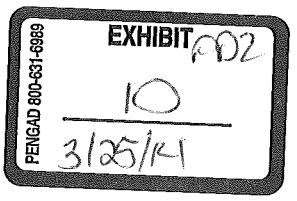
Preliminary Questions
Responses of Danny Joe Ray



Preliminary Questions – Dan Ray Responses

A. Candidate Background

1. *List and describe any professional experience or education you have in the following areas: accounting, finance, leadership, business operations, risk management, corporate governance, energy, engineering, or the sciences.*

   I have over ten years of leadership experience serving on active duty as a U.S. Army Officer. In addition, I have over twenty years of investment banking experience serving as financial advisor, underwriter, and lender to numerous Federal, State, and Local Governments /Authorities, as well as many Fortune 500 Companies. As global head of Project Finance for a large investment banking firm, I am very familiar with most aspects of accounting, finance, business operations, risk management, corporate governance, as well as specific financing experience in the utility and energy sector.

2. *Are you currently a customer of Santee Cooper?*

   Yes, a direct retail customer.

3. *To what do you attribute your success in your career? What qualities do you possess that enabled you to be successful? How are those qualities going to make you an effective member of the Board of Directors at Santee Cooper?*

   I have made it a point throughout my professional career to devote the time and effort necessary to master my particular field and use that expertise to provide the highest level of client service possible by providing thoughtful, tailored solutions. The qualities I focus on most include, working well with others and building consensus, demonstrating subject matter expertise, and finding pragmatic solutions to the toughest of problems. Given the large and presumably diverse nature of Santee Cooper's Board, these qualities should serve me well.

4. *Please describe any experience you have had on other boards. Based on those experiences, what is your impression of how a board should operate (in regards to interaction with the management, involvement with daily operations, contact with companies doing business with Santee Cooper, etc.)?*

   For the past nine years I have served as a Board of Trustee of Wetlands America Trust, the non-profit corporation formed by Ducks Unlimited, Inc. to manage its endowment, revolving funds, purchased lands, and conservation easements. In addition, during my twenty-year banking career, I have advised numerous

governmental and corporate boards and am familiar with board governance and proper interaction with management.

With respect to proper Board interaction with management, my general framework is as follows:

When Boards should Take Charge
- Central idea around mission and strategy
- Selection of CEO
- Board competence, architecture, and modus operandi
- Ethics and integrity
- Compensation architecture

When Boards should Partner
- Strategy, capital allocation
- Financial goals, shareholder value, stakeholder balance
- Risk appetite
- Resource allocation
- Talent development
- Culture of decisiveness

When Boards should Stay Out of the Way
- Execution
- Operations
- Areas of delegated authority
- Nonstrategic decisions
- Areas excluded by board charter

With respect to contact with companies doing business with Santee Cooper, it is management's responsibility to manage those discussions and relationship.

5. *What is your estimate of the time required to serve as a member of the Board of Directors for Santee Cooper? Are you able to give that time to the position?*

   Based on prior experience, I estimate two days of preparation time prior to scheduled board meetings. Yes, I am able to give that time to the position.

6. *Do you have a relationship with any of the charities that Santee Cooper has supported in the last five years? If so, please provide the name of the charity and describe the relationship.*

   None.

7. *Have you made any political contributions in the past five years? If so, how much and to whom were the contributions made?*

Candidate for Georgetown County Sheriff
- Lane Cribb 2008 - $1,000
- Lane Cribb 2012 - $1,000

Candidate for Attorney General in 2010
- Leighton Lord - $2,000

Candidate for 1st US Congressional District in 2010
- Paul Thurmond - $2,000
- Paul Thurmond Runoff - $2,000

Candidate for 7th US Congressional District in 2012
- Chad Prosser - $2,500

8. *Do you or any of your immediate family members (as defined in S.C. Code Ann. § 8-13-100) have a business, financial, or other relationship with Duke Energy or any of its subsidiaries, SCE&G, or an electric cooperative? Do you or any of your immediate family members have a business, financial or other relationship with any other investor-owned utility or an electric cooperative that operates outside of South Carolina? Please include any stock that you or an immediate family member own in these companies and/or any mutual funds that you or an immediate family member own that invests in these companies.*

Neither I nor any of my immediate family members have a business, financial, or other relationship with Duke Energy or any of its subsidiaries, SCE&G, or an electric cooperative.

Neither I nor any of my immediate family members have a business, financial or other relationship with any other investor-owned utility or an electric cooperative that operates outside of South Carolina.

Currently, equity and fixed income investments for my immediate family and me are separately managed by various third parties who manage funds to specific investment strategies (large cap, small cap, international, etc.) and as such, all investment decisions are made by the individual managers.

9. *As a director of Santee Cooper would it be ethical for you, your family, or businesses or charities with which you or they have a business, financial, or other relationship to benefit from any Santee Cooper business opportunity or contract? Why or why not?*

Not as a result of my position on the Board. If such a business or charity were to independently approach Santee Cooper, I would acknowledge my relationship and recuse myself from any board discussions or actions related to such entity.

B. Operations of Santee Cooper

1. *What services does Santee Cooper perform, and where are those services performed?*

   Santee Cooper's primary business operation is the production, transmission, and distribution of electrical energy, both at wholesale and retail, to citizens of South Carolina in all 46 counties. In addition, Santee Cooper provides water to over 75,000 customers through the Santee Cooper Regional Water System and Lake Marion Regional Water System.

2. *Generally, who are Santee Cooper's customers? Who is Santee Cooper's largest customer?*

   Santee Cooper is one of the nation's largest municipal wholesale utilities, whose system serves directly and indirectly approximately 2 million South Carolinians in all 46 counties of South Carolina. Santee Cooper serves directly and indirectly suburban areas outside Charleston, Columbia, Greenville and Spartanburg as well as the coastal areas of Myrtle Beach and the Grand Strand, Georgetown, Hilton Head Island, Kiawah Island and Seabrook Island.

   Santee Cooper's largest customer is Central Electric Power Cooperative Inc., an association of 20 electric distribution cooperatives in South Carolina, which accounted for 59.6% of revenues from sales in 2012.

3. *What are Santee Cooper's most valuable assets?*

   Santee Cooper's most valuable assets would include its generating and transmission assets located throughout the state, its 1,777 employees, and its 2 million customers across the 46 counties of South Carolina.

4. *Why was Santee Cooper created, and what are its goals? Do you believe Santee Cooper has fulfilled these goals? Should Santee Cooper continue to exist as a quasi-state entity?*

   The South Carolina Public Service Authority, Santee Cooper, was created in 1934 to tap the Santee and Cooper rivers for economic development and this resulted in

what stands today as South Carolina's largest power producer and one of the largest public-power utilities in the US.

Santee Cooper's goals include:

- Producing and distributing low-cost, reliable energy, water, and other essential services.
- Providing excellent customer service
- Operating according to the highest ethical standards
- Maintaining a quality work force
- Being a steward of the environment
- Being a leader in economic development

Based on my understanding of how Santee Cooper is organized, capitalized, and operates today, I believe it should continue to exist as a quasi-state entity.

5. *Do you believe legislative approval is required before Santee Cooper may sell or lease, real or personal property that is used in the generation, transmission, or distribution of electricity if the sale or transfer would not materially impair the authority's ability to meet generation, transmission, and distribution needs of its ongoing operation including an adequate reserve capacity and reasonable growth in needs? If the sale or lease would materially impair Santee Cooper's ability to meet generation, transmission, and distribution needs of its ongoing operation including an adequate reserve capacity and reasonable growth in needs, could Santee Cooper sell or lease, real or personal property that is used in the generation, transmission, or distribution of electricity without legislative approval?*

   Section 58-31-30 (B) defines what the Board's authorities are with respect to Santee Cooper's ability to sell or lease property. With respect to "surplus" property, the Board may sell, lease, or dispose property the Board deems not to be necessary for the purpose of the development. With respect to the sale or lease of property not deemed to be "surplus", the Board would need prior approval from the General Assembly.

6. *How does Santee Cooper compare to government-owned power companies in terms of generation of electricity and sales of electricity?*

   According to the American Public Power Association rankings for 2011, Santee Cooper ranked fourth nationally in terms of generation of electricity with 27,551,663 MWh and seventh nationally in terms of sales of electricity with $1,894,897,000 in revenues.

7. What is Santee Cooper's current bond rating, and why is that important?

Rating Agency	2013	2012	2011
Fitch Ratings			
Revenue Obligations	**AA-**	AA-	AA
Commercial Paper	**F1+**	F1+	F1+
Outlook	**Negative**		
Moody's Investors Service, Inc.			
Revenue Obligations	**A1**	Aa3	Aa3
Commercial Paper	**P-1**	P-1	P-1
Outlook	**Stable**		
Standard & Poor's Rating Services			
Revenue Obligations	**AA-**	AA-	AA-
Commercial Paper	**A-1**	A-1	A-1+
Outlook	**Stable**		

Bond ratings have a direct impact of Santee Cooper's cost of capital. Given Santee Cooper's need to access the capital markets over the next several years in order to complete funding of its capital plan, it is extremely important for Santee Cooper to maintain the highest possible debt ratings.

8. *How much money does Santee Cooper contribute to South Carolina's budget per year?*

According to their 2012 and 2011 audited financials, Santee Cooper distributed $19,617,000 and $18,656,000 respectively to the State of South Carolina.

9. *What is the dominant fuel source for Santee Cooper? What other sources of fuel are utilized? Do you envision any changes in sources or mix of generation?*

Below is the Santee Cooper published fuel diversification chart illustrating both utilization for 2012 and the forecast utilization for 2019. Clearly the biggest change in fuel source will be the projected shift from coal to nuclear.

	2012	2019*
Coal	58.15%	30.66%
Purchased Power	14.48%	10.34%
Natural Gas	17.26%	15.80%
Nuclear	8.86%	41.65%
Hydro	0.89%	0.92%
Oil/Diesel/Landfill Gas	0.36%	0.63%

**These numbers assume a 45 percent ownership of VC Summer.*

10. *What are the major legal, financial, and personnel challenges facing Santee Cooper today?*

Based on my review, the major issues include:

- Environmental legislation and resulting impacts
- Funding, completion, and certification of the VC Summer nuclear facilities
- Senior management succession

C. Best Practices for Board of Directors

1. *When the board and the management disagree, how do you believe the disagreements should be resolved?*

Board and management disputes should be handled respectfully and carefully, taking into account their clear separation of duties to the corporation. In certain cases of impasse, it may be appropriate to bring in outside experts to give advice. If the Board operates within the confines of a certain set of procedures and duties, the corporation will operate efficiently and disagreements will be resolved professionally.

2. *If a company is doing business with Santee Cooper and you are personally acquainted with the company's management or familiar with their line of work, how would you handle the situation? Do you think this is a benefit or a conflict of interest? Would you participate in the negotiations between Santee Cooper and this company?*

Assuming a personal relationship with the company's management, I would disclose the relationship to the Board and then recuse myself from all related matters.

3. *Describe the duty of loyalty and the duty of care you would owe to Santee Cooper.*

Duty of loyalty requires that board members exercise good fiduciary judgment on behalf of stockholders. Duty of care requires that board members exercise reasonable caution in executing board responsibilities that could harm others if not performed well.

4. *To whom do you as a Santee Cooper board member owe duties? What would you do in the case of conflicting interests?*

Board members owe a duty of loyalty to its customers and bondholders, as well as to the people of South Carolina by way of the people's elected representatives in the General Assembly and the Governor. Duty of care requires board members to act in the best interest of the corporation (Santee Cooper itself). In the case of conflicts of interest, board members should disclose the conflict and recuse themselves from all related matters.

5. *What are the differences between directors and managers? Specifically, what are the roles of each in the business operations of Santee Cooper?*

   Board members have no direct role in business operations of Santee Cooper. Boards are in place to establish overall policy and the management team is hired to execute the business operations of the organization.

6. *Is it proper for the board of directors not to heed or follow the advice of general counsel? If so, in what instances is it proper?*

   Board members are entitled to rely on information and opinions from Santee Cooper's general counsel. However, there could be a circumstance where the Board disagrees with general counsel or is unsure about the advice given. Assuming this, the Board could ask for outside expert advice to provide clarity with respect to the matter in dispute.

7. *What is the proper role for the board in regards to Santee Cooper's pursuit of economic development for the area and South Carolina?*

   The Board's role in economic development is to establish the policy and general guidelines for economic development and then rely on management to execute the policy.

8. *How important is board unity? How would you handle a board member who acts on his own without the knowledge and approval of the board?*

   Boards should always act collectively. Also, Board members should not engage in "lone wolf" or "rogue" activities as those activities defeat the purpose of having collaborative boards of directors.

9. *What would be your first three immediate goals to achieve as a member of the board?*

My first three immediate goals after a review of the Board's policies and procedures will be to better understand Santee Cooper's:

- Generating assets and senior management team
- Lakes, recreational areas, and water systems
- Capital plan, upcoming debt issuance and required Board approvals

10. *What role should a director's political or ideological beliefs play in making a decision? Should a director base his decision solely on what is in the best interest of Santee Cooper?*

    None. Yes, Board members have a general duty to act in the best interest of the corporation.

D. Freedom of Information Act

1. *What is the purpose of the Freedom of Information Act (FOIA)? How can you ensure that the Santee Cooper Board complies with the FOIA?*

   The Freedom of Information Act was designed to give the public and the press access to the workings of their government. It is my responsibility to understand FOIA and properly follow the letter and spirit of the law.

2. *What types of interactions sufficiently constitute a "meeting" in order to fall within the terms of FOIA? Are e-mail communications and chance social meetings subject to FOIA?*

   A meeting is defined as the convening of a quorum (a simple majority of Board members). Email communications and chance social meetings are subject to FOIA.

3. *Are there any practices and/or safeguards that could be put in place in order to avoid violations of FOIA?*

   Santee Cooper Board members should read, understand, comply with the "Public Official's Guide to Compliance with South Carolina's Freedom of Information Act".