, Keith
Subject: First call

Keith,
Was not certain from your email to MaryBeth whether the morning of March 11th was good or was not good for you. This would be the preferred time for CSFB if it works for you and your team.

Many thanks.

ADAM S. DAVIES
Vice President, Mergers & Acquisitions
Credit Suisse First Boston LLC
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+1 917 754 5471 Mobile
mailto:adam.davies@csfb.com

=====
This message is for the sole use of the intended recipient. If you received

Steffen, Susan

From: Davies, Adam
Sent: Monday, April 04, 2005 6:10 AM
To: 'kmunson@wcsr.com'
Subject: Tuesday meeting

Keith,

I wanted to confirm with you our meeting for tomorrow. Mary Beth and I are looking forward to meeting with you to review the materials we have put together and discuss the situation.

We are on a flight that arrives in Greenville just after 8:30am so I expect we will be at your offices between 9 and 9:30am. Unfortunately we have to be on a returning flight a little after 2pm but this will still provide us at least 3 hours to review and discuss which should be sufficient.

Kind regards.

ADAM S. DAVIES
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Steffen, Susan

From: Munson, Keith [KMunson@wcsr.com]
Sent: Tuesday, April 05, 2005 5:57 PM
To: Davies, Adam
Subject: revised input attached



Untitled SC PUBLIC
Attachment DE AUTHORI

Steffen, Susan

From: Munson, Keith [KMunson@wcsr.com]
Sent: Tuesday, April 05, 2005 4:56 PM
To: Davies, Adam
Subject: SC History Calculation

Please see Confidentiality Notice before reading email.
.....

At \$.035 rate differential on the combined coop system for \$12.734 billion kilowatt hours is over \$440 million per year and just over \$8 billion for the remaining 18 years. I had noted \$400 million and over \$7 billion, but it is a higher. KEITH



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5/13/2005

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Steffen, Susan

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BRIEF HISTORY AND ANALYSIS OF THE S.C. PUBLIC SERVICE
AUTHORITY (SANTEE COOPER)¹

In 1926, the Columbia Railway & Navigation Company obtained a license from the Federal Power Commission to construct a hydroelectric project in the lower part of South Carolina. After the stock market crashed in 1929, South Carolina entered the Great Depression with the rest of the country and progress stalled on this private hydroelectric project. In 1932, Franklin D. Roosevelt was elected president, and he had been a supporter of public power as the Governor of New York. Representatives of South Carolina began lobbying FDR's supporters and administration concerning the possibility of the federal government participating in making the Santee River/Cooper River hydroelectric power project a public power project. FDR's administration was receptive to participating in the completion of the Santee River/Cooper River hydroelectric project.

To facilitate the federal government's involvement, legislation was introduced in the South Carolina General Assembly in 1933 to create the South Carolina Public Service Authority for the purpose of undertaking the Santee Cooper hydroelectric power generating project. However, the bill was defeated and the South Carolina General Assembly refused to create the South Carolina Public Service Authority ("Santee Cooper") (see generally, *the History of Santee Cooper 1934-1984* by Walter B. Edgar). The reasons for opposing the creation of the South Carolina Public Service Authority included the belief by many members of the General Assembly that the production of power should be left solely to the private sector. However, after the 1933 defeat, the ardent supporters of the project set out on a state-wide education campaign to drum up public support for the Santee Cooper hydroelectric power project. As a result, in 1934, the General Assembly passed legislation creating the South Carolina Public Service Authority.

In July 1935, President Franklin D. Roosevelt approved the Santee Cooper project and wrote South Carolina's Senator James F. Burns to say that he was convinced that the project would significantly overcome the distress caused by unemployment in the area. Work camps were set up for some 6000 workers, who were drawn from the certified relief rolls of every county in South Carolina. The federal government initially dedicated \$16,650,000 in grant money and \$14,850,000 in loans to fund the construction of the Santee Cooper project. (*Congressional Record* June 21, 1937, p. 6054).

The driving force behind the Santee Cooper project was the generation of power "so that electricity could be provided for the rural areas of the state. In 1936, less than 2.5% of the farms in South Carolina had electricity." (*History of Santee Cooper 1934-1984*, p. 11). Overall, in 1934, only approximately 3% of South Carolina's rural residents had electricity. By 1944, more than 93% of South Carolina's rural residents had electrical power to light their homes.

Today, Santee Cooper's predominant purpose to provide access to electricity for South Carolina residents has been universally achieved. In addition, most of the secondary aspirations of Santee

¹ This history was provided by Keith Munson, Chairman of the Santee Cooper Legal Affairs Committee and attorney with Womble Carlyle Sandridge & Rice in Greenville, South Carolina.

Cooper have also been achieved. These included: public works jobs during the Depression, eradication of malaria hazards, land reclamation, flood control in the low country and the provision of significant recreational facilities. In some respects, the Santee Cooper project is similar to another Franklin D. Roosevelt project – the March of Dimes. In 1938, President Roosevelt began a grass-roots fundraising organization to defeat the then-raging epidemic of polio. By the 1960s, the polio vaccine and the efforts of the March of Dime had virtually eradicated polio in North America. This was a crossroads event for the March of Dimes and, instead of perpetuating its existence as a polio fighting organization, it redeployed its asset and equity to address the significant problem of birth defect and prenatal care. Today, most people are likely to associate the March of Dimes with preventing birth defects, rather than its original mission to battle polio.

Santee Cooper can be viewed as being at a similar crossroads. Its original predominant mission has been achieved. Consequently, its assets and equity have necessarily been redeployed. Over time, its mission has migrated from providing initial access to needed electricity to merely providing marginally cheaper electricity to residents along the coast, electricity wholesalers and existing industry.² Because this evolution in mission occurred gradually and seamlessly over time, the current mission has not been the result of a deliberative public policy process.

When the General Assembly passed the enabling act to create the South Carolina Public Service Authority, it set up the State as the sole owner of Santee Cooper.³ Today, with assets approaching \$5 billion dollars, Santee Cooper is the largest single asset of the State of South Carolina. Consequently, a deliberative public policy discussion should occur on the appropriate deployment of the State's equity in Santee Cooper. It is possible that this deliberative process will result in the affirmation of the existing deployment of those assets. However, in order to have a fully-informed public policy discussion, it is necessary to have an understanding of the monetary value of Santee Cooper and an estimate of the State's potential equity in Santee Cooper. Consequently, a significant purpose of this study is to value Santee Cooper under various alternatives and provide a mechanism for estimating the State's equity in Santee Cooper so that the appropriate public officials can have a policy discussion concerning the most advantageous deployment of the State's limited resources. For example, if the value of the State's equity in Santee Cooper is a billion dollars, the General Assembly may want to discuss whether a billion dollars might be better deployed addressing current educational or infrastructure demands in South Carolina.

This deliberative process should probably include discussion of several related matters. For example, although Santee Cooper receives no annual appropriations from the State, it does receive the benefit of tax exempt status which has been estimated to equate to approximately \$50 million a year in lost tax revenue to the State of South Carolina. To make up for this, the General Assembly required Santee Cooper pay to the State, "... all net earnings thereof not necessary or desirable for the prudent conduct and operation of its business . . . to the State Treasurer for the general funds of the State and shall be used to reduce the tax burdens of the people of this State."

² In fairness, it should be noted that Santee Cooper's rate is not always the cheapest alternative.

³ "The South Carolina Public Service Authority is a corporation, completed, owned by and to be operated for the benefit of the people of this State." (§ 58-31-110, S.C. Code).

(§ 58-31-110, S.C. Code). According to the *History of Santee Cooper 1934-1984*, the amount distributed to the State was at one time calculated by "taking one half of the monies remaining in the Revenue Fund after all obligations have been met." (p. 19). For the past 15 years or so, the amount paid to the State has generally been limited to 1% of Santee Cooper's gross revenues. This is approximately \$10 million, which is only about 1/5 of the property taxes avoided by Santee Cooper's tax exempt status. This \$40 million difference is significant and was unanticipated at the time that Santee Cooper was created. Almost immediately after the South Carolina Public Service Authority was created, private power companies brought suit before the South Carolina Supreme Court to have the enabling Act declared unconstitutional. One of their complaints was that the tax exempt status of the South Carolina Public Service Authority would create a shift in tax liability to other citizens of South Carolina. In rejecting this argument, the South Carolina Supreme Court specifically noted that "... it appears from the record that the Authority will pay into the State Treasury a portion of its revenues which will reasonably be expected to be equivalent to taxes paid by a private corporation in like situation." (*Clark v. South Carolina Public Service Authority*, 177 S.C. 427, 181 S.E. 481, 486 (1934)).⁴ Consequently, it appears that the current practice of Santee Cooper to pay an amount equivalent to only approximately 1/5 of the foregone property taxes is markedly lower than the expectation of the entities that created and validated the South Carolina Public Service Authority in the mid-1930s.

Another issue worthy of consideration in this deliberative process is the relationship among Santee Cooper, the electric cooperatives and ultimate users of Santee Cooper electricity in South Carolina. In 2004, Santee Cooper charged Central Electric Cooperative approximately 4.5¢ per kilowatt hour (for electricity). Central then resold the electricity to the individual electric cooperative who resold the electricity to their residential and commercial customers. The mark-up by the time the electricity reached the residential customer was approximately 3.5¢ (to 8¢). For all of 2004, Central purchased 12,734,364,630 kilowatt hours of electricity from Santee Cooper, which was resold principally to residential customers of the individual co-ops. An average 3.5¢ per kilowatt mark up between Santee Cooper and the cooperative customer, would generate over \$440 million in revenue (above the cost of electricity) for the cooperative system. The current contract between Central and Santee Cooper extends through the year 2023. Therefore, over the remaining life of the contract, the cooperative system can expect to generate

⁴ Santee Cooper's payment of 1% of revenues to the state is well below the national median amount of 6.6% for large public power companies and 5.8% for all public power companies (American Public Power Association's 2005-06 Annual Directory & Statistical Report, p. 46). It is also well below the median amount of 5.1% paid by large investor-owned utilities. (APPA Statistical Report, p. 48). For 2003, Santee Cooper would have had to pay approximately \$53 million to match similarly situated investor-owned utilities, approximately \$60 million to match all public power companies, and approximately \$68 million to match similarly sized public power companies. Even taking into account the additional \$13 million dollar payment made to the state in 2004, Santee Cooper still paid less than half of the median percentage of each of these comparable power company categories.

more than \$8 billion in revenue (in excess of its cost of electricity).⁵ If efficiencies in the cooperative system could reduce the amount of revenue above the cost of electricity to \$6 billion dollars, cooperative customers could save about 12.5% on their electricity bills for the next 18 years.⁶

KDM/cjm

⁵ This is more than the value of all of Santee Cooper's assets and also exceeds the state's entire annual budget for fiscal year 2004.

⁶ This would allow for an approximate 1¢ reduction in kilowatt hour cost, from approximately 8¢ to 7¢ (which is slightly more than the average rate paid by Santee Cooper's direct serve residential customers). This equates to a 12.5% savings: $7¢ / 8¢ = 12.5\%$ savings.

SANTEE COOPER VALUATIONS

Santee Cooper could achieve an approximate 10% increase in revenue without raising residential rates if it captured just 1¢ of the 3.5¢ mark-up paid by indirect residential end users.

Here is how:

1. Santee Cooper charges Central 4.5¢/kilowatt hour.
2. Cooperative residential customers pay 8¢/kilowatt hour.
3. If just 1¢ of the mark-up that the cooperative residential customers paid went to Santee Cooper, Santee Cooper's revenue would increase by about 10%.
4. Central is approximately one half of Santee Cooper's business, so this 1¢ would equate to about .5¢ as to all of Santee Cooper's business.
5. Assuming (conservatively) that Santee Cooper averages 5.5¢/kilowatt hour on its direct serve and industrial customers (non-central customers), then its overall average price/kilowatt hour is 5¢/kilowatt hour. [average of 4.5 and 5.5].
6. Since capturing the rate paid by cooperative system customers would amount to additional revenue of .5¢/kilowatt hour, the average kilowatt revenue would increase from 5¢ to 5.5¢, which is a 10% increase in revenue (without any increase in cost on end user residential customers).
7. Calculated another way, 1¢ multiplied by 12,743,000,000 kilowatt hours, equals about \$125 million additional revenue dollars or a little more than a 10% increase.

Therefore, in valuing Santee Cooper under various models, it would be accurate to say that: "This value is supportable without any material residential rate increases, assuming that Santee Cooper realizes a minimal portion of the mark-up currently being charged to its indirect residential customers."

Footnote to IPO Section?

One member of the Board of Directors suggested considering an alternative similar to an IPO known as "demutualization." Under this proposed alternative, since the General Assembly established Santee Cooper as "a corporation, completely owned by and to be operated for the benefit of the people of this state," with its excess profits to be used to "reduce the tax burdens on the people of this state" (§ 58-31-110, S.C. Code), the ownership of Santee Cooper could be turned over directly to the tax payers of South Carolina. This could be accomplished by setting up a public company to own Santee Cooper and distributing the ownership shares of the public corporation directly to the taxpayers of South Carolina. The taxpayers, as shareholders, would then select the Board of Directors and be free to buy and sell shares of Santee Cooper. Because this alternative would not create an equity fund for the State, it is beyond the scope of this valuation study. Moreover, although there are numerous examples of successful demutualization, the feasibility of demutualization Santee Cooper would have to be studied before any specific recommendations could be proposed.

Steffen, Susan

From: Munson, Keith [KMunson@wcsr.com]

Sent: Friday, April 08, 2005 11:42 AM

To: Davies, Adam

Subject: Generation Cost v. rate paid by end use Bar Graph comparison chart 1998-2003

Please see Confidentiality Notice before reading email.

Adam: if I wanted to create just such a chart, where would I get the source data? I think all I would need would be:

1. Average annual cost to Central (I have that for 2002 and 2003 from Lonnie), but what is your source and can you send me the figures and source pages?
2. Average residential end user cost in direct serve territory
3. Average residential end user cost in combined cooperative territory (folding Saluda in with other coops)

Thanks, KEITH



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5/13/2005

Steffen, Susan

From: Davies, Adam
Sent: Tuesday, April 12, 2005 2:26 PM
To: 'Munson, Keith'
Cc: Mandanas, MaryBeth; Bosse, Pierre; O'Meally, Lauren
Subject: RE: Generation Cost v. rate paid by end use Bar Graph comparison chart 1998-2003

Keith,

Please find attached a spreadsheet setting out:

- 1) The average end user residential rate for direct serve cutomers
- 2) The average end user residential rate for the combined cooperative territory
- 3) The average wholesale rate to the combined cooperatives.

We do not have detailed the supply cost to Santee of direct serve customers. By subtracting (3) from (1) and (2) above, I believe you will get directionally very close to what you are looking for.

Regards.

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Friday, April 08, 2005 11:42 AM
To: Adam S. Davies (E-mail)
Subject: Generation Cost v. rate paid by end use Bar Graph comparison chart 1998-2003

Please see Confidentiality Notice before reading email.
.....

Adam: if I wanted to create just such a chart, where would I get the source data? I think all I would need would be:

1. Average annual cost to Central (I have that for 2002 and 2003 from Lonnie), but what is your source and can you send me the figures and source pages?
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3. Average residential end user cost in combined cooperative territory (folding Saluda in with other coops)

Thanks, KEITH



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.....
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Sales from SC to direct serve

Company Name	Year	Residential Rate \$/MWh
South Carolina Public Service Authority	1998	\$65.01
	1999	66.00
	2000	66.61
	2001	69.21
	2002	69.76
	2003	69.81

Sales from co-ops to customers

Central & Saluda River Cooperative System	Year	Weighted Average Total
		Utility Retail Rate \$/MWh
	1998	\$70.89
	1999	73.35
	2000	73.58
	2001	73.21
	2002	74.98
	2003	77.77

Sales from SC to co-ops

Company Name	Year	Wholesale Rate \$/MWh
South Carolina Public Service Authority	1998	\$39.60
	1999	38.98
	2000	36.56
	2001	42.57
	2002	42.05
	2003	42.52

Company Name	Year	Customers	Residential	Industrial	Commercial	Total Utility	Wholesale	Average
		Calc	Rate \$/MWh	Rate \$/MWh	Rate \$/MWh	Retail Rate \$/MWh	Rate \$/MWh	Utility Elec Rate \$/MWh
			Calc	Calc	Calc	Calc		
South Carolina Public Service Autil	1998		65.01	30.61	55.74	39.01	39.6	39.3
South Carolina Public Service Autil	1999		66	31.77	57.13	40.09	38.98	39.53
South Carolina Public Service Autil	2000		66.61	31.56	57.72	40.22	36.56	38.31
South Carolina Public Service Autil	2001		69.21	33.97	60.88	42.8	42.57	42.68
South Carolina Public Service Autil	2002		69.76	33.57	60.95	42.48	42.05	42.55
South Carolina Public Service Autil	2003		69.81	34.5	61.69	43.45	42.52	42.96
Central Electric Power Coop, Inc.	1998		0	0	0	0	38.25	38.25
Central Electric Power Coop, Inc.	1999		0	0	0	0	41.56	41.56
Central Electric Power Coop, Inc.	2000		0	0	0	0	41.12	41.12
Central Electric Power Coop, Inc.	2001		0	0	0	0	39.81	39.81
Central Electric Power Coop, Inc.	2002		0	0	0	0	33.74	33.74
Central Electric Power Coop, Inc.	2003		0	0	0	0	45.29	45.29
Aiken Electric Coop, Inc.	1998	40645	79.07	36.72	64.83	66.48	0	68.48
Aiken Electric Coop, Inc.	1999	40645	83.55	39.98	67.79	72.84	0	72.84
Aiken Electric Coop, Inc.	2000	40645	80.56	40.82	67.33	71.51	0	71.51
Aiken Electric Coop, Inc.	2001	40645	79.11	41.14	64.7	69.97	0	69.97
Aiken Electric Coop, Inc.	2002	40645	84.82	42.37	68.88	74.45	0	74.45
Aiken Electric Coop, Inc.	2003	40645	89.37	43.07	71.6	77.63	0	77.63
Berkeley Electric Coop, Inc.	1998	67846	71.19	48.37	71.53	68.89	0	68.89
Berkeley Electric Coop, Inc.	1999	67846	77.38	54.81	78.42	74.84	0	74.84
Berkeley Electric Coop, Inc.	2000	67846	76.65	53.82	78.25	74.11	0	74.11
Berkeley Electric Coop, Inc.	2001	67846	74.32	51.89	76.3	71.78	0	71.78
Berkeley Electric Coop, Inc.	2002	67846	78.92	57.15	80.22	76.29	0	76.29
Berkeley Electric Coop, Inc.	2003	67846	80.80	54.49	80.58	77.48	0	77.48
Black River Electric Coop, Inc.	1998	28203	70.49	48.26	76.32	67.12	0	67.12
Black River Electric Coop, Inc.	1999	28203	70.59	47.42	76.16	66.82	0	66.82
Black River Electric Coop, Inc.	2000	28203	70.33	49.38	80.92	66.73	0	66.73
Black River Electric Coop, Inc.	2001	28203	70.34	48.23	79.92	66.41	0	66.41
Black River Electric Coop, Inc.	2002	28203	70.26	48.71	78.48	66.49	0	66.49
Black River Electric Coop, Inc.	2003	28203	75.06	50.16	79.95	70.77	0	70.77

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Coastal Electric Coop, Inc.	1998	10801	1.43	84.17	-	-	1.19	69.96	1.40	82.14	0	82.14
Coastal Electric Coop, Inc.	1999	10801	1.47	86.69	-	-	1.26	74.37	1.44	84.82	0	84.82
Coastal Electric Coop, Inc.	2000	10801	1.54	90.68	-	-	1.30	76.68	1.51	88.65	0	88.65
Coastal Electric Coop, Inc.	2001	10801	1.36	80.18	-	-	1.34	79.18	1.36	80.04	0	80.04
Coastal Electric Coop, Inc.	2002	10801	1.54	90.55	-	-	1.40	82.24	1.52	89.49	0	89.49
Coastal Electric Coop, Inc.	2003	10801	1.59	93.56	-	-	1.58	93.23	1.59	93.52	0	93.52
Edisto Electric Coop, Inc.	1998	18830	2.37	80.11	1.46	49.44	2.35	79.33	2.29	77.48	0	77.48
Edisto Electric Coop, Inc.	1999	18830	2.51	84.86	1.47	49.74	2.49	84.02	2.42	81.65	0	81.65
Edisto Electric Coop, Inc.	2000	18830	2.45	82.73	1.67	56.28	2.63	86.88	2.40	81.16	0	81.16
Edisto Electric Coop, Inc.	2001	18830	2.43	82.04	1.62	54.81	2.59	87.36	2.38	80.32	0	80.32
Edisto Electric Coop, Inc.	2002	18830	2.52	85.05	1.78	60.23	2.63	89.66	2.48	83.8	0	83.8
Edisto Electric Coop, Inc.	2003	18830	2.64	89.11	1.79	60.33	2.74	92.69	2.60	87.71	0	87.71
Fairfield Electric Coop, Inc.	1998	21181	2.21	66.23	1.21	36.28	2.30	68.98	1.77	53.22	0	53.22
Fairfield Electric Coop, Inc.	1999	21181	2.37	71.15	1.26	37.72	2.34	70.29	1.87	56.24	0	56.24
Fairfield Electric Coop, Inc.	2000	21181	2.45	73.67	1.30	39.06	2.36	70.86	2.04	61.21	0	61.21
Fairfield Electric Coop, Inc.	2001	21181	2.46	73.85	1.30	38.89	2.16	64.8	2.09	62.81	0	62.81
Fairfield Electric Coop, Inc.	2002	21181	2.50	74.93	1.32	39.55	2.42	72.6	2.18	65.58	0	65.58
Fairfield Electric Coop, Inc.	2003	21181	2.67	80.13	1.34	40.11	2.49	74.68	2.24	67.23	0	67.23
Horry Electric Coop, Inc.	1998	48700	5.52	72.10	4.58	59.81	5.31	69.35	5.45	71.21	0	71.21
Horry Electric Coop, Inc.	1999	48700	5.74	75.00	4.77	62.28	5.61	73.22	5.69	74.23	0	74.23
Horry Electric Coop, Inc.	2000	48700	5.85	76.38	4.91	64.09	5.78	75.41	5.81	75.84	0	75.84
Horry Electric Coop, Inc.	2001	48700	5.97	77.94	5.01	65.44	5.89	76.9	5.93	77.37	0	77.37
Horry Electric Coop, Inc.	2002	48700	6.13	80.05	5.11	66.78	6.07	79.28	6.08	79.44	0	79.44
Horry Electric Coop, Inc.	2003	48700	6.51	85.04	5.08	66.34	6.33	82.66	6.43	84	0	84
Lynches River Electric Coop, Inc.	1998	19876	2.33	74.68	1.36	43.36	2.33	74.61	2.17	69.43	0	69.43
Lynches River Electric Coop, Inc.	1999	19876	2.38	76.16	1.40	44.72	2.26	72.46	2.18	69.88	0	69.88
Lynches River Electric Coop, Inc.	2000	19876	2.38	76.16	1.53	48.84	2.30	73.73	2.21	70.74	0	70.74
Lynches River Electric Coop, Inc.	2001	19876	2.54	81.28	1.50	47.91	2.50	80.02	2.32	74.18	0	74.18
Lynches River Electric Coop, Inc.	2002	19876	2.61	83.36	1.64	52.32	2.52	80.73	2.41	77.16	0	77.16
Lynches River Electric Coop, Inc.	2003	19876	2.65	84.65	1.66	53.19	2.62	83.87	2.45	78.36	0	78.36
Marlboro Electric Coop, Inc.	1998	6505	0.88	85.58	0.32	31.13	0.91	88.66	0.38	37.63	0	37.63
Marlboro Electric Coop, Inc.	1999	6505	0.87	85.34	0.31	30.21	0.87	84.97	0.40	38.7	43.82	39.44
Marlboro Electric Coop, Inc.	2000	6505	0.89	86.74	0.30	29.54	0.88	86.4	0.40	38.79	42.84	39.38
Marlboro Electric Coop, Inc.	2001	6505	0.90	87.63	0.32	31.31	0.91	89.12	0.41	39.9	41.44	40.11
Marlboro Electric Coop, Inc.	2002	6505	0.89	87.48	0.33	32.19	0.93	90.83	0.41	40.12	43.8	40.6
Marlboro Electric Coop, Inc.	2003	6505	0.91	88.66	0.35	34.05	0.83	81.56	0.43	42.17	45.06	42.54

Mid-Carolina Electric Coop, Inc.	1998	44617	5.06	72.12	3.02	43.09	4.70	67.04	4.93	70.2	0	70.2
Mid-Carolina Electric Coop, Inc.	1999	44617	5.47	77.95	3.61	51.48	5.03	71.63	5.32	75.78	0	75.78
Mid-Carolina Electric Coop, Inc.	2000	44617	5.43	77.42	3.30	47.04	5.02	71.61	5.28	75.23	0	75.23
Mid-Carolina Electric Coop, Inc.	2001	44617	5.20	74.17	3.18	45.28	4.83	68.82	5.06	72.13	0	72.13
Mid-Carolina Electric Coop, Inc.	2002	44617	5.37	76.55	3.16	45.09	5.00	71.28	5.23	74.48	0	74.48
Mid-Carolina Electric Coop, Inc.	2003	44617	5.75	81.95	3.28	46.80	5.37	76.5	5.59	79.7	0	79.7
Newberry Electric Coop, Inc.	1998	11742	1.22	65.85	0.82	44.16	1.20	64.83	1.14	61.49	0	61.49
Newberry Electric Coop, Inc.	1999	11742	1.27	68.77	0.90	48.88	1.26	68.03	1.19	64.6	0	64.6
Newberry Electric Coop, Inc.	2000	11742	1.25	67.88	0.97	52.33	1.27	68.67	1.16	62.65	0	62.65
Newberry Electric Coop, Inc.	2001	11742	1.24	67.27	0.95	51.47	1.26	68.42	1.14	61.77	0	61.77
Newberry Electric Coop, Inc.	2002	11742	1.31	71.07	0.97	52.46	1.34	72.72	1.19	64.37	0	64.37
Newberry Electric Coop, Inc.	2003	11742	1.37	73.95	1.03	56.00	1.39	75.34	1.24	67.34	0	67.34
Palmetto Electric Coop, Inc.	1998	57555	5.91	65.27	6.33	69.99	5.33	58.86	5.69	62.89	0	62.89
Palmetto Electric Coop, Inc.	1999	57555	6.10	67.44	4.90	54.18	6.13	67.68	5.86	64.79	0	64.79
Palmetto Electric Coop, Inc.	2000	57555	6.06	68.94	4.84	53.42	5.98	66.05	5.80	64.08	0	64.08
Palmetto Electric Coop, Inc.	2001	57555	6.16	68.11	4.87	53.76	6.02	66.49	5.86	64.78	0	64.78
Palmetto Electric Coop, Inc.	2002	57555	6.11	67.45	4.91	54.24	5.98	66.07	5.84	64.48	0	64.48
Palmetto Electric Coop, Inc.	2003	57555	6.25	69.10	4.36	48.14	6.16	68.05	6.14	67.84	0	67.84
Pee Dee Electric Coop, Inc.	1998	29181	3.63	79.09	1.66	36.08	3.44	74.88	2.72	59.36	0	59.36
Pee Dee Electric Coop, Inc.	1999	29181	3.63	79.12	1.79	39.05	3.44	74.96	2.81	61.2	0	61.2
Pee Dee Electric Coop, Inc.	2000	29181	3.57	77.69	1.76	38.33	3.44	74.88	2.78	60.61	0	60.61
Pee Dee Electric Coop, Inc.	2001	29181	3.65	79.45	1.77	38.59	3.51	76.4	2.85	62.15	0	62.15
Pee Dee Electric Coop, Inc.	2002	29181	3.68	80.25	1.81	39.42	3.54	77.12	2.87	62.59	0	62.59
Pee Dee Electric Coop, Inc.	2003	29181	3.91	85.13	1.93	42.15	3.80	82.81	3.06	66.73	0	66.73
Santee Electric Coop, Inc.	1998	42622	4.63	69.05	2.40	35.81	4.63	69.06	3.78	56.43	0	56.43
Santee Electric Coop, Inc.	1999	42622	4.92	73.37	2.51	37.42	5.16	76.91	3.96	59.02	0	59.02
Santee Electric Coop, Inc.	2000	42622	5.02	74.96	2.66	39.73	5.39	80.48	4.04	60.31	0	60.31
Santee Electric Coop, Inc.	2001	42622	5.03	75.07	2.35	35.07	4.70	70.14	3.86	57.62	0	57.62
Santee Electric Coop, Inc.	2002	42622	5.43	81.08	2.51	37.40	5.06	75.43	4.10	61.22	0	61.22
Santee Electric Coop, Inc.	2003	42622	5.54	82.68	2.76	41.19	4.70	70.11	4.23	63.14	0	63.14
Tri-County Electric Coop, Inc.	1998	17564	2.25	81.33	1.38	49.86	1.89	68.56	2.05	74.23	0	74.23
Tri-County Electric Coop, Inc.	1999	17564	2.26	81.90	1.40	50.80	1.89	68.36	2.06	74.46	0	74.46
Tri-County Electric Coop, Inc.	2000	17564	2.36	85.01	1.51	54.70	1.96	70.78	2.19	79.24	0	79.24
Tri-County Electric Coop, Inc.	2001	17564	2.43	87.93	1.58	57.09	2.19	79.38	2.24	81.23	0	81.23
Tri-County Electric Coop, Inc.	2002	17564	2.37	85.70	1.50	54.17	2.06	74.43	2.17	78.6	0	78.6
Tri-County Electric Coop, Inc.	2003	17564	2.54	91.82	1.62	58.52	2.21	79.85	2.33	84.2	0	84.2

2002	80.98	49.71	78.00	74.98
2003	83.99	49.96	80.24	77.77
	635,890			

Total Central Customers 465,858
 Total Saluda Customers 170,012
 Total Co op customers 635,890

Company Name	Year	Wholesale Rate \$/MWh	Average Utility Elec Rate \$/MWh
Central Electric Power Coop, Inc.	1998	38.25	38.25
Central Electric Power Coop, Inc.	1999	41.56	41.56
Central Electric Power Coop, Inc.	2000	41.12	41.12
Central Electric Power Coop, Inc.	2001	39.81	39.81
Central Electric Power Coop, Inc.	2002	33.74	33.74
Central Electric Power Coop, Inc.	2003	45.29	45.29
Saluda River Electric Coop, Inc.	1998	36.93	36.93
Saluda River Electric Coop, Inc.	1999	36.36	36.36
Saluda River Electric Coop, Inc.	2000	36.63	36.63
Saluda River Electric Coop, Inc.	2001	36.54	36.54
Saluda River Electric Coop, Inc.	2002	36.69	36.69
Saluda River Electric Coop, Inc.	2003	37.21	37.21

Year	Wholesale Rate \$/MWh	Average Utility Elec Rate \$/MWh
1998	37.9	
1999	40.2	
2000	39.9	
2001	38.9	
2002	34.5	
2003	43.1	

Steffen, Susan

From: Munson, Keith [KMunson@wcsr.com]
Sent: Wednesday, April 13, 2005 6:39 PM
To: Davies, Adam
Subject: Rate Comparison in Graphic Format



Untitled Santee Rate
Attachment Comparison Char

Steffen, Susan

Please see Confidentiality Notice before reading email.

Adam: attached how the numbers converted to graphic format for me. Thanks Again. KEITH



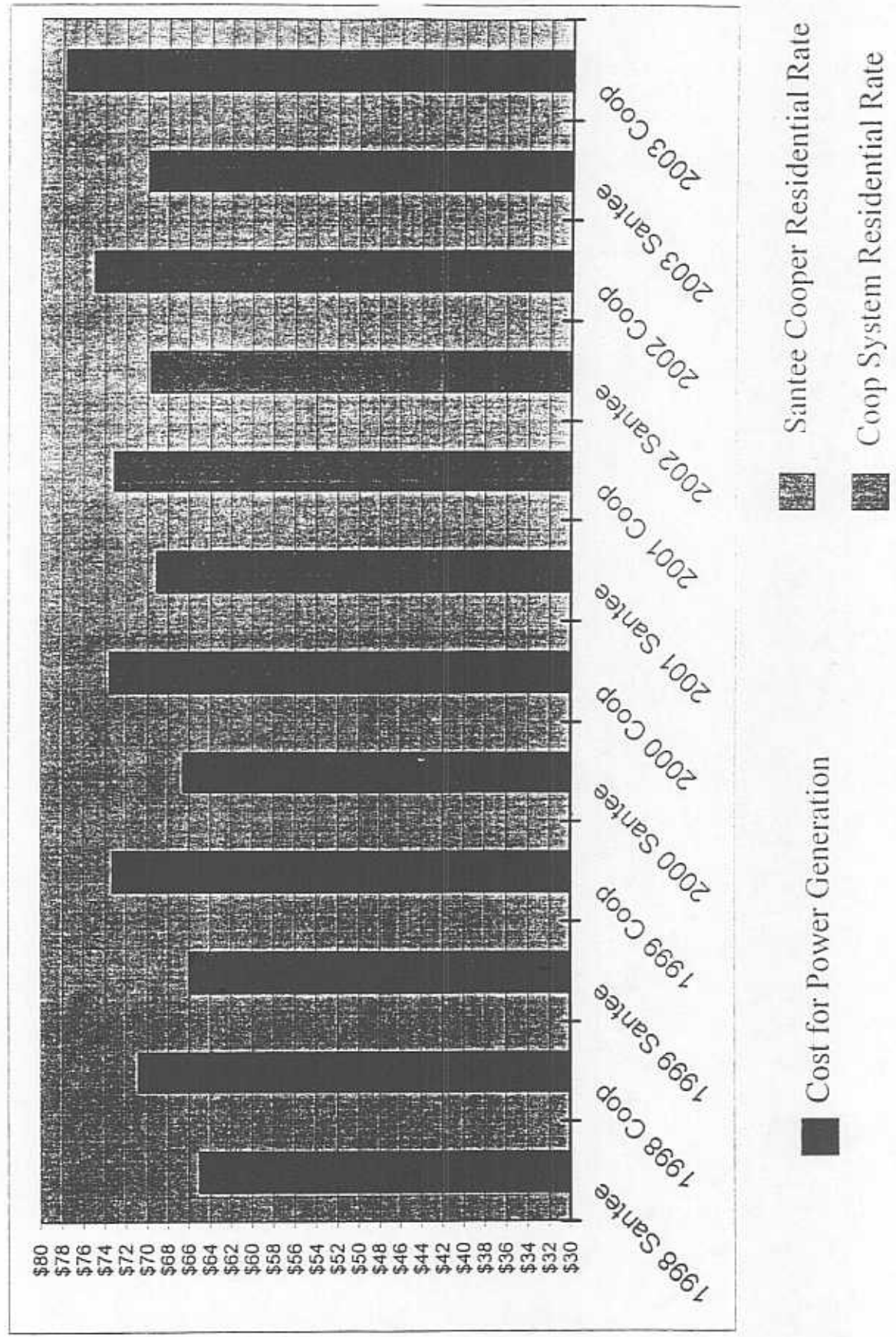
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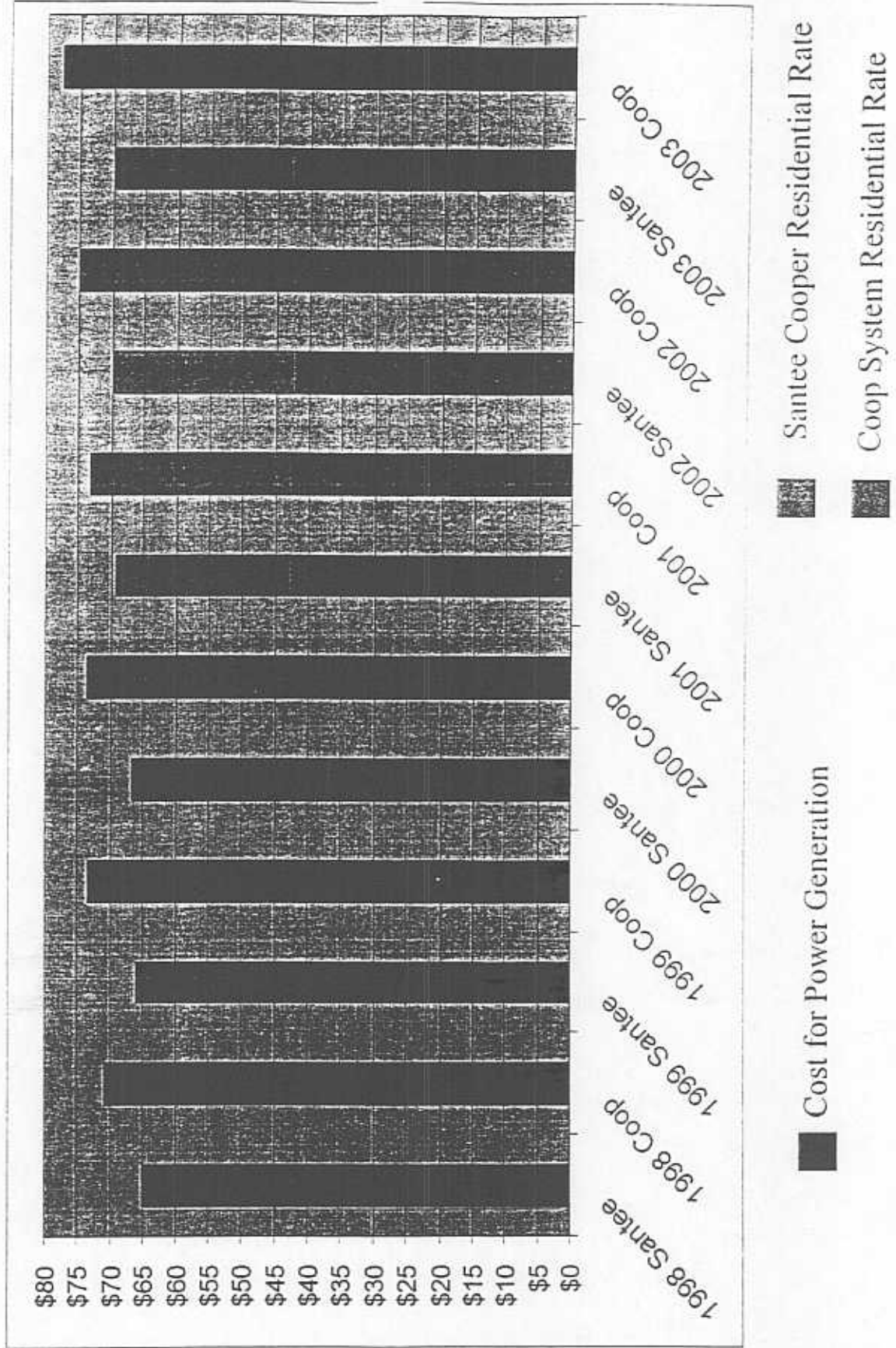
CONFIDENTIAL

5/13/2005

Coop System's Long Term Residential Rate Premium



Coop System's Long Term Residential Rate Premium



Wholesale Rate/MWh \approx Cost of Generating Electricity

Santee Cooper	Year	Wholesale Rate \$/MWh
South Carolina Public Service Authority	1998 Santee	\$39.60
Wholesale Rate (Cost to Generate)	1999 Santee	33.98
	2000 Santee	36.56
	2001 Santee	42.67
	2002 Santee	42.05
	2003 Santee	42.52

Residential Rate/MWh Charged by Santee Cooper 1998-2003

Santee Cooper	Year	Residential Rate \$/MWh
South Carolina Public Service Authority	1998 Santee	\$65.01
Residential Rate	1999 Santee	66
(Price for Generation, Transmission and Distribution)	2000 Santee	66.61
	2001 Santee	69.21
	2002 Santee	69.76
	2003 Santee	69.81

Residential Rate/MWh Charged by Coop System 1998-2003

Central & Saluda River Cooperative System	Year	Weighted Average Total Utility Retail Rate \$/MWh
Electric Cooperatives Service Area Residential Rate	1988 Coop	\$70.89
(Price for Generation, Transmission and Distribution)	1999 Coop	76.35
	2000 Coop	73.58
	2001 Coop	73.21
	2002 Coop	74.98
	2003 Coop	77.77


Annual Impact of Higher Rate to Coop System Residents over Rate to Santee Cooper System Residents

Year	Residential Rate \$/MWh
1998 Santee	\$65.01
1999 Santee	66
2000 Santee	66.61
2001 Santee	69.21
2002 Santee	69.76
2003 Santee	69.81

Year	Weighted Average Total Utility Retail Rate \$/MWh
1988 Coop	\$70.89
1999 Coop	73.35
2000 Coop	73.58
2001 Coop	73.21
2002 Coop	74.98
2003 Coop	77.77

Year	Rate Differential
1998	\$5.18
1999	7.35
2000	16.97
2001	4
2002	5.22
2003	7.96

 Average Coop System Rate Premium = \$6.23/MWh

 Annual MWh Purchase/Sold by Coop System ≈ 120 Million

 Value of Residential Rate Differential to Coops ≈ \$747 Million

Munson, Keith

From: Munson, Keith
Sent: Friday, April 15, 2005 4:54 PM
To: Adam S. Davies (E-mail); Mary Beth Mandanas (E-mail)
Subject: Tweaked History/Forward re: Santee Cooper

Thanks. Have a nice weekend. KEITH

Keith D. Munson
Womble Carlyle Sandridge & Rice, PLLC
Poinsett Plaza, Suite 700
104 S. Main Street
Greenville, South Carolina 29601
864.255.5412 (Direct)
864.255.5480 (Fax)
kmunson@wcsr.com
www.wcsr.com

**BRIEF HISTORY AND ANALYSIS OF THE S.C. PUBLIC SERVICE
AUTHORITY (SANTEE COOPER)¹**

In 1926, the Columbia Railway & Navigation Company obtained a license from the Federal Power Commission to construct a hydroelectric project in the lower part of South Carolina. After the stock market crashed in 1929, South Carolina entered the Great Depression with the rest of the country and progress stalled on this private hydroelectric project. In 1932, Franklin D. Roosevelt was elected president, and he had been a supporter of public power as the Governor of New York. Representatives of South Carolina began lobbying FDR's supporters and administration concerning the possibility of the federal government participating in making the Santee River/Cooper River hydroelectric power project a public power project. FDR's administration was receptive to participating in the completion of the Santee River/Cooper River hydroelectric project.

To facilitate the federal government's involvement, legislation was introduced in the South Carolina General Assembly in 1933 to create the South Carolina Public Service Authority for the purpose of undertaking the Santee Cooper hydroelectric power generating project. However, the bill was defeated and the South Carolina General Assembly refused to create the South Carolina Public Service Authority ("Santee Cooper") (see generally, *History of Santee Cooper 1934-1984* by Walter B. Edgar) (hereinafter "*History of Santee Cooper*"). The reasons for opposing the creation of the South Carolina Public Service Authority included the belief by many members of the General Assembly that the production of power should be left solely to the private sector. However, after the 1933 defeat, the ardent supporters of the project set out on a state-wide education campaign to drum up public support for the Santee Cooper hydroelectric power project. As a result, in 1934, the General Assembly passed legislation creating the South Carolina Public Service Authority.

At the same time, in 1934, FDR's New Deal of public works projects was well underway and there was significant discussion among the states about getting their "fair share" of New Deal

¹ This history was provided by Keith Munson, Chairman of the Santee Cooper Legal Affairs Committee and attorney with Womble Carlyle Sandridge & Rice in Greenville, South Carolina.

money. South Carolina averaged only \$41.61 per capita, whereas the rest of the states in the Union averaged \$57 per capita. Supporters of the Santee Cooper project used this discrepancy to help win federal support for the project, which brought South Carolina's average above the national average. (*History of Santee Cooper*, p. 5). Of course, this took South Carolina out of the running for other New Deal money, and so in a very real sense, the state paid for the Santee Cooper project with its New Deal quota allotments (the federal government ultimately provided \$21.7 million in grants and \$26.5 in federal loans [\$48.2 total] for the Santee Cooper project). (*Id.* at p. 7).

In July 1935, President Franklin D. Roosevelt approved the Santee Cooper project and wrote South Carolina's Senator James F. Burns to say that he was convinced that the project would significantly overcome the distress caused by unemployment in the area. Work camps were set up for some 6000 workers, who were drawn from the certified relief rolls of every county in South Carolina.

The driving force behind the Santee Cooper project was the generation of power "so that electricity could be provided for the rural areas of the state. In 1936, less than 2.5% of the farms in South Carolina had electricity." (*History of Santee Cooper*, p. 11). Overall, in 1934, only approximately 3% of South Carolina's rural residents had electricity. By 1944, more than 93% of South Carolina's rural residents had electrical power to light their homes.

Today, Santee Cooper's original predominant purpose to provide access to electricity for South Carolina residents has been universally achieved. In addition, most of the original secondary aspirations of Santee Cooper have also been achieved. These included: public works jobs during the Depression, eradication of malaria hazards, land reclamation, flood control in the low country and the provision of significant recreational facilities. In some respects, the Santee Cooper project is similar to another Franklin D. Roosevelt project – the National Foundation for Infantile Paralysis (i.e., the March of Dimes). In 1938, President Roosevelt began this grass-roots fundraising organization to defeat the then-raging epidemic of polio. By the 1960s, the polio vaccine and the efforts of the March of Dime had virtually eradicated polio in North America. This was a crossroads event for the March of Dimes and, instead of perpetuating its existence as a polio fighting organization, it redeployed its assets to address the significant problem of birth

defect and prenatal care. Today, most people are likely to associate the March of Dimes with preventing birth defects, rather than its original mission to battle polio.

Santee Cooper can be viewed as being at a similar crossroads. Its original predominant mission has been achieved. Consequently, its assets and equity have necessarily been redeployed. Over time, its mission has migrated from providing initial access to needed electricity to merely providing marginally cheaper electricity to residents along the coast, electricity wholesalers and existing industry.² Because this evolution in mission occurred gradually and seamlessly over time, the current mission may not have been the result of a deliberative public policy process.

When the General Assembly passed the enabling act to create the South Carolina Public Service Authority, it set up the State as the sole owner of Santee Cooper.³ Today, with assets approaching \$5 billion dollars, Santee Cooper is the largest single asset of the State of South Carolina. Consequently, a deliberative public policy discussion should occur on the appropriate utilization of the State's equity in Santee Cooper. In order to have a fully-informed public policy discussion, it is necessary to have an understanding of the value of the State's equity in Santee Cooper. Consequently, a significant purpose of this study is to value Santee Cooper under various alternatives and provide a mechanism for estimating the State's equity in Santee Cooper so that the appropriate public officials can have a policy discussion concerning the proper utilization of the State's limited resources.

This deliberative process should probably include discussion of several related matters. For example, although Santee Cooper receives no annual appropriations from the State, it does receive the benefit of tax exempt status which has been estimated to equate to approximately \$50 million a year in lost tax revenue to the State of South Carolina. To make up for this, the General Assembly required Santee Cooper pay to the State, "... all net earnings thereof not necessary or desirable for the prudent conduct and operation of its business . . . to the State Treasurer for the general funds of the State and shall be used to reduce the tax burdens of the people of this State."

² In fairness, it should be noted that Santee Cooper's rate is not always the cheapest alternative.

³ "The South Carolina Public Service Authority is a corporation, completed, owned by and to be operated for the benefit of the people of this State." (§ 58-31-110, S.C. Code).

(§ 58-31-110, S.C. Code). According to the *History of Santee Cooper*, the amount distributed to the State was at one time calculated by "taking one half of the monies remaining in the Revenue Fund after all obligations have been met." (p. 19). For the past 15 years or so, the amount paid to the State has generally been limited to 1% of Santee Cooper's gross revenues. This is approximately \$10 million, which is only about 1/5 of the property taxes avoided by Santee Cooper's tax exempt status. This \$40 million difference is significant and was unanticipated at the time that Santee Cooper was created. Almost immediately after the South Carolina Public Service Authority was created, private power companies brought suit before the South Carolina Supreme Court to have the enabling Act declared unconstitutional. One of their complaints was that the tax exempt status of the South Carolina Public Service Authority would create a shift in tax liability to other citizens of South Carolina. The South Carolina Supreme Court disagreed, specifically noting that "... it appears from the record that the Authority will pay into the State Treasury a portion of its revenues which will reasonably be expected to be equivalent to taxes paid by a private corporation in like situation." (*Clark v. South Carolina Public Service Authority*, 177 S.C. 427, 181 S.E. 481, 486 (1934)).⁴ Consequently, it appears that the current practice of Santee Cooper to pay an amount equivalent to only approximately 1/5 of the foregone property taxes is markedly lower than the expectation of the entities that created and validated the South Carolina Public Service Authority in the mid-1930s.

Another issue worthy of consideration in this deliberative process is the relationship among Santee Cooper, the electric cooperatives and ultimate users of Santee Cooper electricity in South Carolina. In 2004, Santee Cooper charged Central Electric Cooperative approximately 4.5¢ per

⁴ Santee Cooper's payment of 1% of revenues to the state is well below the national median amount of 6.6% for large public power companies and 5.8% for all public power companies (American Public Power Association's 2005-06 Annual Directory & Statistical Report, p. 46). It is also well below the median amount of 5.1% paid by large investor-owned utilities. (APPA Statistical Report, p. 48). For 2003, Santee Cooper would have had to pay approximately \$53 million to match similarly situated investor-owned utilities, approximately \$60 million to match all public power companies, and approximately \$68 million to match similarly sized public power companies. Even taking into account the additional \$13 million dollar payment to the state in 2004, Santee Cooper still paid less than half of the median percentage of each of these comparable power company categories.

kilowatt hour (for electricity). Central then resold the electricity to the individual electric cooperative who resold the electricity to their residential and commercial customers. The mark-up by the time the electricity reached the residential customer was approximately 3.5¢ (to 8¢). For all of 2004, Central purchased 12,734,364,630 kilowatt hours of electricity from Santee Cooper, which were resold principally to residential customers of the individual co-ops. An average 3.5¢ per kilowatt mark up between Santee Cooper and the cooperative customer, would generate over \$440 million in revenue (above the cost of electricity) for the cooperative system. The current contract between Central and Santee Cooper extends through the year 2023. Therefore, over the remaining life of the contract, the cooperative system can expect to generate more than \$8 billion in revenue (in excess of its cost of electricity).⁵ If efficiencies in the cooperative system could reduce the amount of revenue above the cost of electricity to \$6 billion dollars, cooperative customers could save about 12.5% on their electricity bills for the next 18 years.⁶

KDM/cjm

⁵ This is more than the value of all of Santee Cooper's assets and also exceeds the state's entire annual budget for fiscal year 2004.

⁶ This would allow for an approximate 1¢ reduction in kilowatt hour cost, from approximately 8¢ to 7¢ (which is slightly more than the average rate paid by Santee Cooper's direct serve residential customers). This equates to a 12.5% savings: $7¢ / 8¢ = 12.5\%$ savings.

Steffen, Susan

From: Mandanas, MaryBeth
Sent: Friday, May 13, 2005 2:44 PM
To: Steffen, Susan
Cc: Burstein, Deborah; Kozlowski, Peter
Subject: FW: Santee



UNTITLED.P
PT

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Wednesday, April 20, 2005 3:54 PM
To: Davies, Adam
Cc: Mary Beth Mandanas (E-mail)
Subject: RE: Santee

Please see Confidentiality Notice before reading email.

Adam: On page 20 is the chart that show the incremental difference between what Santee Cooper charges it's customers and what the Co-ops charger their customers. Visually, the difference would more evident if you weaved these together so that the 1998 numbers were side by side, etc. Attached is a Power Point Slide and Chart where I have done that. On my chart, I used the Santee Cooper Wholesale rate as the "cost for generation" on both bars. Why do you have a slightly different number for the Co-ops? And why is the 2002 year so markedly different (almost \$8)? KEITH

-----Original Message-----

From: Davies, Adam [mailto:adam.davies@csfb.com]
Sent: Wednesday, April 20, 2005 6:17 PM
To: Munson, Keith
Subject: RE: Santee

As soon as it is done, we will fax it to you.

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Wednesday, April 20, 2005 6:17 PM
To: Davies, Adam
Subject: RE: Santee

Please see Confidentiality Notice before reading email.

Thanks, think you could email or fax me a copy of it. KEITH

Keith D. Munson
Womble Carlyle Sandridge & Rice, PLLC
Poinsett Plaza, Suite 700
104 S. Main Street
Greenville, South Carolina 29601
864.255.5412 (Direct)
864.255.5480 (Fax)
kmunson@wcsr.com
www.wcsr.com

-----Original Message-----

From: Davies, Adam [mailto:adam.davies@csfb.com]
Sent: Wednesday, April 20, 2005 5:33 PM
To: Munson, Keith
Subject: Santee

I received your earlier voicemail. The omission of the page you referenced was an oversight on our part and we will get the page to you.
Regards.

ADAM S. DAVIES
Vice President, Mergers & Acquisitions
Credit Suisse First Boston LLC
Eleven Madison Avenue, 22nd Floor
New York, NY 10010
+1 212 325 5851 Telephone
+1 212 743 2027 Telefax
+1 917 754 5471 Mobile
mailto:adam.davies@csfb.com

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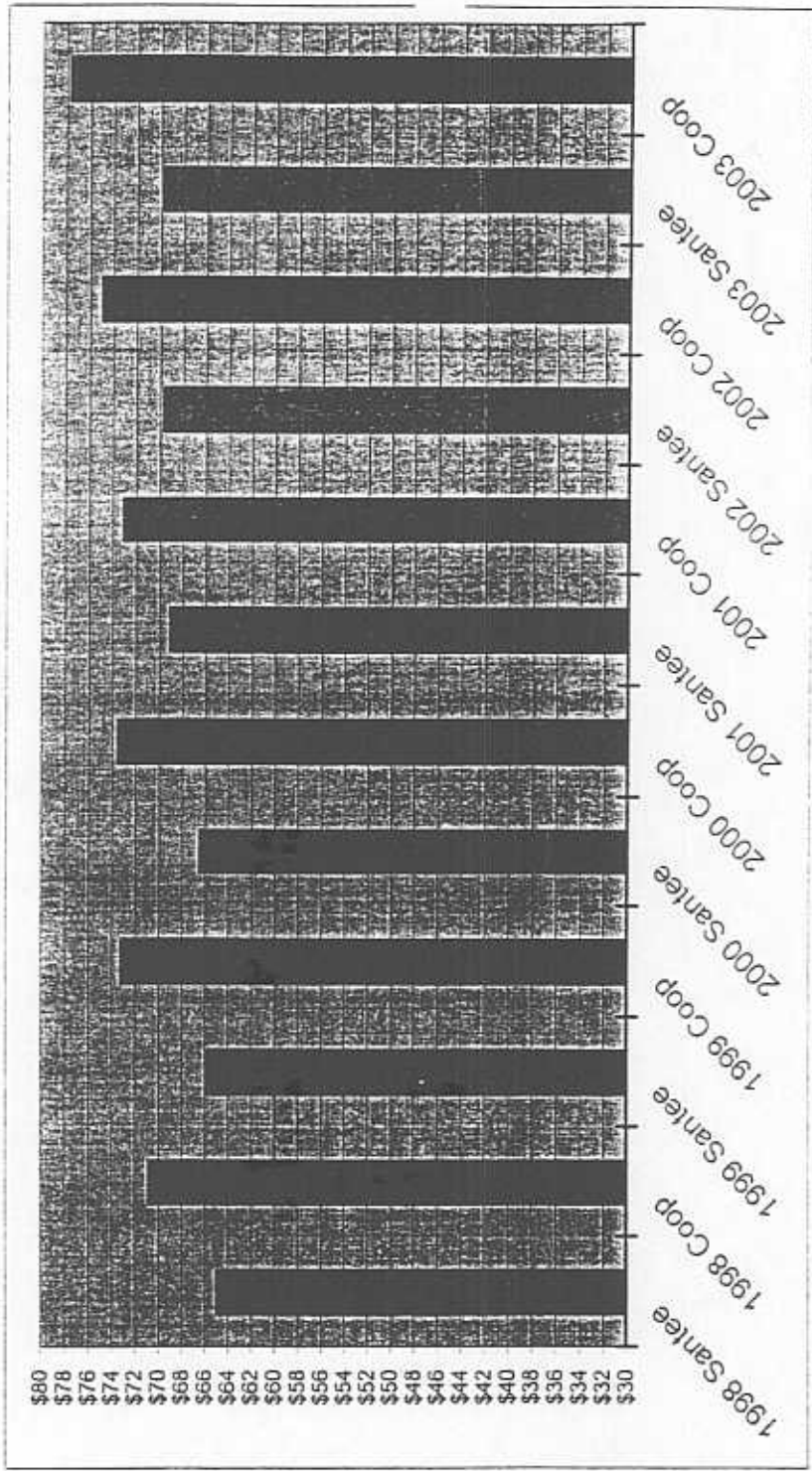
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Coop System's Long Term Residential Rate Premium



Cost for Power Generation
 Santee Cooper Residential Rate
 Coop System Residential Rate

Steffen, Susan

From: Munson, Keith [KMunson@wcsr.com]
Sent: Wednesday, April 20, 2005 9:01 PM
To: Davies, Adam
Cc: Mandanas, MaryBeth
Subject: Santee Cooper and Santee Cooperative

Please see Confidentiality Notice before reading email.
.....

Adam: I hope this cause to much of a problem, but Santee Electric Cooperative is NOT Santee Cooper. It is the County Cooperative for the Santee County, South Carolina. On page 47 and 48, you have highlighted Santee Electric Coop in green. on earlier pages, you highlighted Santee Cooper in green. In any event, if you thought Santee Electric Coop was Santee Cooper, then you might have left its corresponding number out of any average. Also, if you wanted to show a Santee Cooper number on these pages (47-48) for comparison purposes, its not there. Hopefully, you just have to make the green line and blue line on these pages. KEITH



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5/13/2005

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Kozlowski, Peter

From: Mandanas, MaryBeth
Sent: Friday, May 06, 2005 4:22 PM
To: Burstein, Deborah; Kozlowski, Peter
Subject: FW: Chart to go with Forward

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Wednesday, April 20, 2005 9:51 PM
To: Adam Davies (E-mail)
Cc: Mary Beth Mandanas (E-mail)
Subject: Chart to go with Forward

Please see Confidentiality Notice before reading email.
.....

Can you put this chart at the end of the forward. Thanks, KEITH.

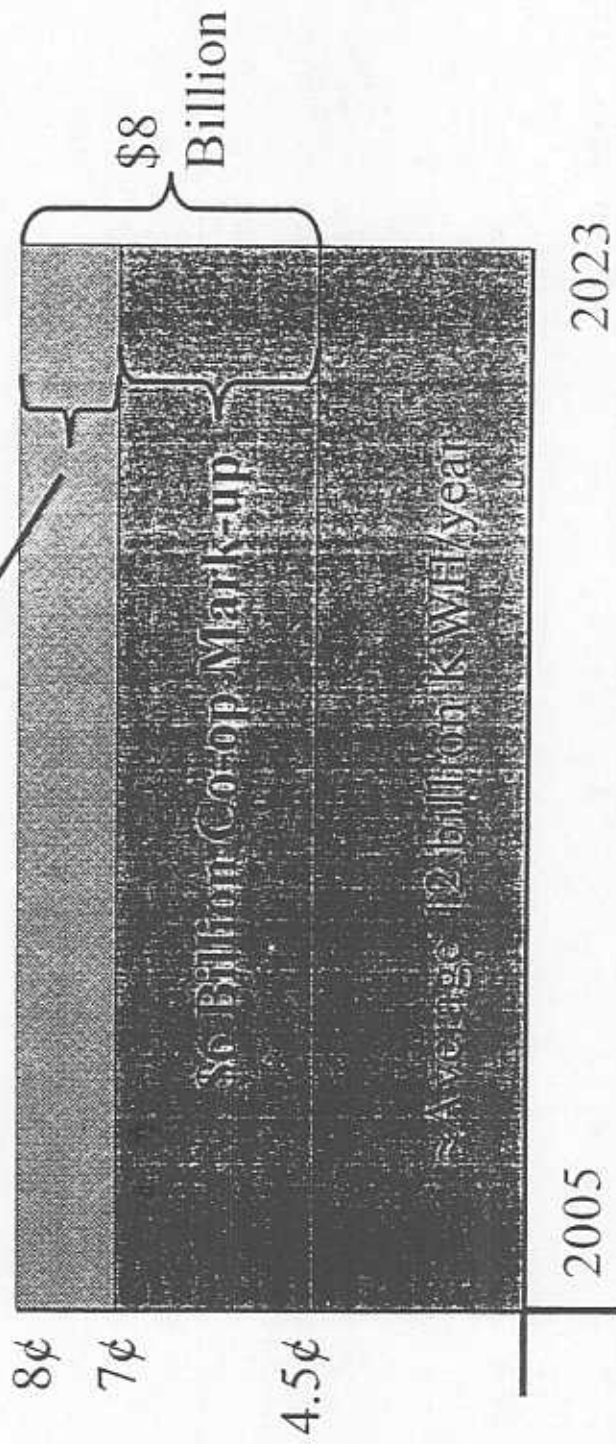
Keith D. Munson
Womble Carlyle Sandridge & Rice, PLLC
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104 S. Main Street
Greenville, South Carolina 29601
864.255.5412 (Direct)
864.255.5480 (Fax)
kmunson@wcsr.com
www.wcsr.com

.....
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Estimated Co-op System Revenue in Excess of Generation Cost
Recovery Under Existing Contract with Santee Cooper

12.5% Savings to Co-op
Customers for 18 years



Kozlowski, Peter

From: Mandanas, MaryBeth
Sent: Friday, May 06, 2005 4:23 PM
To: Burstein, Deborah; Kozlowski, Peter
Subject: FW: Comments on Report

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Wednesday, April 20, 2005 10:52 PM
To: Adam Davies (E-mail); Mary Beth Mandanas (E-mail)
Subject: Comments on Report

Please see Confidentiality Notice before reading email.

Thank you for letting me glance at your copy of this today. Here are my stream of conscious/off the cuff comments. Thanks. KEITH

1. This goes without saying, but on final remember to remove HC:FDPO text box at the bottom of the page.
2. after "redeployed" in the history, add "to an altered mission."
3. Add \$8 billion chart at end of forward section
4. In valuations, has the "other property value" been added in? If not, can it be added in to bump up the boxes on the chart on page 28 (maybe with a footnote to make clear that it included an approximation on value of other property?)
5. Can you add a line for the average Co-ops in the Comparisons on page 45 and 46?
6. Can you make Santee Electric Coop blue and add Santee Cooper numbers to pages 47/48?
7. **ADD THE DIVIDEND YIELD CHART WITH BELLS AND WHISTLES AND SIMPLIFIED GRAPHS AND PARAPHRASED CONCLUSIONS AND HIGHLIGHTS?** This issue needs to find its way "front and center" in the executive summary as well, if possible. Do you thread the dividend yield comparisons from page 53/54 and make some analytical conclusion about the insufficiency of Santee Coopers' calculate dividend yield? Can you?
8. Page 24, "Dividends" row. The second bullet on Santee Cooper side seems to match the first bullet on Publicly traded side. Can we line these up and bold them and drop a big footnote or chart or call out box and point out that Santee Cooper's payout to its owner is 1/5 - 1/6 the payout that owners of publicly traded company gets. Could point this out in executive summary also.
9. **BIG ADDITION:** The report does not prominently address the forth alternative of assessing the ways to get value to the State by Santee Cooper restructuring or modifying its business practices to act like a privately owned power company - i.e., get its dividend yield, dividend payout and ROI ratios in line. On Pages 10-13, could we add a fourth column and call it something like "Proforma

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Publicly Traded Company" or "As-if Publicly Traded Company" or "Ostensible Publicly Traded Company" or "Modeled as Publicly Traded Company" or "Simulated Publicly Traded Company", etc. and then fill in something for all the rows. For example, you might say that debt ratio might increase if the money is currently uses to pre-pay debt (debt reduction fund) is used to generate the appropriate average dividend yield, payout or ROI. This would conceivable create a 4th box on page 26 and a 4th range on page 28 and related pages and changes.

10. Can we beef up the Executive Summary with some 10,000 foot conclusions for the reader with short attention spans. Things like, the electric utility market is on fire and this was a very appropriate time to conduct a valuation. Santee Cooper has a book value of \$XXXXXXXX, if it conducted its business with respect to its owner equity in the same way as a publicly traded utility the State could expect a yearly payout, return dividend of \$XXXXXXXXXX, if the State were to sell certain assets or the entire company under certain circumstance, Santee Cooper would have a value in the range of \$XXXXXXXXXXXXXXXXXX. Etc.

THANK YOU.

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Superman Comments:

1. This goes without saying, but on final remember to remove HC:FDPO text box at the bottom of the page.
2. after "redeployed" in the history, add "to an altered mission."
3. Add chart at end of forward section
4. In valuations, has the "other property value" been added in? If not, can it be added in to bump up the boxes on the chart on page 28 (maybe with a footnote to make clear that it included an approximation on value of other property?)
5. Can you add a line for the average Co-ops in the Comparisons on page 45 and 46?
6. Can you make Santee Electric Coop blue and add Santee Cooper numbers to pages 47/48?
7. ADD THE DIVIDEND YIELD CHART WITH BELLS AND WHISTLES AND SIMPLIFIED GRAPHS AND PARAPHRASED CONCLUSIONS AND HIGHLIGHTS? This issue needs to find its way "front and center" in the executive summary as well, if possible. Do you thread the dividend yield comparisons from page 53/54 and make some analytical conclusion about the insufficiency of Santee Coopers' calculate dividend yield? Can you?
8. Page 24, "Dividends" row. The second bullet on Santee Cooper side seems to match the first bullet on Publicly traded side. Can we line these up and bold them and drop a big footnote or chart or call out box and point out that Santee Cooper's payout to its owner is 1/5 – 1/6 the payout that owners of publicly traded company gets. Could point this out in executive summary also.
9. **BIG ADDITION:** The report does not prominently address the forth alternative of assessing the ways to get value to the State by Santee Cooper restructuring or modifying its business practices to act like a privately owned power company – i.e., get its dividend yield, dividend payout and ROI ratios in line. On Pages 10-13, could we add a fourth column and call it something like "Proforma Publicly Traded Company" or "As-if Publicly Traded Company" or "Ostensible Publicly Traded Company" or "Modeled as Publicly Traded Company" or "Simulated Publicly Traded Company", etc. and then fill in something for all the rows. For example, you might say that debt ratio might increase if the money is currently uses to pre-pay debt (debt reduction fund) is used to generate the appropriate average dividend yield, payout or ROI. This would conceivable create a 4th box on page 26 and a 4th range on page 28 and related pages and changes.

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THANK YOU.

Steffen, Susan

From: Munson, Keith [KMunson@wcsr.com]
Sent: Monday, April 25, 2005 9:50 AM
To: Mandanas, MaryBeth
Cc: Davies, Adam
Subject: S.C. Report

Please see Confidentiality Notice before reading email.

Santee Cooper has Meeting with The Energy Authority on May 5+6, but could do it Friday morning. Do you want to do it then? Do you have any alternatives earlier that week?
KEITH

Keith D. Munson, Womble Carlyle
864.255.5412
Sent by blackberry

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Steffen, Susan

From: Munson, Keith [KMunson@wcsr.com]
Sent: Monday, April 25, 2005 12:29 PM
To: Mandanas, MaryBeth; Davies, Adam
Subject: Meeting THURSDAY MAY 5TH, 10:00 AM

Please see Confidentiality Notice before reading email.
.....

MaryBeth: Spoke with SC and Thursday, the 5th works best for them now. Which is good, b/c that was the day you preferred. You may be able to come that morning if you can get an earlier enough flight. We can make arrangements to get you to Wamepee Conference Center in Monks Corner if that helps. Attached is the graphic I mentioned.

KEITH

.....
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Steffen, Susan

From: O'Meally, Lauren
Sent: Monday, April 25, 2005 2:23 PM
To: 'kmunson@wcsr.com'
Cc: Mandanas, MaryBeth; Bosse, Pierre
Subject: Santee Cooper Slides

Keith,

Please find attached the concerned pages that could potentially reveal private information. We want to make sure that these slides are vetted with the appropriate persons at Santee Cooper.

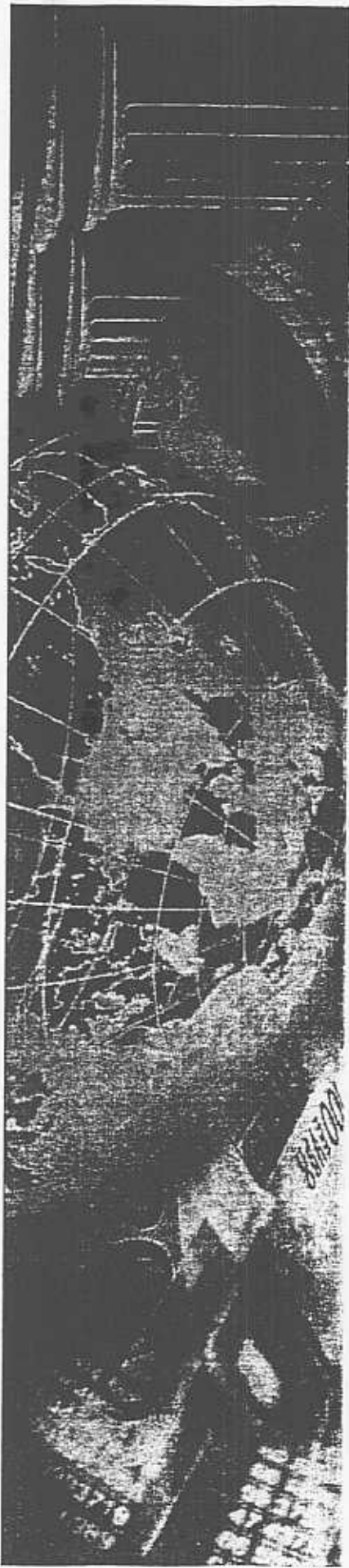


Santee
Cooper Slides.p

Kind Regards,

Lauren O'Meally
CREDIT | FIRST
SUISSE | BOSTON
IBD-Global Energy
Eleven Madison Avenue
New York, NY 10010
1-212-538-7162- office
1-646-935-8516- fax
lauren.o'meally@csfb.com

SANTEE COOPER



MATERIALS PREPARED FOR DISCUSSION
HIGHLY CONFIDENTIAL | APRIL 22, 2005
PRELIMINARY | SUBJECT TO FURTHER REVIEW AND EVALUATION

CREDIT | FIRST
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THESE MATERIALS MAY NOT BE USED OR RELIED UPON FOR ANY PURPOSE OTHER THAN AS SPECIFICALLY CONTEMPLATED BY A WRITTEN AGREEMENT WITH CREDIT SUISSE FIRST BOSTON

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Generation Portfolio Summary

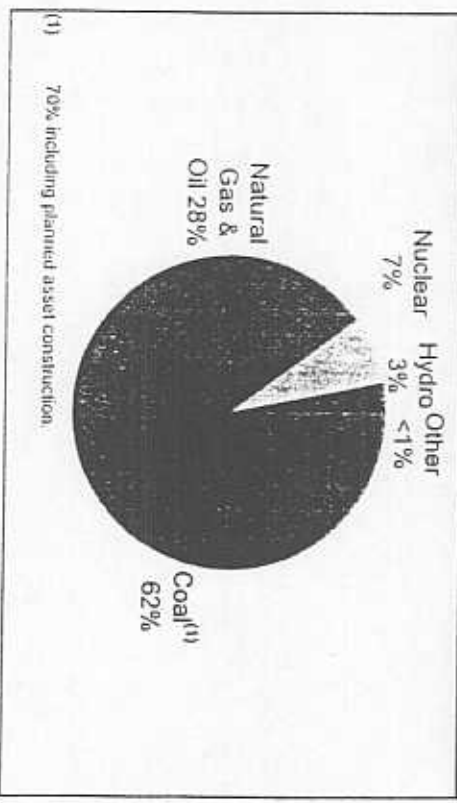


Generation Plant Summary

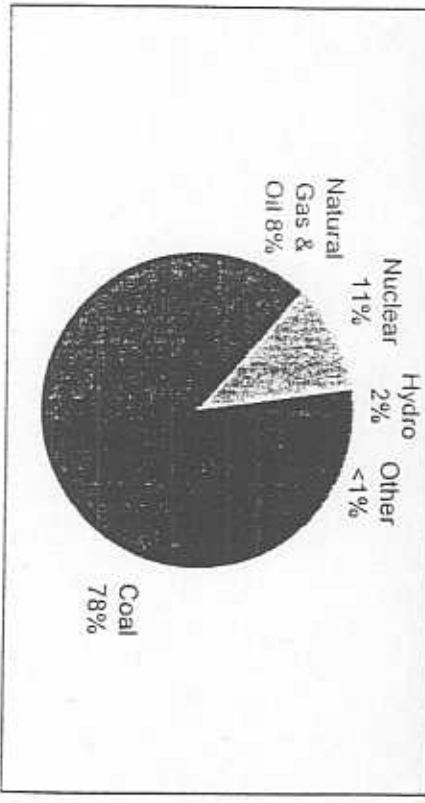
Generating Facilities	Location	Initial Date In Service	Summer Peak Capacity (MW)	Energy Source
Jordan Hydroelectric Generating Station	Marcks Corner	1942	128 MW	Hydro
Wilson Dam Generating Station	Lake Marion	1950	2	Hydro
Jethrus Generating Station Nos. 1 and 2	Marcks Corner	1954	92	Oil
Nos. 3 and 4		1970	306	Coal
Quinger Generating Station Nos. 1 and 2	Conway	1960	170	Coal
Combustion Turbines Nos. 1 and 2	Myrtle Beach	1962	20	Oil/Gas
Combustion Turbines Nos. 3 and 4	Myrtle Beach	1972	40	Oil
Combustion Turbine No. 6	Myrtle Beach	1976	30	Oil
Combustion Turbine No. 1	Hilton Head Island	1973	20	Oil
Combustion Turbine No. 2	Hilton Head Island	1974	20	Oil
Combustion Turbine No. 3	Hilton Head Island	1979	57	Oil
Waynes Generating Station No. 1	Georgetown	1975	295	Coal
No. 2		1977	295	Coal
No. 3		1980	295	Coal
No. 4		1981	270	Coal
Summer Nuclear Station ⁽¹⁾	Jethrusville	1983	318 ⁽¹⁾	Nuclear
Unit 1		1985	820	Coal
Unit 2		1983	540	Coal
Unit 3		2007 ⁽⁴⁾	580	Coal
Unit 4		2009 ⁽⁴⁾	580	Coal
Henry Landell Gas Station	Conway	2001	3	Landfill Methane Gas
Railway Generating Station	Star			
Unit 1		2002	447	Gas
Unit 2A		2002	146	Gas
Unit 2B		2002	146	Gas
Unit 3		2004	74	Gas
Unit 4		2004	74	Gas
Unit 5		2004	74	Gas
Unit 6		2007 ⁽⁴⁾	17	Oil
Total Current Capacity			4,499 MW	
Total Capacity Including Planned Construction			5,659 MW	

- (1) Virgil C. Summer Nuclear Station ("Summer Nuclear Station").
- (2) Represents the Authority's one-third ownership interest.
- (3) Estimated Commercial Operation Date
- (4) Year Purchased by the Authority.

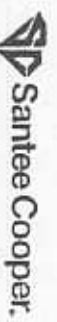
Current Generation Mix



Generation - % Kwhs sold



Consistent Load Growth



Anticipated Load Growth (GWh)



This page has been redacted.

Santee Cooper projects the majority of its load growth to result from its contract with Central Cooperative.

Cooperative and Industrial Customer Profile



Selected Major Customers of Santee Cooper

	CONTRACT AMOUNT	CONTRACT EXPIRATION	% OF TOTAL SALES	TYPE OF POWER	CREDIT RATINGS ⁽¹⁾
Central / Saluda Cooperatives ⁽²⁾	NA	3/31/2023	49.5% ⁽³⁾	Requirements Contract	NA/AA ⁽⁴⁾
Alumax	400 MW	12/31/2015	10.3%	Partially Interruptible	Baa2 / A-
Nucor	250 MW	4/30/2007	6.3%	NA	A1 / A+
Georgetown Steel	120 MW	5/31/2006	1.9%	NA	Ba3 / BB

Source: Santee Cooper filings and POWERdat.

Note: As of 12/31/03.

- (1) Senior unsecured ratings.
- (2) Under agreements between Central and Saluda, each of the Saluda Cooperatives becomes a member of Central on January 31, 2009 or earlier.
- (3) Includes revenues from sales of electricity to Saluda. Subject to the terms of a wholesale power contract between Central and Saluda, Santee Cooper provides Saluda's power requirements above the load provided by the Calamba nuclear station and SEPA resources, under the Central Agreement.
- (4) Central rating. Saluda Cooperative is not rated.

Analysis: Central's Cost to Purchase Generation Assets



Central Leased Generation

	BOOK VALUE 11/30/04	ACCUMULATED DEPRECIATION	NET BOOK VALUE	DEBT OUTSTANDING ⁽²⁾	NBV - DEBT
Granger Generating Station ⁽¹⁾	\$42,415,734	(\$34,149,836)	\$8,265,898	\$12,359	\$8,253,539
Hilton Head Island Gas Turbines	\$11,024,356	(\$8,032,132)	\$2,992,224	\$327,050	\$2,665,174
Cost to Central to Purchase Assets					\$10,918,713

(1) Note that these figures represent estimated book value on Santee Cooper's books for the assets listed. The Central/Santee Cooper Coordination and Integration Agreement Article XIV, Section F states a minimum annual depreciation rate for Steam Electric Generating Plant (i.e. Granger). Therefore, the above Net Book Value may be overvalued for purposes of determining how much Central would pay Santee Cooper for this asset.

(2) Pro forma debt ownership as of 1/31/05 based on original loan amounts. The debt will not be fully repaid until November 2008.

Unique Characteristics of Santee Cooper



Santee Cooper has several characteristics unique to government owned enterprises that are not usually found in companies with public shareholdings

CATEGORY	SANTEE COOPER	TYPICAL PUBLICLY TRADED UTILITY
Regulation	<ul style="list-style-type: none"> ▶ Cost of service methodology ▶ Certain exemptions from FERC regulation ▶ Not an "electrical utility" under PSC jurisdiction 	<ul style="list-style-type: none"> ▶ Regulated equity return (~10%-13%) ▶ FERC wholesale ratemaking and/or State Public Service Commission retail ratemaking
Dividends	<ul style="list-style-type: none"> ▶ Payments to the State equate to 10% of 2005E reinvested earnings ▶ No dividend payments 	<ul style="list-style-type: none"> ▶ Dividend payout around 55%-60% of net income ▶ Dividend yield around 4%-5%
Capital Structure	<ul style="list-style-type: none"> ▶ Debt to capitalization of 70% ▶ Borrows on a tax exempt basis due to its government ownership 	<ul style="list-style-type: none"> ▶ Debt to capitalization in the 50%-60% range ▶ Stand alone investment grade credit rating (mid to high BBB) ▶ Moderate S&P business position (4-6)
Tax	<ul style="list-style-type: none"> ▶ Exempt from certain Federal, state, and local taxes ▶ Payments in lieu of taxes (County taxes) (~\$3-\$4 million per year over 05E-08E) 	<ul style="list-style-type: none"> ▶ Subject to Federal, state, and local taxes
Accounting	<ul style="list-style-type: none"> ▶ Use of proprietary fund accounting applicable to government entities 	<ul style="list-style-type: none"> ▶ Accounts maintained in accordance with GAAP ▶ Compliance with SEC rules applicable to public companies
Corporate Governance	<ul style="list-style-type: none"> ▶ Adopted best practices related to Sarbanes-Oxley 	<ul style="list-style-type: none"> ▶ Compliance with Sarbanes-Oxley requirements

Other Assets – Property



ASSET	ACREAGE	ASSUMED SALE POTENTIAL		SALE TOTAL (\$MM)
		ACREAGE	\$ 000's / ACRE	
Project 199	19,989	10,000	15 – 20	\$150 – \$200
Non Project Land	12,162	10,000 ⁽¹⁾	10 – 15	100 – 150
Outlying Property	9,982			
Lake Marion	100,607			
Lake Moultrie	59,874			
Total	202,614	20,000		\$250 – \$350

(1) Assumes approximately half of land outside of FERC boundary could be sold once FERC licensing process concludes in 2009 / 2007.

Summary Financials



Income Statement Summary

(\$ in millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Operating Revenues ⁽¹⁾	\$1,242.0	\$1,243.9	\$1,218.9	\$1,276.9	\$1,359.4	\$1,407.3	\$1,468.2	\$1,522.1	\$1,575.0	\$1,650.4
Total Production Costs	(723.1)	(730.7)	(665.4)	(714.2)	(765.5)	(804.6)	(856.0)	(901.6)	(945.1)	(1,005.6)
Gross Margin	\$518.9	\$513.1	\$553.5	\$562.7	\$593.9	\$602.6	\$612.2	\$620.5	\$629.9	\$644.8
Transmission & Distribution	(\$31.2)	(\$32.8)	(\$33.8)	(\$34.8)	(\$35.9)	(\$37.0)	(\$38.1)	(\$39.2)	(\$40.4)	(\$41.6)
SG&A	(87.1)	(90.4)	(94.0)	(97.9)	(101.5)	(104.6)	(107.7)	(111.2)	(114.7)	(118.1)
Other	(4.6)	(4.6)	(4.6)	(4.8)	(5.1)	(5.3)	(5.5)	(5.7)	(5.9)	(6.2)
Total Non Fuel/Purchased Power Expenses	(\$122.8)	(\$127.8)	(\$132.5)	(\$137.6)	(\$142.5)	(\$146.9)	(\$151.3)	(\$156.1)	(\$161.0)	(\$165.9)
EBITDA	\$396.1	\$385.3	\$421.0	\$425.2	\$451.3	\$455.8	\$460.9	\$464.4	\$468.9	\$478.9
Depreciation and Amortization	(154.0)	(161.7)	(188.7)	(195.7)	(224.4)	(228.7)	(233.0)	(238.9)	(244.5)	(249.0)
EBIT	\$242.1	\$223.6	\$232.3	\$229.5	\$226.9	\$227.2	\$227.9	\$225.5	\$224.4	\$229.8
Net Interest Expense	(\$142.1)	(\$153.8)	(\$166.6)	(\$187.2)	(\$179.0)	(\$186.0)	(\$179.0)	(\$177.5)	(\$168.8)	(\$164.7)
Costs to be Recovered from Future Revenues	23.8	20.6	(2.3)	17.3	25.5	17.5	15.3	12.6	11.9	(2.9)
Reinvested Earnings	\$123.8	\$90.4	\$63.4	\$59.6	\$73.4	\$58.6	\$64.2	\$60.6	\$67.5	\$62.2

(1) The BCWASA contribution in aid of construction payment of \$8.8 million is classified as deferred revenue. The portion of contribution in aid transferred from deferred details and recognized as revenue is based on their total contribution depreciated over the life of the asset.

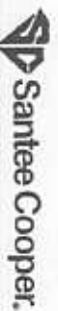
Cash Flow Statement and Capitalization Summary

(\$ in millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Beginning Cash Balance ⁽¹⁾	\$795.6	\$540.1	\$567.6	\$496.9	\$524.4	\$514.0	\$518.9	\$519.1	\$522.9	\$513.4
Cash from Operations ⁽¹⁾	\$398.0	\$401.3	\$433.8	\$447.3	\$451.2	\$463.6	\$461.1	\$465.6	\$474.1	\$475.3
Cash from Investing Activities ⁽¹⁾	(498.4)	(470.5)	(447.2)	(311.8)	(131.2)	(143.5)	(197.2)	(195.4)	(161.3)	(166.2)
Cash from Financing Activities ⁽¹⁾	(\$155.1)	\$96.7	(\$57.3)	(\$108.0)	(\$330.4)	(\$315.2)	(\$263.7)	(\$266.5)	(\$322.4)	(\$302.1)
Increase / Decrease in Cash Equivalents ⁽¹⁾	(\$255.5)	\$27.5	(\$70.7)	\$27.5	(\$310.5)	\$4.9	\$0.3	\$3.7	(\$9.5)	\$7.0
Ending Cash Balance	\$540.1	\$567.6	\$496.9	\$524.4	\$514.0	\$518.9	\$519.1	\$522.9	\$513.4	\$520.4
Total Debt	\$2,953.1	\$3,219.6	\$3,336.1	\$3,426.3	\$3,279.4	\$3,140.6	\$3,048.4	\$2,957.3	\$2,798.0	\$2,650.3
Total Equity	1,160.2	1,291.6	1,369.6	1,420.8	1,467.6	1,527.3	1,571.8	1,621.2	1,666.6	1,718.4
Total Capitalization	\$4,133.3	\$4,511.2	\$4,705.7	\$4,847.1	\$4,747.0	\$4,667.9	\$4,620.2	\$4,578.5	\$4,464.6	\$4,368.7

Estimated based on Exhibit II to VI of Santee Cooper Financial Forecast dated 01/27/05. Proprietary kind accounting complicates reconciliation to audit Balance Sheet format.

Balance Sheet Cash Breakdown



(\$ in 000's, 12/31/04)

Current Unrestricted Assets	
Nuclear Fuel Fund	\$28,431
Cash and Investment Held by Trustee	158,566
General Improvement	3,485
Total	\$190,482
Current Restricted Cash and Investments	
Bond Fund - Current Portion	\$151,490
Special Reserve - Equity Contribution for 2005A & 2005B	10,825
Debt Reduction - Current Portion	-
Total	\$162,315
Non-Current Unrestricted Assets	
Nuclear Decommissioning Trust	\$52,173
Total	\$52,173
Non-Current Restricted Assets	
Nuclear Decommissioning Trust	\$64,324
Debt Service Reserve Funds	38,825
Debt Reduction Fund	59,519
Other Special Funds:	
Capital Improvement	15,584
Rainey CC # 1 - Tax Exempt	4,493
Rainey CC # 1 - Taxable	-
Rainey SC # 1 - Tax Exempt	8
Rainey SC # 2 - Tax Exempt	9
Rainey Equity Construction Fund	594
Cross # 3 Construction - Tax Exempt	170,348
Cross # 3 Construction - Taxable	2,633
Rainey 2004 Construction - Tax Exempt	10,443
Rainey 2004 Construction - Taxable	1,404
Cross # 4 Construction - Tax Exempt	72,124
Cross # 4 Construction - Taxable	8,049
SIP Call Construction - Tax Exempt	1,022
SIP Call Construction - Taxable	2,353
Special Depository Fund	-
Water System Capital Improvement	2,116
Contingency	1,152
Total Restricted Funds	\$455,000
Total All funds	\$859,970

(\$ in 000's, 12/31/04)

Construction Funds	
General Improvement	\$3,485
Capital Improvement	15,584
Cross # 3 Construction - Tax Exempt	170,348
Cross # 3 Construction - Taxable	2,633
Rainey 2004 Construction - Tax Exempt	10,443
Rainey 2004 Construction - Taxable	1,404
Cross # 4 Construction - Tax Exempt	72,124
Cross # 4 Construction - Taxable	8,049
SIP Call Construction - Tax Exempt	1,022
SIP Call Construction - Taxable	2,353
Rainey Equity Construction Fund	594
Rainey CC # 1 - Tax Exempt	4,493
Rainey CC # 1 - Taxable	-
Rainey SC # 1 - Tax Exempt	8
Rainey SC # 2 - Tax Exempt	9
Total	\$292,549
Special Funds	
Nuclear Fuel Fund	\$28,431
Nuclear Decommissioning Trust	52,173
Nuclear Decommissioning Trust	64,324
Special Depository Fund	-
Water System Capital Improvement	2,116
Contingency	1,152
Total	\$148,196
Debt Service Funds	
Cash and Investment Held by Trustee	\$158,566
Bond Fund - Current Portion	151,490
Special Reserve - Equity Contribution for 2005	10,825
Debt Reduction - Current Portion	-
Debt Service Reserve Funds	38,825
Debt Reduction Fund	59,519
Total	\$419,225
Total - All Funds	\$859,970



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Steffen, Susan

From: Munson, Keith [KMunson@wcsr.com]
Sent: Thursday, April 28, 2005 8:56 PM
To: Mandanas, MaryBeth
Cc: Davies, Adam
Subject: Superman

Please see Confidentiality Notice before reading email.
.....

Mary Beth: In light of the sensitivity to "underwriting" the report, I would suggest removing the Superman reference in the Table of Contents in conjunction with the FORWARD. It's fine to keep it in the footnote (or however it is referenced in the Forward itself) but as I recall, it is the first thing on the Table of Contents and I think would be a little "jarring" to Lonnie and could be misinterpreted by others. Options might be:

Forward

Forward by Keith Munson

Forward by Keith Munson, Greenville, South Carolina

Forward by Keith Munson, Esq., Greenville, South Carolina



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CARLYLE**
OUR LAWYERS
MEAN BUSINESS

.....
CONFIDENTIALITY NOTICE: This electronic mail transmission has been sent by a lawyer. It may contain information that is confidential, privileged, proprietary, or otherwise legally exempt from disclosure. If you are not the intended recipient, you are hereby notified that you are not authorized to read, print, retain, copy or disseminate this message, any part of it, or any attachments. If you have received this message in error, please delete this message and any attachments from your system without reading the content and notify the sender immediately of the inadvertent transmission. There is no intent on the part of the sender to waive any privilege, including the attorney-client privilege, that may attach to this communication. Thank you for your cooperation.

5/13/2005

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Kozlowski, Peter

From: Mandanas, MaryBeth
Sent: Friday, May 06, 2005 4:24 PM
To: Burstein, Deborah; Kozlowski, Peter
Subject: FW: Superma.n

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Friday, April 29, 2005 7:32 AM
To: Mandanas, MaryBeth
Subject: RE: Superma.n

Please see Confidentiality Notice before reading email.
.....

Mary Beth: Because Santee Cooper is a state agency and there is some press interest in the report, you should be prepared that it might ultimately become public. So you might want to solve these issues with additional disclaimers to the extent possible. In this regard, it might be helpful to add a note on the pages discussing value as to generating asset disposition and/or sale of the company that CSFB was not asked and did not attempt to identify any buyers for any Santee Cooper assets or Santee Cooper as a whole. This should help quell the gossip mongering.

As for the presentation, we can move to go into executive session to receive the report, that is probably appropriate and I will make that motion - I believe most of the Board is expecting that anyway. If there is some chart or information that cannot be qualified enough to satisfy your in house counsel, you might want to opt to provide it under separate cover and then note in the report that it cannot be fully understood without reference to additional confidential information, etc.

-----Original Message-----

From: Mandanas, MaryBeth [mailto:marybeth.mandanas@csfb.com]
Sent: Thursday, April 28, 2005 11:41 PM
To: Munson, Keith
Subject: RE: Superma.n

Keith,

I am working with our lawyers relative to the disclosure of this presentation to the public. Our strong preference would be to have the presentation made to a private session of the Board. Additionally, there are certain segments of the presentation that we prefer not to have disclosed at all given the preliminary nature of the report. I am having further discussions with our committees and internal counsel tomorrow and will revert. I wanted to let you know of our current position to the extent you have an idea for a mutually agreeable solution.

Best regards,
Mary Beth

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Thursday, April 28, 2005 8:56 PM
To: Mary Beth Mandanas (E-mail)
Cc: Adam Davies (E-mail)
Subject: Superman

Please see Confidentiality Notice before reading email.
.....

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Mary Beth: In light of the sensitivity to "underwriting" the report, I would suggest removing the Superman reference in the Table of Contents in conjunction with the FORWARD. It's fine to keep it in the footnote (or however it is referenced in the Forward itself) but as I recall, it is the first thing on the Table of Contents and I think would be a little "jarring" to Lonnie and could be misinterpreted by others. Options might be:

Forward

Forward by Keith Munson

Forward by Keith Munson, Greenville, South Carolina

Forward by Keith Munson, Esq., Greenville, South Carolina



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=====

Kozlowski, Peter

From: Mandanas, MaryBeth
Sent: Friday, May 06, 2005 4:24 PM
To: Burstein, Deborah; Kozlowski, Peter
Subject: FW: Superma.n 5/3/02

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Tuesday, May 03, 2005 9:07 AM
To: Mandanas, MaryBeth
Subject: RE: Superma.n 5/3/02

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.....

Mary Beth: Hopefully this will answer all the remaining questions and enable you to finalize things for Thursday.

1. **Brief History:** Can I make the following minor changes:
 - a. 3rd Para. (Begins with "At the same time") - add the word "substantially" between "this" and "took" - to read: "Of course this substantially took Santee ..."
 - b. 7th Para. (Begins with "Santee Cooper can") - Change first sentence to "Santee Cooper is somewhat similarly situated." (thereby deleting ~~Santee Cooper can be considered as being at a similar crossroads.~~)
 - c. I think I already suggested a change to the "been redeployed" ending of the second sentence in Para. 7, if not, change it to something like "...necessarily shifted to other objectives."
 - d. 8th Para. (Begins with "When the General Assembly") - In the fifth sentence, change "a ~~significant~~ purpose" to "a predominant purpose."
 - e. 9th Para. (Begins with "This deliberative process .." - 2/3rds down add the word "conditionally" so it reads, "The South Carolina Supreme Court conditionally disagreed"
 - f. Footnote 6: (Begins with "This would allow for") - add the word "still" so that it reads "... (which is still slightly more ...)
 - g. Also, remember to add the \$8 billion dollar chart I sent you.
2. **Board Attendance:** we are expecting the almost the entire board to attend. One may be in depositions in Chicago and another may be on conference call from his law firm in Columbia, but we are expecting the rest.
3. **Executive Session:** We are hopeful that the report will be non-sensitive since FOIA acts have already come in. However, since you received significant amounts of confidential information in preparing the report it is quite possible that your presentation will go into this information. The press will be there and objecting to executive session. I will ask you if you reviewed a lot of confidential and proprietary information in preparing report and if you intend to include some of that information in your presentation. If yes, then we should be able to go into executive session. However, management may feel compelled to then come out of executive session and

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somewhat repeat the presentation without the confidential discussions so that the net effect of the executive session can be said to have been limited to the consideration of confidential information. You should expect that it goes something like that.

4. Airports: Yes, Charleston. If you fly in Wednesday night, and don't have time to enjoy downtown, you might stay out by the Airport as that will give you a head start to the Wampee Conference Center in Moncks Corner/Pinopolis area. I will have Santee Cooper send you directions from Charleston.
5. Tables and Charts:
 - a. Electric - 99.6% of 2004 Revenues Chart: The Customers data you have is from 2003. 2004 data would be 141,000 residential (and commercial) direct serve customers (116,000 residential and 25,000 commercial (excludes large industrial)). In 2004, Santee Cooper would say it only had 4 major wholesale customers. SC would say the Pie Chart would be more accurate as: Wholesale-53.3%, Industrial-25.9%, residential direct-10.0% and commercial direct-10.8% (or you could say residential and small commercial 20.8%). On the Assets side the final bullet should be \$72.4MM instead of \$63.5MM for 2004 data. Also, on the 3rd bullet, might add the word generating between current and capacity.
 - b. Load Growth Chart: Residential is really Residential and small commercial direct serve. Might call Industrial - "Large Industrial".
 - c. Selected Major Customers: - Contract Amount, Contract Expiration and Types of Power are all very sensitive and confidential and SC would want this removed, black out, not disclosed. Also, Georgetown Steel was in bankruptcy in 2003 so it is questionable whether they had the credit rating shown.
 - d. Characteristics Chart: SC would suggest adding a couple of bullets. As to Tax, add "private use borrowing subject to taxable debt." That suggestion is optional, but as to Corporate Governance, it would strong suggest adding a bullet for "Use of FERC Uniform System of Accounts."
 - e. Property Portfolio Chart: Request deleting the 2 10,000 acre reference and just leaving the total of 20,000 at the bottom. A notation that there might be 10,000 acres with the project territory that could be sold would raise eyebrows in the FERC license renewal process. Also, of course, delete the footnote.
 - f. Summary of Financials: This information is not publicly available and is sensitive and confidential. If you can do without it, that would be best. However, SC is okay with showing the following the line times from this chart: EBITDA, Depreciation and Amortization, EBIT and Total Capitalization. Also, for what it is worth, the beginning cash balance for 2005 is based on preliminary unaudited data.
 - g. Balance Sheet Breakdown: Should note that this is based on preliminary unaudited data.

That's all. Thanks, KEITH

-----Original Message-----

From: Mandanas, MaryBeth [mailto:marybeth.mandanas@csfb.com]
Sent: Monday, May 02, 2005 11:57 PM
To: Munson, Keith
Subject: RE: Superma.n
Importance: High

Keith,

We have our final internal counsel review tomorrow at 2:30pm. Is it appropriate to assume that the presentation will be made in a private executive session? Will all Board members be in attendance? Also, there were several pages that the team had forwarded your direction last week to make sure that Santee Cooper did not have issues with potential disclosure.

I am in the process of finalizing travel plans - are there directions available to the location where we will be meeting? Is Charleston the best airport to fly in and out of?

Are you available in the morning to discuss? Look forward to speaking with you.

Best regards,
Mary Beth

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Friday, April 29, 2005 7:32 AM
To: Mandanas, MaryBeth
Subject: RE: Superma.n

Please see Confidentiality Notice before reading email.
.....

Mary Beth: Because Santee Cooper is a state agency and there is some press interest in the report, you should be prepared that it might ultimately become public. So you might want to solve these issues with additional disclaimers to the extent possible. In this regard, it might be helpful to add a note on the pages discussing value as to generating asset disposition and/or sale of the company that CSFB was not asked and did not attempt to identify any buyers for any Santee Cooper assets or Santee Cooper as a whole. This should help quell the gossip mongering.

As for the presentation, we can move to go into executive session to receive the report, that is probably appropriate and I will make that motion - I believe most of the Board is expecting that anyway. If there is some chart or information that cannot be qualified enough to satisfy your in house counsel, you might want to opt to provide it under separate cover and then note in the report that it cannot be fully understood without reference to additional confidential information, etc.

-----Original Message-----

From: Mandanas, MaryBeth [mailto:marybeth.mandanas@csfb.com]
Sent: Thursday, April 28, 2005 11:41 PM
To: Munson, Keith
Subject: RE: Superma.n

Keith,

I am working with our lawyers relative to the disclosure of this presentation to the public. Our strong preference would be to have the presentation made to a private session of the Board. Additionally, there are certain segments of the presentation that we prefer not to have disclosed at all given the preliminary nature of the report. I am having further discussions with our committees and internal counsel tomorrow and will revert. I wanted to let you know of our current position to the extent you

have an idea for a mutually agreeable solution.
Best regards,
Mary Beth

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Thursday, April 28, 2005 8:56 PM
To: Mary Beth Mandanas (E-mail)
Cc: Adam Davies (E-mail)
Subject: Superman

Please see Confidentiality Notice before reading email.
.....

Mary Beth: In light of the sensitivity to "underwriting" the report, I would suggest removing the Superman reference in the Table of Contents in conjunction with the FORWARD. It's fine to keep it in the footnote (or however it is referenced in the Forward itself) but as I recall, it is the first thing on the Table of Contents and I think would be a little "jarring" to Lonnie and could be misinterpreted by others. Options might be:

Forward

Forward by Keith Munson

Forward by Keith Munson, Greenville, South Carolina

Forward by Keith Munson, Esq., Greenville, South Carolina



**WOMBLE
CARLYLE**
OUR LAWYERS
MEAN BUSINESS

.....
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=====

Kozlowski, Peter

From: Mandanas, MaryBeth
Sent: Wednesday, May 11, 2005 5:19 PM
To: Burstein, Deborah; Kozlowski, Peter
Subject: FW: Foreword
Importance: High

Just received from Keith Munson.

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Wednesday, May 11, 2005 4:54 PM
To: Mary Beth Mandanas (E-mail)
Subject: Foreword

Please see Confidentiality Notice before reading email.
.....

FYI. KEITH

.....
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CONFIDENTIAL



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Greenville, SC 29601

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Fax: (864) 255-5440
Web site: www.wcsr.com

Keith D. Munson
Direct Dial: (864) 255-5412
Direct Fax: (864) 255-5480
E-mail: kmunson@wcsr.com

May 11, 2005

VIA EMAIL

James E. Brogdon, Jr.
Executive Vice President and Chief Legal Officer
Santee Cooper
P.O. Box 2946101
Moncks Corner, SC 29461-2901

Re: Credit Suisse First Boston Evaluation Report

Dear Judge Brogdon:

As you know, I take my responsibilities as a board member of Santee Cooper very seriously. Early on, John West sent me a copy of all the appellate legal opinions involving Santee Cooper from its inception in 1934. I have laboriously studied the Coordinating Agreement and the Amendments and related documents. I obtained one of the last copies of the History of Santee Cooper 1934-1984 and have reviewed it to have a fuller understanding of Santee Cooper – past, present and future.

What kept driving me to study these issues has been the Board's failure for the past 25 years to abide by the Enabling Act, and the General Assembly's tolerance of this failure. Specifically, I am referring to Section 58-31-110, SC Code, which requires that every 6 months the Board determine Santee Cooper's "net earnings" and pay over to the Treasurer whatever amount is not necessary to the prudent operations of the business or to meet bond obligations in order to defray the tax burden on the people of South Carolina. As the board member representing the 4th Congressional District (with the fewest percentage of people receiving benefits from Santee Cooper), I naturally was concerned about Upstate residents subsidizing the co-ops. I was told that since 1979, with the approval of certain members of the General Assembly, Santee Cooper had been allowed to pay just 1% of its revenue. I suggested that the payment formula be codified by the General Assembly so that the Board would not be put in the pickle of being charged by the Enabling Act to do one thing and encouraged by certain members of the General Assembly to do another thing (something that, if S-573 passes into law, will subject each board member to personal liability up to \$50,000). Chairman T. Graham Edwards expressly told me on more than one occasion that inviting the General Assembly to clear this up could lead to unexpected consequences as the Legislature might feel compelled to tweak other aspects of Santee Cooper (tragically, this premonition has proven to be the understatement of the year!).

Last summer, I was involved in a meeting to hear Credit Suisse First Boston make a pitch to do the evaluation of Santee Cooper. In November, CSFB sent a letter to Lonnie Carter confirming the engagement. There were some issues about making it clear that Santee Cooper was not directing the study. I was involved as liaison between Santee Cooper and CSFB to perfect the language of the letter, in my role as Chairman of the Legal Affairs Committee. This process created an informal connection between me and CSFB. Over the next few months, I occasionally coordinated the transfer of information between CSFB and Santee Cooper.

In reading the history of Santee Cooper 1934-1984, I noted that some of the information came from contemporaneous news accounts. In March, I started to put together a chronology of events on the creation of Santee Cooper, with the intention of going through newspaper archives to see what other stories were written about the creation of Santee Cooper. (For what it is worth, I have shared that chronology with Kyle Stock so he could review his own paper's archives). In early April, purely on my own initiative, I drafted an essay on the Brief History and Analysis of the S.C. Public Service Authority (Santee Cooper) and sent it to CSFB. My intention was to give them background information and to encourage them to capture some of it in their report to give it some historical context. In light of Senate Bill 573, I believed this historical context was important. CSFB suggested that they just include it as a foreword.

I agreed and did some style editing to make it read better as a foreword. I also made a couple of substantive additions. I specifically recall adding the comment that because of the New Deal money discrepancy between South Carolina and all the other states (which was actually pointed out by the News and Courier in 1933-34), a real argument could be made that the State in fact "paid" for Santee Cooper, since it forewent other money from the Federal Government in New Deal programs. I also added the figures and chart at the end that quantifies the value of the Central Contract at more than \$8 billion over the next 18 years.

I emailed the text to CSFB on April 15, 2005 - a copy of my email and the text are attached. There may be a few word changes between this version and what was printed, but this was basically it. No other Board Member and no one in management was aware of, sanctioned or assisted in the foreword. I worked alone. Lonnie Carter and Guerry Green received copies of the report the night before it was released on May 5, 2004 and based on their comments to me, this was the first time they knew of it. I don't believe there is anything factually inaccurate in the foreword. However, I certainly understand that while I might see the glass half full, others might see the glass half empty - but the water level is still the same.

As for the question of who was the client - this was an issue when the engagement letter was signed by Lonnie Carter, CEO of Santee Cooper, in November 2004. My understanding is that CSFB believes that Santee Cooper was its client. I also believe that Santee Cooper may disagree with that conclusion. In CSFB's defense, although Santee Cooper was responsive in providing information, it was not responsive in providing guidance, such as when to release the report, in what format, etc. This is understandable based on Santee Cooper's position that it was

not Santee Cooper's study. As a matter of default, I ended up being the point of contact on these issues to keep the ball moving forward. Because CSFB believed that Santee Cooper was its client, I am sure they considered me (and justifiably so from their perspective) to be the client representative on these matters. CSFB made a clear demarcation between my foreword and their financial evaluation and I can vouch for the fact that, to my knowledge, no one else at Santee Cooper or on the Santee Cooper Board of Directors took any steps to influence what was contained in any section of the report, including the foreword.

I believe this answers Mr. Couick's questions. As we discussed, I do not believe that I can effectively intercede with CSFB with regard to obtaining this same information from CSFB. I would bring to your attention the fact that Santee Cooper entered into an indemnification agreement with CSFB and would likely be responsible for paying the expenses of CSFB in analyzing and/or responding to Mr. Couick's request. Ironically, this expense (which could be considerable at New York rates) would fall on the Santee Cooper ratepayers, just like allowing one ratepayer to sue all 11 Board Members -- for say, compromising the yearly disputes with Central over the cost of fuel adjustment -- could result in judgments equaling \$550,000, which would be reimbursed to the directors by Santee Cooper and charged back against the ratepayers (except for maybe Central, who might argue this was an extraordinary expense outside its cost formula). Like I said, ironic. If anyone in the General Assembly does not understand this (and also intend it) then they need to slow down and give S-573 until January to ripen (or rot).

With warm regards,

Very truly yours,



Keith D. Munson

KDM/
Enclosure

cc: (via email)
Lonnie Carter, CEO
Guerry Green, Chairman

Kozlowski, Peter

From: Mandanas, MaryBeth
Sent: Wednesday, May 11, 2005 9:32 PM
To: Burstein, Deborah; Kozlowski, Peter
Subject: FW: Re: Fwd: Foreword to CSFB Report Explanation

from Keith Munson...

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Wednesday, May 11, 2005 9:21 PM
To: Mary Beth Mandanas
Subject: FW: Re: Fwd: Foreword to CSFB Report Explanation

Please see Confidentiality Notice before reading email.
.....

-----Original Message-----

From: Munson, Keith [mailto:KMunson@wcsr.com]
Sent: Wed May 11 21:07:07 2005
To: 'guerry@screentight.com'; 'MIKE COUICK'; 'cblack@gov.sc.gov'
Cc: 'GLENN McCONNELL'; 'LUKE RANKIN'; 'Lonnie Carter'; 'Clarence Davis'; 'James Brogdon'
Subject: Re: Fwd: Foreword to CSFB Report Explanation

Guerry: Unfortunately I have no basis to direct CSFB to provide the requested documentation, if they even have anything more than I already sent you. Typically, they would give a client his documents upon request, but in this case, Santee Cooper has disclaimed the foreword and so that would essentially negate any authority I might have previously had to request copies of whatever they might have. Obviously, I am not personally their client and so cannot personally request them. Santee Cooper may be the client, but they disavowed the foreword, so they cannot ask for something that is admittedly not theirs to be returned. I guess that leaves the foreword as a kind of free lanced essay. I really don't see that any of us are in a position to put any pressure on CSFB to obtain additional documents, if any. I did speak with CSFB and learned that the judiciary committee did talk to one of their representatives and was raising concerns about CSFB printing the Santee Cooper logo on each page of the report without permission. As you can imagine this put them on their guard as to the motivation of the committee and now all requests must be handled by their counsel, which I think would be the policy of any large company. If it would help, I would be glad to sponsor a resolution at the next board meeting to clarify that CSFB had permission to use the logo, if you think that would settle their nerves and make them more receptive to any of our requests, although I suspect they would need additional assurance, which only the judiciary committee could give them. That is all I can think of. Fortunately, all the information was contained in my earlier letter and that should put the issue to bed. I will be back from Miami in time for the hearings next week and I plan to attend and could answer any additional questions at that time. Keith

-----Original Message-----

From: guerry@screentight.com [mailto:guerry@screentight.com]
Sent: Wed May 11 18:19:33 2005
To: MIKE COUICK; cblack@gov.sc.gov
Cc: GLENN McCONNELL; LUKE RANKIN
Subject: Re: Fwd: Foreword to CSFB Report Explanation

Keith, Please put this issue to rest. If there is something you can not get from csfb then please explain. This issue deserves full disclosure and needs to be put to bed. If you faxed the material then it seems reasonable that csfb could fax back to you. Please advise asap. Guerry

>

> From: "MIKE COUICK" <MNC@SCSENATE.ORG>

> Date: 2005/05/11 Wed PM 04:49:10 CDT
> To: <cblack@gov.sc.gov>, <guerry@screentight.com>
> CC: "GLENN McCONNELL" <GFM@SCSENATE.ORG>,
> "LUKE RANKIN" <LR@SCSENATE.ORG>
> Subject: Fwd: foreword to CSFB Report Explanation

> Guerry and Carl:

> This is the response provided by Mr. Munson. Please note that the document itself refers to being the "tweaked" history? what was the original, how was it labelled, to what use did Mr. Munson as the "default" point of contact ask that the information be used by First Boston. I believe that all of this confirms my need for the copies from First Boston. The cost of forwarding Mr. Munson's emails and other correspondence to First Boston should be minimal.

> Can you help? Mike

> Michael N. Couick
> Attorney & Director of Research
> S.C. Senate Judiciary Committee
> Post Office Box 142
> Columbia, SC 29202
> (803) 212-6623
> mnc@scsenate.org

> >>> "Munson, Keith" <KMunson@wcsr.com> 5/11/2005 4:50:55 PM >>>
> Please see Confidentiality Notice before reading email.

> Judge Brogdon: This should clear up any confusion about the source of the history/foreword. I am comfortable with you sharing this with Mike Couick, et al. I apologize for the occasional editorial tone, but as everyone knows, I am strongly opposed to S-573. I am leaving for Miami in about 30 minutes for a case, but will be back in the office on Monday. Please email me with any details about next week's hearings. Thanks,

> KEITH

> Keith D. Munson
> Womble Carlyle Sandridge & Rice, PLLC
> Poinsett Plaza, Suite 700
> 104 S. Main Street
> Greenville, South Carolina 29601
> 864.255.5412 (Direct)
> 864.255.5480 (Fax)
> kmunson@wcsr.com
> www.wcsr.com

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