Capital Improvements
Joint Bond Review Committee

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JBRC FISCAL OVERSIGHT SUBCOMMITTEE

Senator Nikki G. Setzler, Chairman
Representative J. Gary Simrill, Vice Chairman
Senator Thomas C. Alexander
Representative Heather Ammons Crawford

Thursday, September 16, 2021, 10:30 a.m.
105 Gressette Building

AGENDA

1. Introductory Remarks
2. Presentation of South Carolina Public Service Authority

   Introduction and Opening Remarks
   The Honorable Peter McCoy, Chairman
   Mr. Mark Bonsall, President and Chief Executive Officer

   Debt Profile and Debt Management Overview
   Mr. Ken Lott, Chief Financial and Administrative Officer

   Refinancing Plan
   Ms. Suzanne Ritter, Treasurer
3. Discussion of Next Steps
4. Future Meeting

Live-streaming of this meeting will be available at www.scstatehouse.gov.

Santee Cooper Debt Overview

Presented to

Joint Bond Review Committee
Finance Subcommittee

September 16, 2021

Introductions & Opening Remarks

Peter McCoy

Chairman

Mark Bonsall

President & CEO

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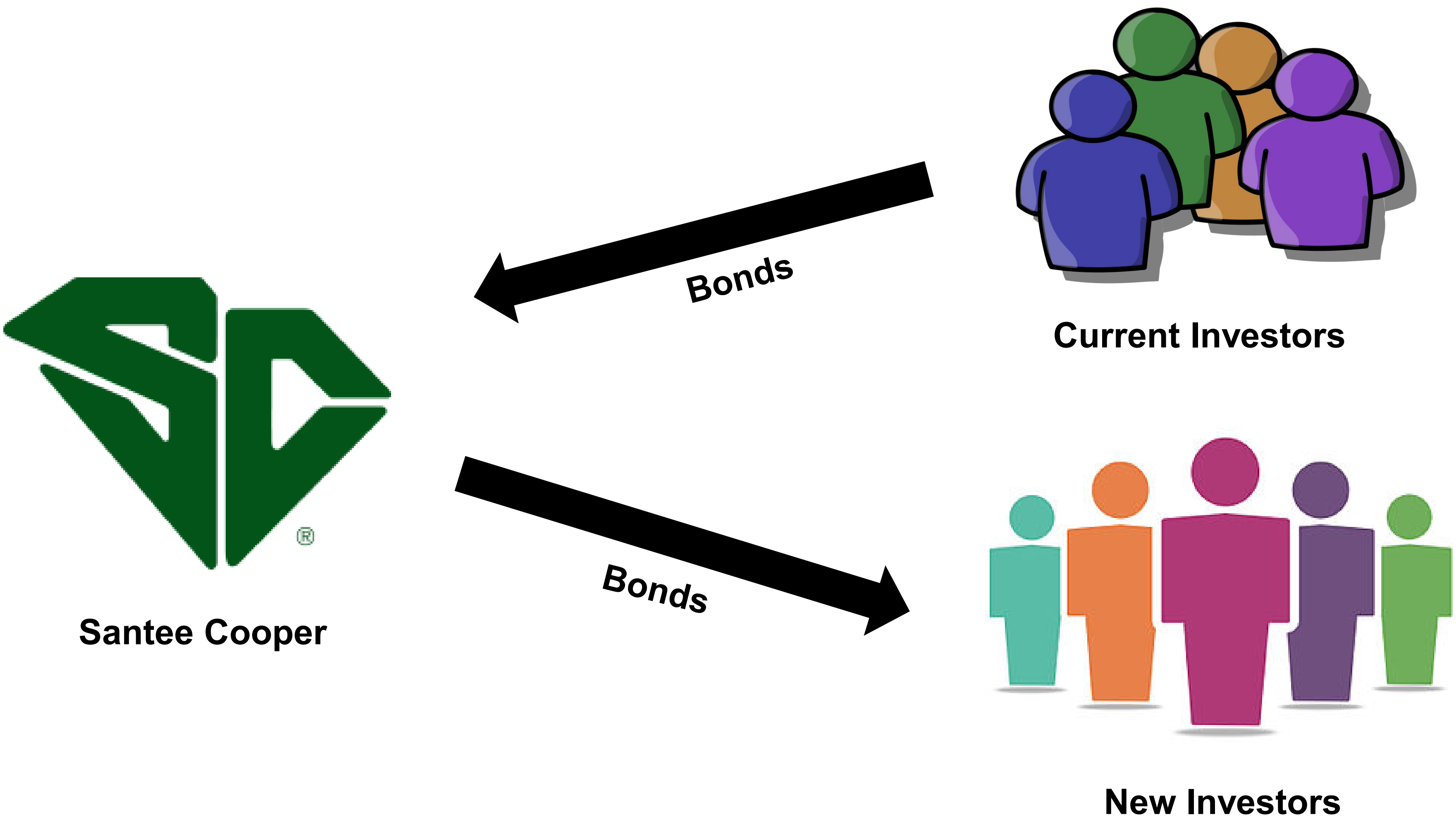
Basic Financial Equation

Cash Revenues
Less: Cash Operating Expenditures
Net Cash Operating Margin

Net Cash Operating Margin
Less: Principal and Interest
Internally Generated Cash

Internally Generated Cash
Plus: New Debt Principal
Funding for Capital Improvements

Current Refinancing



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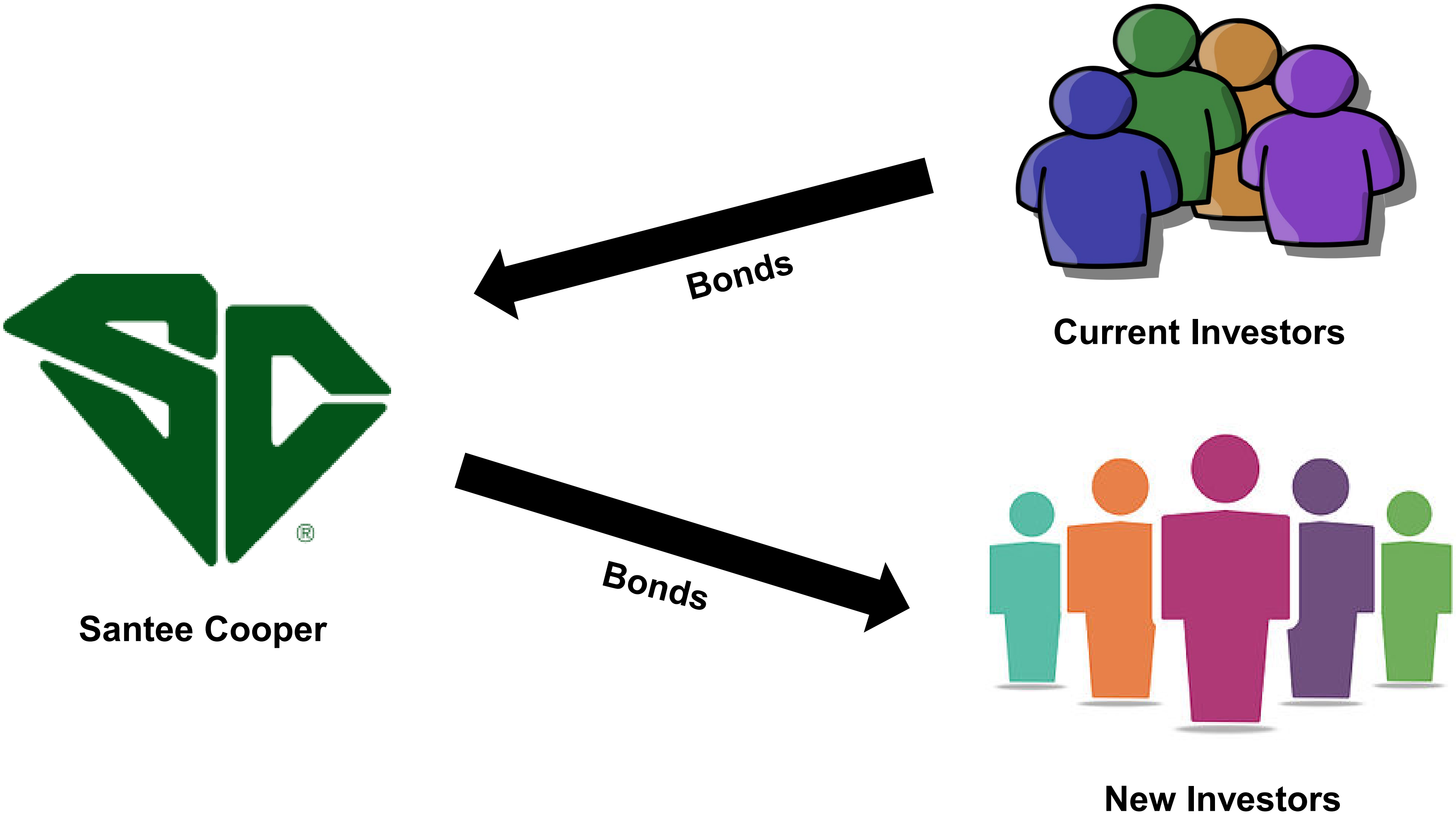
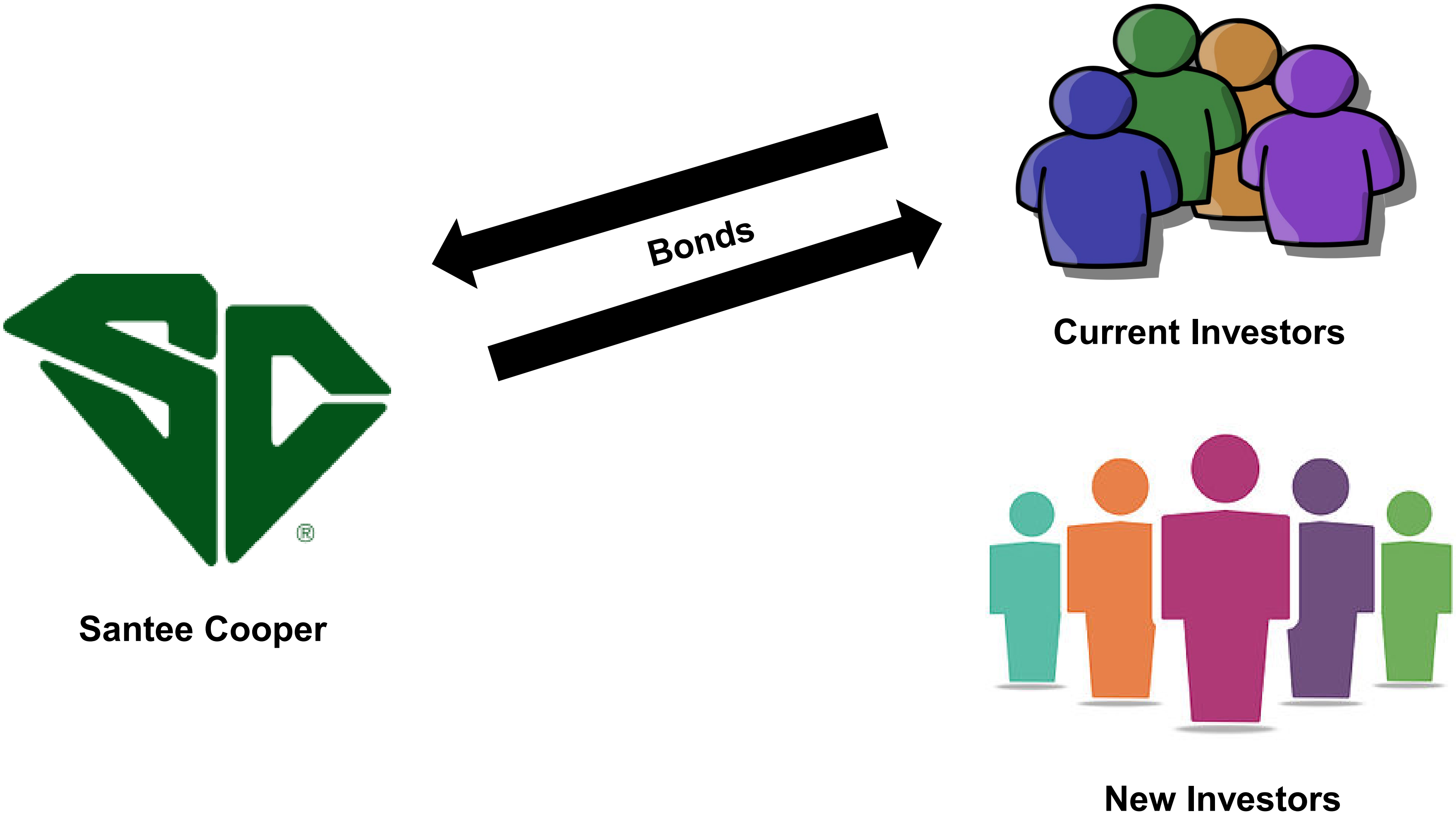
Tender Refinancing



Exchange Refinancing



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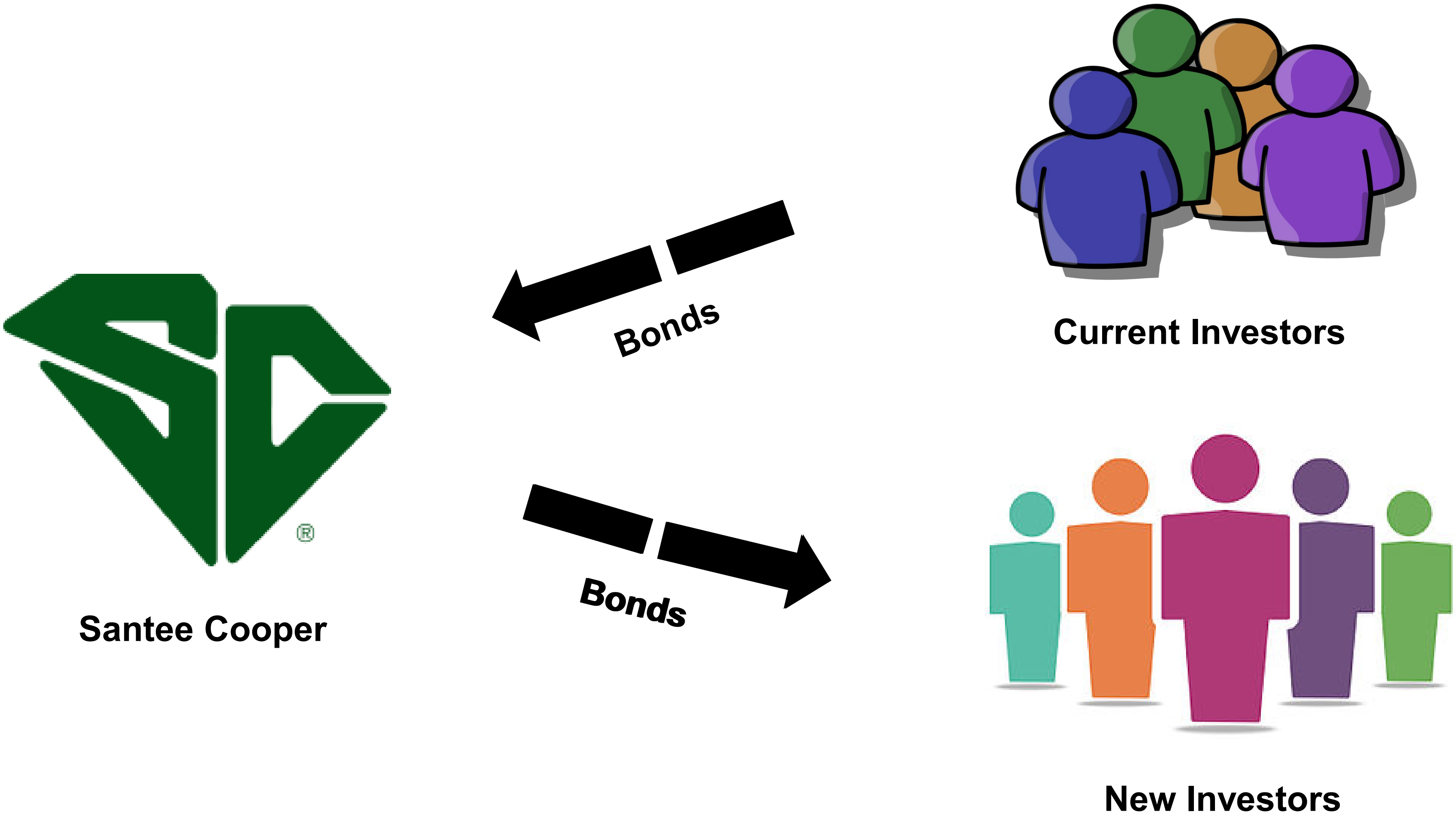
Forward Refinancing



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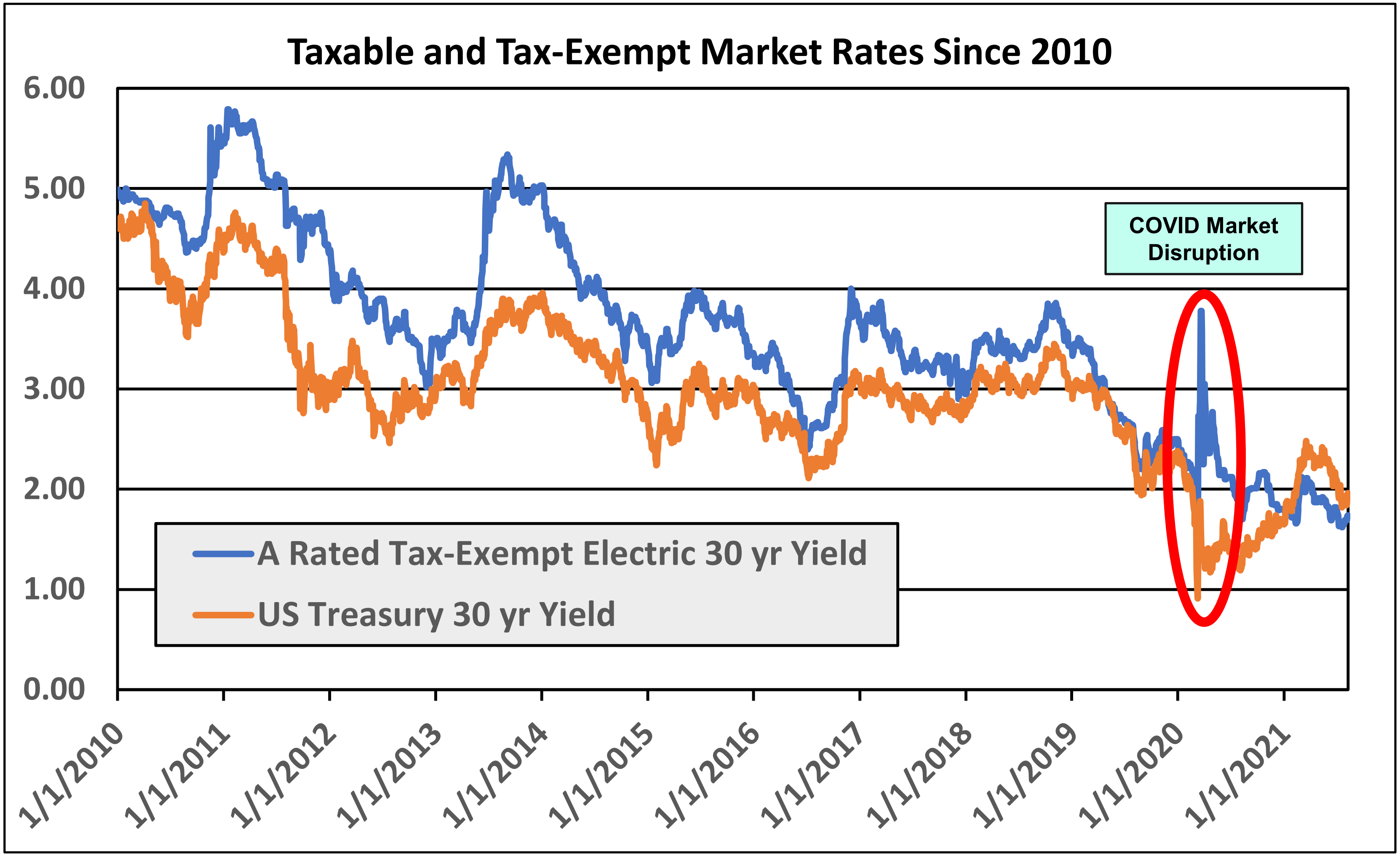
Interest Rates are at Historical Lows



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Summary Points

- Higher interest bonds are exchanged for lower interest bonds; thus, all mechanisms are refinancings for savings
- Maturities are not extended
- Tax exemption and standard call features remain
- Current and tender/exchange refinancings are completed within a month
- Forward refinancings, by definition, take much longer to close

Key Takeaways

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- Interest rates are at historic lows, and savings are at historic highs
- Savings are very sensitive to interest rate levels
- We want to coordinate with you and proceed with the Tender/Exchange Refinancing, which will also inform a subsequent Forward Refinancing.

Debt Profile & Debt Management Overview

Ken Lott

Chief Financial & Admin. Officer

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Bond Counsel Update

- September 2: Request For Proposal Issued
- September 10: Proposals Due to Santee Cooper
- September 15 – 16: Firm Interviews
- September 17: Anticipated Award Date

Existing Debt Inventory

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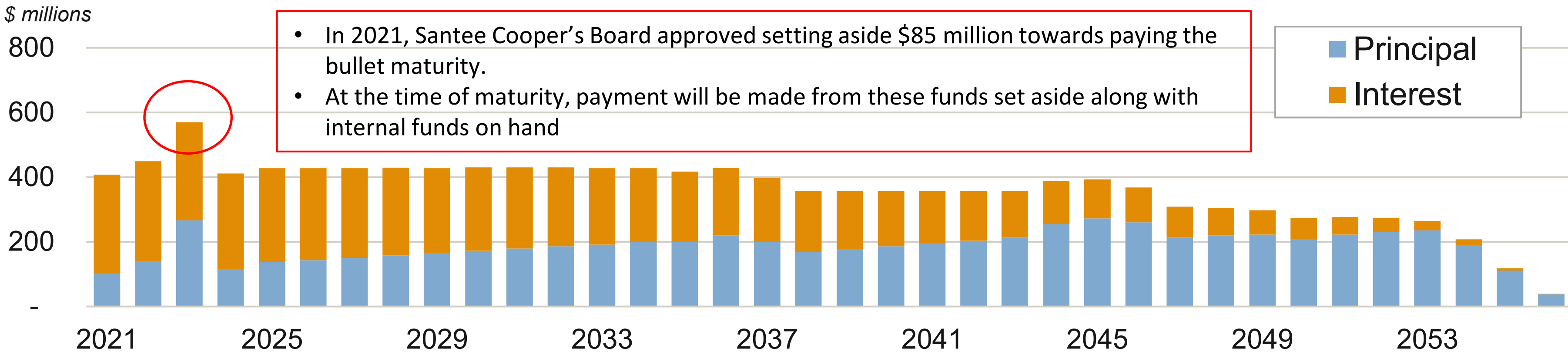
Debt Outstanding as of 9/02/21[1]

($ millions)

Revenue Obligation Bonds:	
Fixed	$ 6,592,072
Variable	143,200
Total Revenue Obligation Bonds	**$ 6,735,272**
Bank Facilities:	
Commercial Paper	$ 122,584
Revolving Credit Agreements	23,600
Total Bank Facilities	**$ 146,184**
Total Debt Outstanding	**$ 6,881,456**

- Since July 1, 2017, debt outstanding has been reduced by over $1.3 billion.
- Approximately 60% of Santee Cooper's bonds, or $4.0 billion, are callable through 2026
- Callable bonds allow Santee Cooper to take advantage of refunding opportunities over the next few years
- Approximately $100 million of this debt will be paid off in December

Debt Service Schedule[2]

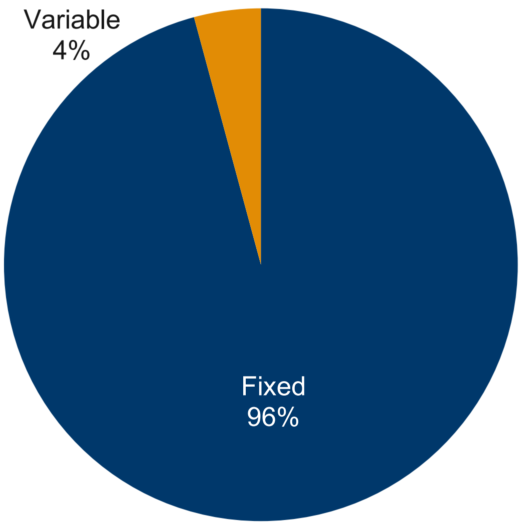


- In 2021, Santee Cooper's Board approved setting aside $85 million towards paying the bullet maturity.
- At the time of maturity, payment will be made from these funds set aside along with internal funds on hand

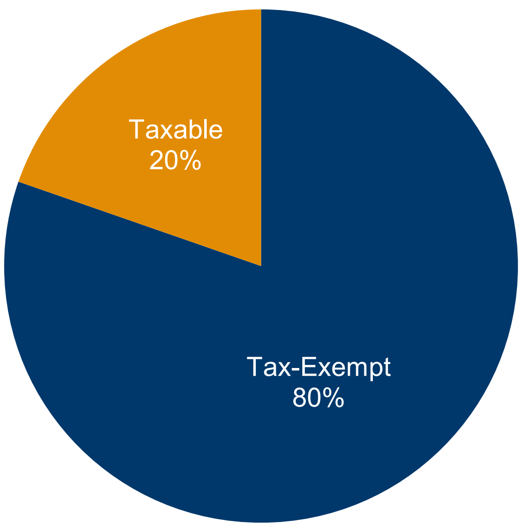
1. *As of September 2, 2021. Also reflects total debt outstanding (Includes Commercial Paper and Revolving Credit Accounts including projected $11 million paydown of CP on 10/19/21 with 2021B bond proceeds).*
2. *Debt service on existing debt as of September 2, 2021; includes benefit of BABs subsidy; shown on an accrual basis; includes 2016D $174,980,000 bullet maturity in 2023 and we have set aside $85 million in the Debt Reduction Fund which will be used to defease a portion of this maturity*

Debt Profile[1]

Interest Rate Mode[2]



Tax Status[2]



1. *Combined System*
2. *As of September 2, 2021. Also reflects total debt outstanding (Includes Commercial Paper and Revolving Credit Accounts including projected $11 million paydown of CP on 10/19/21 with 2021B bond proceeds). 2019A is included in variable debt on this graph but is not included in the 20% cap calculation which only includes variable debt issued under the Note Resolution.*

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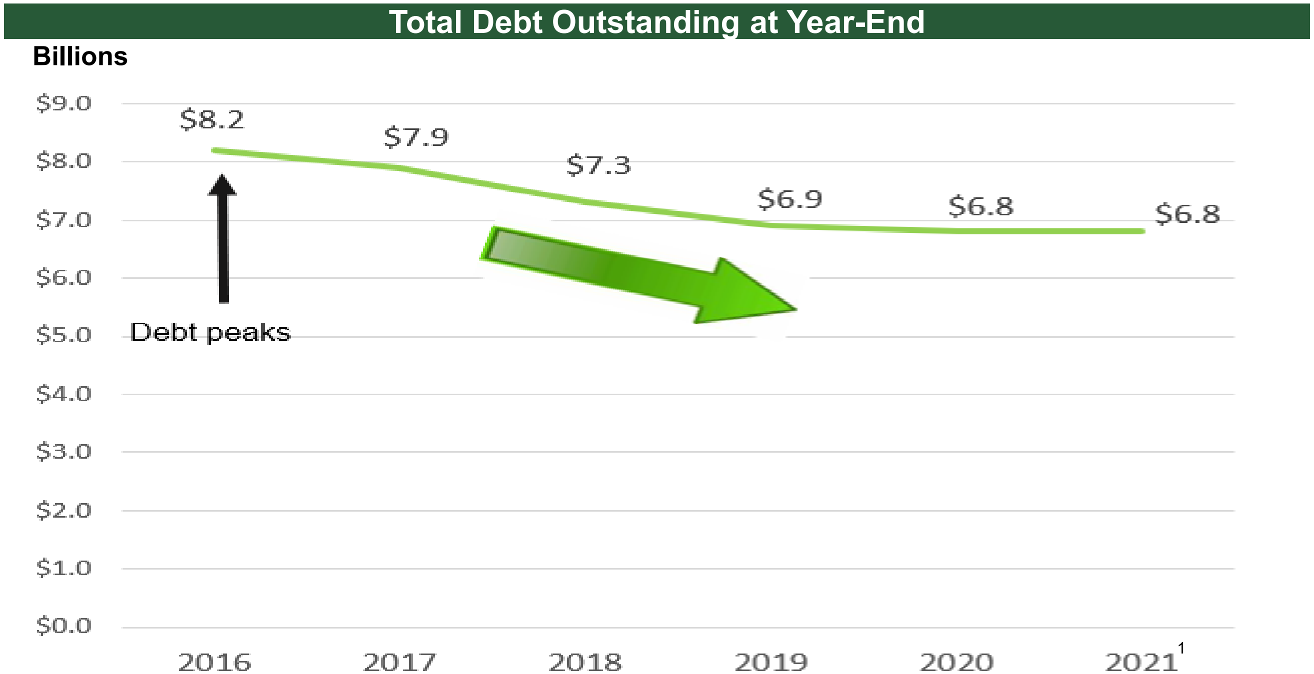
Debt



- **Since January 1, 2017: Reduced the amount, cost and risk of debt**
  - Total Debt Reduction = $1.4 billion
  - This includes having issued $450 million ($100 million in Series 2020A and $350 million in Series 2021B)
  - In addition, debt refinancings have reduced future interest payments by approximately $380 million
  - Board approved setting aside $85 million for 2023 debt bullet maturity

(1) 2021 projected balance at year-end

Credit Ratings

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Credit Agency	Rating	Outlook	Change Since July 2020
Moody's	A2	Stable	Improved Outlook
Fitch	A-	Stable	Improved Outlook
S&P	A	Stable	Improved Outlook

- **Highlights:**
  - Greater stability and certainty due to the passage of Act 90 and the settlement of litigation
  - Financial flexibility by taking advantage of debt service savings opportunities
  - Competitive rates and a deep and diverse service area
- **Challenges:**
  - Further political influence weighs on Santee Cooper's operations
  - Unforeseen expenses and other financial constraints during the rate freeze

Refinancing Plan

Suzanne Ritter

Treasurer

Inventory of Future Refinancing Candidates

Refunding Candidates	Callable Par	Year of 1st Call
2011C 2012A	174,430,000	2021
2013 A, B, C	1,048,150,000	2023
2014 A, B, C	1,124,940,000	2024
2015 A, E	818,155,000	2025
2016 A, B, C	907,580,000	2026
Total	4,073,255,000	

Refinancing Completed (09/02/2021)

Additional Refinancing Candidates

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Refinancing Plan

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Santee Cooper proposes a multi-faceted refunding program that is staged in tranches

	Bonds Callable After 2023		
Targeted Amount ($mm)	Up to $1-1.5 billion of remaining $4 billion		
	Product A	**Product B**	**Product C**
Strategy	Tender offer	Forward bond (current refunding)	Interest rate hedge (swap); current refunding at call date
Condition	Subject to receptivity and tender economics	Priced and executed after tender offer; subject to refunding economics	Priced and executed after tender offer; subject to refunding economics
Mode	Fixed rate	Fixed rate	Variable rate (swapped to fixed with interest rate swap)

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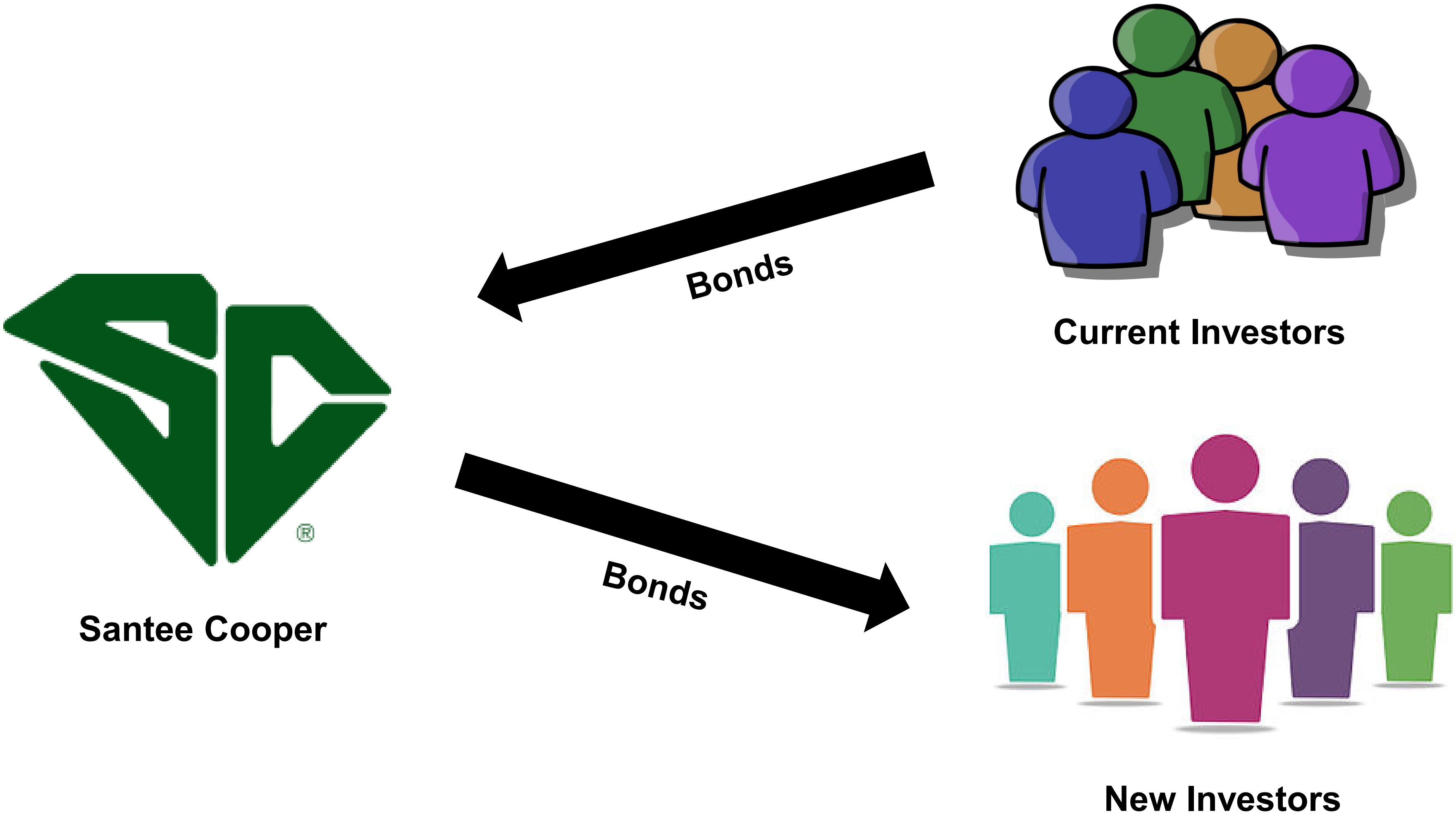
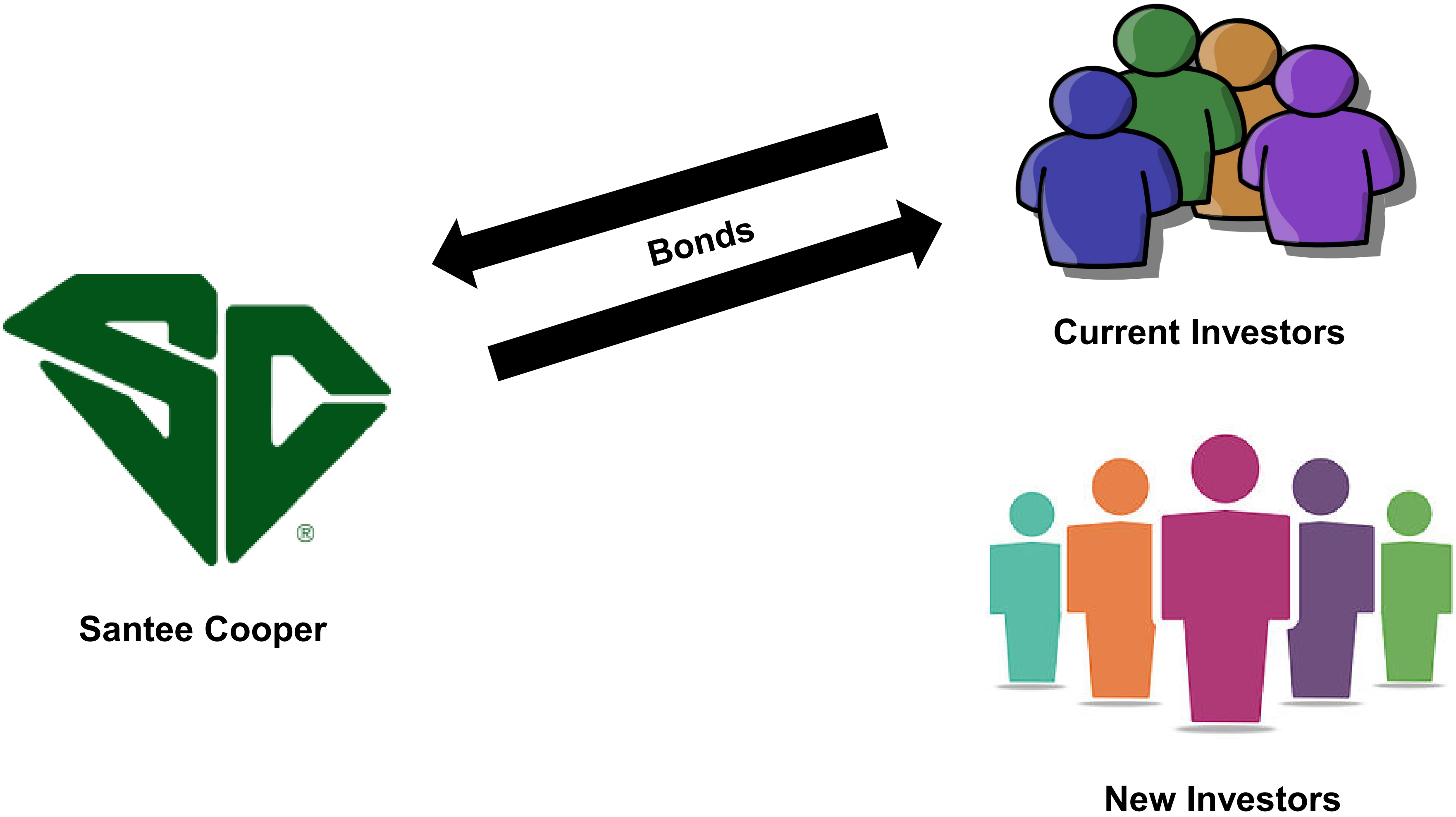
Tender Refinancing



Exchange Refinancing



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Tender & Exchange

Tender/Exchange Refinancing

Potential Savings

30% of 2013 & 2014 Bonds Tendered - Current Market Rates

Bonds	Par Amount Tendered/ Exchange	Average Price	Refinancing/ Exchange Par	NPV Savings	NPV % Saved
2013 Bonds	302,510,000	112.338	287,380,000	79,150,000	26.2%
2014 Bonds	305,280,000	116.140	301,010,000	64,930,000	21.3%
Total	607,790,000		588,390,000	144,080,000	23.7%

Average Annual DS Savings 2022 to 2054 of Roughly $6.7 Million

Based on estimated Tender/Exchange investor participation of 30%.

Standard 10-year call provisions

All savings discounted to 12/1/2021 at 2.75% (estimated refunding TIC)

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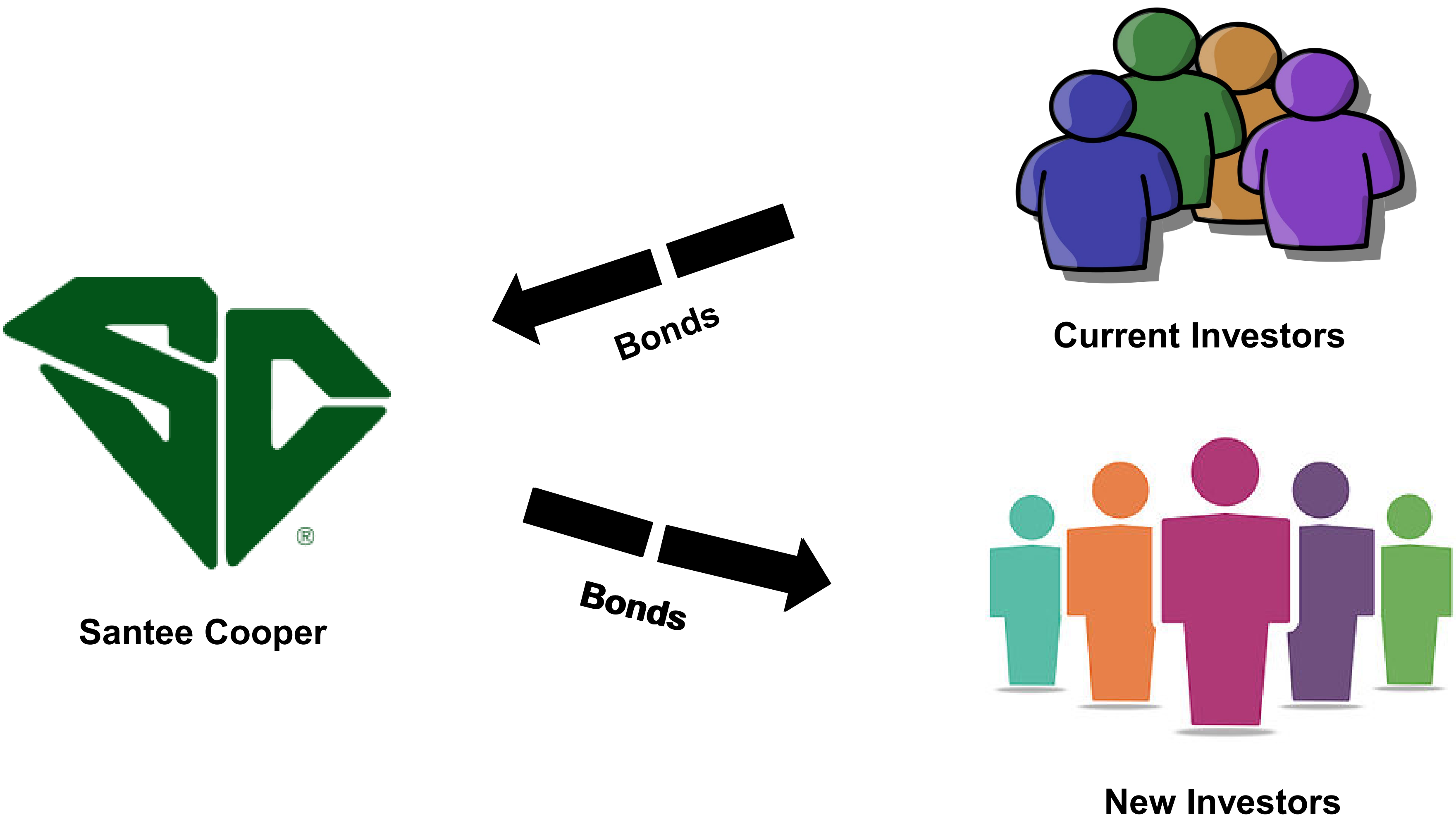
Forward Refinancing



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Forward Delivery Refunding

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Forward Delivery Refinancing

Potential Savings

$400 MM Forward Refinancing - Current Market Rates

Bonds	Par Amount Refunded	Call Price	Forward Refinancing Par	NPV Savings	NPV % Saved
2013 Bonds	428,656,000	100.000	400,000,000	112,804,407	26.3%

Average Annual DS Savings 2024 to 2053 of Roughly $6.0 Million

Based on estimated $400 million Forward Bond Capacity.

Assumes Forward Delivery Premium of 100 Basis Points above current bonds

Standard 10-year call provisions

All savings discounted to 12/1/2021 at 2.75% (estimated refunding TIC)

Forward Delivery Considerations

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Material Risk Consideration	Description of Risk	Potential Consequences
Risk of Inability to Satisfy Conditions for Delivery of Bonds	Possibility that conditions to closing cannot be met on delivery date	• Transaction cannot be consummated
Underwriter Default Risk	Possibility that underwriter cannot perform on delivery date	• Transaction cannot be consummated

Wrap Up

- We request the subcommittee's advice, input, and support with the refinancing options discussed today
- We are ready to go to market (post the tender offer and POS) as early as next week
- We will certainly provide a report on the status of the Tender/Exchange and Forward Bond Refinancings at the October 5th JBRC
- We look forward to meeting with the subcommittee in the future to further explore Santee Cooper's financial picture and delve into interest rate swaps

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FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Santee Cooper Series 2021 Revenue Bonds 'A-'; Outlook Stable

Fri 13 Aug, 2021 - 4:55 PM ET

Fitch Ratings - New York - 13 Aug 2021: Fitch Ratings has assigned an 'A-' rating to the following South Carolina Public Service Authority (Santee Cooper, or the authority) revenue obligations consisting of:

--$138,000,000 tax-exempt refunding series 2021A;

--$289,000,000 tax-exempt improvement series 2021B.

Proceeds from the 2021 series A obligations will be used primarily to refund outstanding parity obligations and pay the costs of issuance. Proceeds from the 2021 series B will be used to fund the authority's on-going capital improvements and pay the costs of issuance.

In addition, Fitch affirmed the following Santee Cooper obligations and ratings at 'A-':

--Approximately $6.344 billion tax-exempt and taxable revenue obligations;

--Issuer Default Rating (IDR).

The Rating Outlook is Stable.

ANALYTICAL CONCLUSION

The rating affirmation at 'A-' primarily reflects Santee Cooper's leverage ratio, measured as net adjusted debt to adjusted funds available for debt service (FADS), which has remained above 10.0x in recent years and is elevated for the current rating. While Santee Cooper's debt burden has steadily declined since 2016, balances still reflect the sizable burden incurred in connection with the cancelled Summer nuclear project. The current rating further reflects Fitch's expectation that the authority's leverage ratio will migrate below 10.0x beginning in 2022, following performance that has improved following the coronavirus pandemic and economic contraction, but remains strained by payments related to the settlement of litigation and the authority's agreement to lock rates.

The authority's leverage and financial profile are supported by strong contractual underpinnings that support revenue collections, but also factor in the authority's recent agreement to lock rates through January 2025, as well as the strong credit quality of Central Electric Power Cooperative (Central), its largest wholesale customer. Very low operating risk, including very low operating costs and moderate capital spending requirements, also supports the authority's profile.

The Stable Outlook continues to reflect Santee Cooper's agreement to settle the most significant aspects of outstanding litigation, the enactment of legislation that provides greater operating stability, and progress related to stabilizing its management and governance structure.

CREDIT PROFILE

Santee Cooper is a state agency that provides wholesale power supply, as well as direct retail electric service to approximately 194,000 retail customer accounts and 26 large industrial customers. Including the retail base of Central, the largest of its five all-requirements wholesale customers, Santee Cooper supplies electricity to a population of approximately two million spanning much of the state of South Carolina. The authority also owns the Lake Moultrie and Lake Marion regional water systems, two drinking water treatment systems serving nearly 200,000 people.

Cancelled Nuclear Construction Strains Profile

Santee Cooper's decision to suspend construction of the Summer nuclear units 2 and 3 on July 31, 2017 following the bankruptcy of the project's lead contractor, Westinghouse Electric Company LLC, triggered a number of legal, political and financial challenges for the authority. At the time of the decision, Santee Cooper had spent $4.3 billion and construction of the nuclear plant expansion was 36% complete, with the engineering and procurement efforts both over 90% complete. While the decision may have been justified based on revised cost and timeline estimates considered in the context of revised load expectations, the halting of construction and prospects for recovering the stranded costs associated with the incomplete project ignited a series of controversies statewide.

Fervent customer and political opposition to the recovery of stranded costs related to the project ultimately drove state regulators and shareholders to approve the sale of co-owner South Carolina Electric & Gas and its parent company SCANA to Dominion Energy in January 2019, and led the governor to sign Act 95, which would allow the state to consider options to sell, manage or reform the authority. In early-2020, committees in the state senate and house of representatives rejected all three of the final proposals considered pursuant to Act 95, including the authority's own reform plan.

Legal and Legislative Resolution

In early-2020, Santee Cooper took a major step forward toward stabilizing its operating profile by agreeing to resolve significant litigation challenging the authority's ability to recover costs related to the Summer project. The agreement -- the Cook Settlement -- provided for the release of major claims against the authority in exchange for payments for the benefit of utility customers totaling $200 million over three years, and an agreement by Santee Cooper to hold rates at levels consistent with its reform plan through Jan. 15, 2025.

Before concluding its regular two-year session in May 2020, the state Legislature passed a temporary resolution -- Act 135 -- that provides interim guidance for the authority's operation for up to a year, until the Legislature can return to consider other actions. Positively, the terms of Act 135 provide Santee Cooper with ample authority to operate the utility in a manner consistent with the principles of its reform plan and to adhere to the provisions of the Cook Settlement. In short, the terms of the Act will enable Santee Cooper to execute its proposed resource plan, hedge its variable-cost exposures, perform normal financing activities, resolve outstanding lawsuits and claims, and lock rates as provided in the Cook Settlement.

During June 2021, the general assembly unanimously passed, and the governor signed, Act 90 of 2021, which amended certain provisions related to the authority. In addition to extending the expiration date of Act 135 to Dec. 31, 2021, Act 90 also provides for manageable changes related to the authority's governance, broader state oversight over certain debt issuance, real estate transactions and resource planning, and establishment of a process for challenging rate adjustments approved by the board. Importantly, Act 90 does not include any provision to sell the authority or undermine the board's sole rate-making authority.

Coronavirus Impact Manageable

The overall impact of the recent coronavirus outbreak on Santee Cooper has been manageable. While load forecasts were originally amended to provide for an 8% reduction in sales in 2020, actual sales fell only 4% and have continued to improve through 2021. Retail delinquencies have returned to pre-coronavirus levels with no meaningful impact of financial performance.

KEY RATING DRIVERS

Revenue Defensibility: 'a'

Statewide Wholesale and Retail Electric Provider

Santee Cooper's revenue defensibility assessment reflects the strong contractual underpinnings supporting revenue collections from both retail (36% of total revenue) and wholesale customers (64% of total revenue), but is constrained by its agreement to lock rates through January 2025 and Central's credit quality.

Operating Risk: 'aa'

Very Low Operating Costs; Unlikely to Experience Upward Movement

Operating costs have averaged below six cents per kilowatt hour (kWh) over the past five years, which are considered low for its wholesale business line, but very low for the retail business line. Operating costs are not expected to experience upward pressure and could decline under the terms of its latest operating plan. Capital requirements for current and new generation are lower than historical levels and appear very manageable.

Financial Profile: 'a'

Leverage Remains Elevated

Santee Cooper's leverage ratio was high at 10.7x at the end of fiscal 2020. The ratio reflects substantial debt that was issued to fund the Summer nuclear expansion before the project was terminated. Financial margins and cash flow have continued to stabilized, with coverage of full obligations above 1.4x and cash on hand at 162 days at year-end 2020.

Improving performance is expected to moderate leverage ratios below 10x beginning in 2022.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

There are no asymmetric risk considerations factored in the rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Significantly stronger than expected performance under the current rate lock that allows the authority to consistently reduce leverage ratios well below 10.0x in Fitch's base and stress scenarios;

--Demonstrated stability related to the authority's board composition, operating parameters, and management and governance challenges.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Evidence of weaker than expected operating performance as a result of the current rate lock;

--Failure to reduce leverage ratios to levels approximating 10.0x by 2022 in Fitch's base and stress scenarios;

--Threatened or enacted legislative changes in the authority's management and governance that could reduce operating flexibility or limit rate-setting authority further.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

SECURITY

The revenue obligations are payable from, and secured by a lien on, the net revenues of the authority.

REVENUE DEFENSIBILITY

Santee Cooper's very strong revenue source characteristics are rooted in the strong contractual underpinnings supporting revenue collections from both retail and wholesale customers. Wholesale revenues accounted for 64% of Santee Cooper's electric revenue in 2020, and are largely derived pursuant to an all-requirements coordination agreement with Central. Santee Cooper provides approximately 75% of the total power and energy requirements of Central and its member cooperatives under the agreement, which cannot be terminated until 2058.

Amendments to the agreement in 2013 extended the earliest termination dates from 2030 to 2058 to facilitate longer-term debt issuance to finance the Summer nuclear project and provided Central with greater flexibility as to participation in new generating resources constructed by the authority. Earlier revisions to the agreement allowed Central to transition roughly 900MWs of load from Santee Cooper to Duke Energy Carolinas, but no further load transitions are anticipated.

Nearly all of Santee Cooper's remaining wholesale revenues are similarly derived under long-term contracts that terminate between 2023 and 2033. These include all-requirements contracts with the cities of Georgetown, Bamberg, Waynesville and Seneca, as well as agreements for capacity and energy with Piedmont Municipal Power Agency and Alabama Municipal Electric Authority.

The authority also provides direct service to approximately 194,000 retail customers throughout the Berkeley, Georgetown and Horry Counties of South Carolina, and an additional 26 large industrial customers located throughout the state. These customer classes provided roughly 24% and 12% of Santee Cooper's total electric revenue in 2020, respectively. The agency has the exclusive right under state law to provide retail electric service to its assigned service territory and to serve the existing industrial customers outside its assigned territory.

Demand throughout the areas served by the authority has been supported by very strong customer growth (9.7% since 2016) and regional demographics for income and unemployment that are consistent with, or narrowly below, national averages. All of the authority's large industrial customers are supplied under contract, including Nucor

Corporation (4.8% of revenue) and Century Aluminum (1.3%). Contract durations are relatively short, but Nucor and Century have been customers of the authority since 1996 and 1977, respectively. Recent and planned expansions by Century are expected to meaningfully increase in retail sales and revenue beginning in 2021.

Santee Cooper's water operations account for less than 1% of total revenue.

RATE FLEXIBILITY

Santee Cooper's enabling legislation gives its board the autonomous power to set electric rates. Moreover, the terms of its revenue obligation resolution require that the authority set rates to provide revenue to meet all obligations, including principal and interest on indebtedness. These factors, together with the competitiveness of its rates and timely cost recovery, support very strong rate flexibility. While rate flexibility will be diminished somewhat through January 2025 as a result of the Cook Settlement Agreement, the authority's ability to manage its fuel and purchased power costs, as well as defer for later recovery a wide range of expenses including those related to changes in law, storm events, cyberattacks and certain changes in Central's load, support Fitch's assessment.

Rate-setting authority rests solely with the Santee Cooper board, which has historically exercised its authority to achieve financial targets of 1.4x debt service coverage and 90 days cash on hand. However, under the terms of the Cook Settlement, the board agreed to impose a rate lock effective for all service beginning in August 2020. The agreement applies to the vast majority of the authority's customers, suspending the rate adjustment mechanisms in place and locking rates at levels that are consistent with those proposed by the authority under its reform plan. Given its active hedging of fuel costs into 2025, expectations for reducing operating costs (also consistent with the reform plan) and the allowance for deferring certain unanticipated expenses, Fitch expects that the authority's ability to produce cash flow sufficient to meet the its obligations and achieve its targets will not be compromised.

The rate lock should further support the competitiveness of the authority's retail rates, which have not been increased since 2017. According to U.S. Energy Information Administration data, Santee Cooper's total average retail revenue per kWh has consistently remained 15%-20% below the state average.

While Act 90 establishes a process for challenging rate adjustments approved by the board, the statutory process is otherwise substantially similar to the authority's current practice and does not undermine the board's power and responsibility to establish rates sufficient to meet its obligations nor the State's covenant not to impair the board's authority to do so.

PURCHASER CREDIT QUALITY

Purchaser credit quality is midrange, largely based on the credit quality of the authority's dominant purchaser, Central, as assessed by Fitch using publicly available information. Fitch's assessment reflects the cooperative's leverage ratio, measured as net adjusted debt to adjusted FADS, of roughly 8.0x and weaker liquidity as evidenced by historical cash on hand of roughly three days. Central's credit quality is supported by revenue derived pursuant to a very strong contractual framework that includes all-requirements wholesale power contracts with each of its 20 members, and legal authority to set rates to members.

Central's members, in turn, provide electric service to approximately 770,000 customers throughout South Carolina. The areas served by Central's largest members generally exhibit midrange demand characteristics including customer growth rates above 1.5% per annum, unemployment metrics consistent with the national average and income metrics that are weaker than the national average. Additionally, Central's operating risk profile and cost burden are low, reflecting the cost, terms and characteristics of its power supply arrangement with Santee Cooper.

Although the wholesale purchaser cities of Georgetown, Bamberg, Seneca, SC, and Waynesville, NC are not rated by Fitch, the credit quality of purchasers Piedmont Municipal Power Agency (A-/Stable) and Alabama Municipal Electric Authority (AA-/Stable) further support overall revenue defensibility.

OPERATING RISK

Santee Cooper's operating cost burden is assessed as very low, factoring its role as both a wholesale and retail supplier. While the authority's Fitch-calculated cost of power of 5.9 cents per kilowatt hour (kWh) over the past five years suggests a cost burden assessment of 'a' for wholesale systems, the burden is consistent with the 'aa' assessment for retail systems. The relative stability of the cost burden reflects the relative efficient operation of the authority's generating resources, and factors annual payments in lieu of taxes and distributions to the state totaling $22 million.

OPERATING COST FLEXIBILITY

The authority's operating cost flexibility is neutral to the rating and driven by a power supply portfolio that is well diversified in terms of fuel sources and unit capacity. Summer peak capability, which includes a mix of owned (5,048MW) and purchased (541MW) resources, remains generally sufficient to meet peak demand, which declined to 4,467MW in 2020 from 5,869MW in 2015 due to lower Century load, declines in Central's purchases and generally weaker demand as a result of the coronavirus pandemic.

Coal-fired generation dominates the agency's portfolio of resources, accounting for nearly 60% of existing capacity, and supplied only 37% of energy needs in fiscal 2020. Natural gas-fired and nuclear generation accounted for about 24% and 11% of energy needs in 2020. Going forward, the diversity of the authority's portfolio should improve further, and its reliance on coal-fired capacity should decline. Current resource plans call for the retirement of roughly 860MW of capacity at the Winyah generating station by 2028 in an effort to right-size resources against lower peak demand, and eliminate costly and inefficient generation.

The authority has also executed contracts for 425MW of new solar capacity across five projects, all of which are scheduled to be operational by the end of 2023. While the authority is not subject to a renewable energy requirement or mandate, up to 1,000 MW of solar capacity and 200MW of phased battery energy storage may be implemented by the mid-2020s. Pursuant to the authority's 2020 Integrated Resource Plan, reliance on coal-fired generation will decline to only 19% from the current levels. Additional new fossil-fired capacity will likely be limited to new gas-fired resources targeted for 2028.

CAPITAL PLANNING AND MANAGEMENT

Despite historical challenges related to Summer nuclear project, Santee Cooper's capital planning and management is assessed as strong, factoring in the authority's age of plant (16 years) and continued reinvestment in its system. Capex to deprecation ratios have averaged a lofty 276% over the past five years, reflecting very high capex in 2016 and 2017 related to the Summer expansion. The ratio declined to only 57% in 2020, but expenditures should approximate or exceed depreciation over the next five years.

The authority's capital planning continues to evolve following the decision to halt nuclear construction in 2017. Whereas spending approximated $3.39 billion over 2015-2019 and included substantial investment in the Summer project, Santee Cooper's current five-year plan contemplates total spending of roughly $1.5 billion through 2025 and will focus on general improvements, environmental compliance and transmission. Significant expenditures related to new gas-fired generating resources have been pushed into the years after 2025.

The majority of planned expenditures are expected to be funded with internal funds and modest amounts of additional debt.

FINANCIAL PROFILE

Santee Cooper's leverage has declined since 2016, but remains stubbornly elevated for the current rating. Debt balances rose steadily beginning in 2008 when construction of the Summer nuclear project began, but have declined modestly since peaking in 2016 at $8.7 billion to reach roughly $7.2 billion at year-end 2020. Similarly, the authority's leverage ratio trended down from a peak of 13.2x to 10.7x over the same period. Scheduled amortization and the use of funds from the authority's settlement with Westinghouse and its parent Toshiba to defease debt, together with improved FADS, have contributed to the stronger metrics.

Liquidity is neutral to the rating. Cash balances have remained consistently strong ranging between 160 and 225 days over the past five years. At the end of fiscal 2020, unrestricted cash balances totaled approximately $442 million. Including available borrowing capacity under revolving credit agreements and available CP capacity, Santee Cooper's liquidity cushion totaled 360 days. Fitch-calculated coverage of full obligations has been healthy, above 1.4x since 2018.

Fitch Base Case and Stress Case Scenario Analysis

Fitch's base scenario analysis suggests that the authority's leverage ratio should decline in 2021 and 2022, and stabilize below 10.0x by 2022. Base case assumptions are informed by Santee Cooper's own financial forecast and include significant increases in energy sales (13.6% in 2021 and 5.2% in 2022), largely attributable to the current and planned expansion of Century's operations and a general recovery from the coronavirus pandemic. Energy sales are then expected to remain relatively unchanged through 2025.

The base scenario further incorporates the authority's strong performance through 2021, the current rate lock, expected payments related to the Cook Settlement in 2021 and 2022, cash receipts from the sale of certain Summer assets and moderate capital spending of approximately $294 million per annum through 2025. Liquidity through the scenario analysis is also expected to remain adequate and neutral to the rating with cash on hand of roughly 130 days and coverage of full obligations averaging 1.3x.

Fitch's standard stress scenario, which factors lower than anticipated energy sales in 2021 and 2022, produces modestly weaker financial performance and higher leverage ratios. However, lower growth is expected to be offset by lower capital spending, slowing but not reversing the authority's progress toward leverage ratios below 10.0x.

DEBT PROFILE

Santee Cooper's debt profile is neutral to the rating. Nearly all of the authority's approximately $7.0 billion of outstanding revenue obligations are fixed rate and scheduled amortization is manageable through final maturity. At year-end 2020, variable-rate debt was limited to 6.6% of total debt, or approximately $470 million including outstanding commercial paper ($171 million), borrowings under revolving credit agreements ($136 million) and a single series a variable-rate revenue obligations ($163 million). The authority's $300 million commercial paper program is supported by an irrevocable direct-pay letter of credit with Barclays Bank PLC, and additional borrowing capacity is available through separate revolving credit agreements with each of Bank of America, TD Bank, N.A. and J.P Morgan Chase bank, N.A totaling $550 million. The agreements expire at various dates in 2021, 2022 and 2023.

Total debt as calculated by Fitch further includes capitalized fixed charges related to purchased power ($411 million in 2020) and unfunded pension obligations as adjusted pursuant to Fitch's methodology ($446 million). Santee Cooper is a participant in the South Carolina Retirement System and contributes to the state's pension plan on behalf of its roughly 1,700 employees. Annual contributions are minimal, equal to less than 1% of total revenue.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

The Cook Settlement and progress related to stabilizing Santee Cooper's management and governance structure have meaningfully addressed historical asymmetric risk factors confronting the authority. While certain challenges and limitations remain these factors no longer actively constrain or weigh on the rating.

The Cook Settlement significantly reduces the authority's exposure to material and costly litigation, and the denial of its legal authority to recover costs related to the Summer nuclear project, including over $3.6 billion of outstanding debt. The settlement further appears to have repaired Santee Cooper's working relationship with its largest customer, Central.

Governance challenges also appear to be lessening. The State Senate recently confirmed Mr. Peter McCoy, an attorney and former member of the South Carolina House of Representatives, as Chairman through 2025 filling the vacant seat. Other board related changes pursuant to Act 90 include updated terms, limits on tenure and required experience, as well as the inclusion of two non-voting ex-officio representatives named by Central. Currently only one seat remains vacant. Overall, Fitch does not expect any meaningful changes in the authority's strategic direction as a result of these changes in governance. While the newly imposed oversight and monitoring by the ORS are typical and could prove frustrating over time, the principles and guidelines established pursuant to Acts 135 and 90 should support efficient and disciplined operations.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
South Carolina Public Service Authority (Santee Cooper) (SC)	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
• South Carolina Public Service Authority (Santee Cooper) (SC) /Electric System Revenues/1 LT	LT	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 23 Feb 2021) (including rating assumption sensitivity)

U.S. Public Power Rating Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

South Carolina Public Service Authority (Santee Cooper) (SC)	EU Endorsed, UK Endorsed

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Utilities and Power   US Public Finance   North America   United States

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Santee Cooper's (SC) outstanding senior debt at A2; Assigns A2 rating to 2021 Tax-Exempt Refunding Series A and 2021 Tax-Exempt Improvement Series B; Outlook remains stable

11 Aug 2021

Approximately $6.8 billion of debt affected

New York, August 11, 2021 -- Moody's Investors Service ("Moody's") has affirmed South Carolina Public Service Authority's (Santee Cooper or the Authority) A2 rating on its existing revenue obligation bonds and has assigned an A2 rating to Santee Cooper's $138 million of Revenue Obligations, 2021 Tax-Exempt Refunding Series A and $289 million of Revenue Obligations, 2021 Tax-Exempt Improvement Series B. Santee Cooper's rating outlook remains stable.

RATINGS RATIONALE

Today's rating action reflects Santee Cooper's continued efforts in improving its financial flexibility by taking advantage of debt service savings through planned refundings, as well as providing greater visibility into the authority's governance structure owing to the confirmation of the Chairman until December 2025 and affirmation by the Board of the current President & CEO until January 2022, leaving room for a suitable replacement to be identified. All major pieces of litigation involving the issuer were settled in the prior year, providing greater certainty with respect to its future financial obligations.

The rating action also reflects the signing of Act 90 of 2021 by the Governor in July, which provides further clarity concerning changes to Santee Cooper's governance, retail rate setting and due process for challenges, debt approval requirements and certain limitations on new construction and acquisition and purchase of major utility facilities, among other items. Specifically, Act 90 provides guidance on the qualification and composition of the board, reduces the terms to four years from seven years and added two non-voting ex-officio members from Central Electric Power Cooperative, Inc. (Central), the authority's largest customer. Act 90 also codified the process by which the Authority's Board of Directors adjust retail electric rates, effective January 1, 2022. The process as codified is substantially similar to the Authority's historical process but now establishes the exclusive process for challenging rate adjustments approved by the Board.

The codification of the process provides greater certainty to Santee Cooper in the face of potential future rate challenges if it is able to demonstrate that it has followed the requirements such as adequate notice, public meetings and the sharing of information. Santee Cooper maintains sole rate making authority, but will need to submit proposed rate adjustments for review and comment to the Office of Regulatory Staff (ORS). Moody's considers these collective considerations as governance factors under its ESG framework.

With the House and Senate having rejected prior proposals to manage, purchase or reform Santee Cooper back in 2020, and NextEra Energy, Inc. formally removing its bid in April of this year to purchase Santee Cooper, Santee Cooper's ownership structure is expected to remain unchanged for the time being, which provides greater level of stability to operations. While a sale could be pursued at some point in the future, new legislation would have to be passed for that avenue to be pursued.

Combining the large refunding that occurred in FY 2020, and the current planned refunding transaction, the net present value of interest savings represents around $190 million, that when coupled with fuel cost savings should provide Santee Cooper sufficient headroom to enable it to maintain a fixed charge coverage ratio (FCCR) of around 1.40x and above during the four-year rate freeze period that is a component in the Cook Settlement. Days cash are expected to decline to around 130 days by 2024 with some strengthening anticipated after 2025, when the base rate freeze period is over. A second payment of $65 million associated with the Cook Settlement will occur this year, with a final payment of $70 million set to occur in FY 2022. In that regard, the authority has already set aside $85 million in cash to help cover the bump in debt service scheduled for FY 2023.

Santee Cooper's FCCR for FY 2020 was 1.47x, an increase from the 1.32x in FY 2019 (excluding the non-cash financial impact of the $200 million legal settlement liability). The improvement in FCCR was primarily due to lower operating expenses during the year as well as slightly lower debt service costs from the prior year refunding. The debt ratio and adjusted debt ratio in FY 2020 were 118.5% and 132.6% respectively, but are expected to begin a gradual decline over the next few years, owing principally to planned amortization and modest future borrowing requirements. As a result, the authority should be able to comfortably absorb the currently planned $289 million in new money issuance.

Although the authority experienced an increase in accounts receivable days during 2020 as a result of covid-19, the daily delinquency and balances have returned to pre-covid levels. Further, load demand through the second quarter of 2021 have been higher than forecasts revised by the authority last year, and as a result, the authority assumes that the impact from covid-19 have mostly abated.

Per management, Santee Cooper's $2.3 billion capital expenditure program from 2022-2028 will be 45% funded through internally generated funds, with some modest additional borrowing anticipated of around $1.2 billion over the next few years relative to over $1.6 billion in par net of new issuances through 2030. Further, per Act 90 of 2021, the State's Joint Bond Review Committee must approve proposed debt issuances, including refundings that do not generate savings in total debt service. Despite interest cost savings through the current and prior year's refundings, high leverage following the termination of the Summer project will persist for many years which is likely to chronically pressure the Authority's ability to recover costs while maintaining its cost competitiveness.

Santee Cooper's credit profile reflects its monopoly position in serving a large customer base either through wholesale power sales to Central and its 20 distribution cooperatives through 2058, retail sales or direct sales to some of the largest industrial firms in the state and to military installations.

Separately, the contract with Century Aluminum was extended through 2023. Although Century Aluminum does not represent a material share of the Authority's revenue base, we view last year's ruling that Santee Cooper had the exclusive right to provide electrical service to Century Aluminum as credit positive since it is one of Santee Cooper's legacy customers and helps to fortify its monopoly position within its service territory.

RATING OUTLOOK

The stable outlook captures improved visibility regarding Santee Cooper's financial profile over the next few years thanks to the settlement of a major lawsuit in August 2020, and anticipated interest cost savings from future, current and prior year's refundings. The stable outlook also reflects increased operating stability given no change in ownership structure in the foreseeable future and increased guidelines for the governance structure, while management maintains some flexibility with respect to operations in order to deliver on its strategy of maintaining targeted debt service coverage ratios, rate competitiveness, and stable levels of liquidity.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Further mitigation steps are executed to reduce leverage caused by the Summer project through a combination of expenditure reductions, new revenues, refinancing opportunities, and customer growth

-Clarity about the Authority's resource plan and approach to replace the Winyah Generating Station as part of a carbon transition plan

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Three year average fixed charge coverage falls below 1.30x and liquidity is consistently below 110 days;

- Further political influence weights on Santee Cooper's operations

LEGAL SECURITY

The bond resolution includes a sum-sufficient rate covenant and no debt service reserve account or additional bonds test but Santee Cooper must deposit annually into the Capital Improvement Fund an amount which, together with amounts deposited during the prior two years, equals to a minimum of 8% of required revenues in the preceding three fiscal years. As of December 31th, 2020, the capital improvement fund balance was $123.8 million. These funds are typically used for debt service or for capital but could be used for any corporate purpose. The amount Santee Cooper is required to transfer to the state is restricted to a maximum of 1% of Santee Cooper's projected operating revenues. There is no external rate regulation except for federal regulation on transmission rates.

Per Act 90 of 2021, signed by the Governor in June, the State's Joint Bond Review Committee must approve proposed debt issuances, including refundings that do not generate savings in total debt service.

USE OF PROCEEDS

Proceeds from the 2021 Series A&B bonds are being used to fund a portion of the issuer's on-going capital improvement program, refund a portion of outstanding senior debt and pay costs of issuance. The $138 million from Series 2021A bonds are being issued to refund the 2011 Series C and 2012 Series A bonds along with associated redemption costs. The 2021 Series B Bonds are being issued to pay down approximately $200 million of outstanding Commercial Paper Notes and Revolving Credit Notes as well as future capital project needs. Santee Cooper is still evaluating their new money needs and market conditions, consequently the amount of 2021 Series B Bonds issued may be reduced from the indicated maximum issuance of $350 million.

PROFILE

South Carolina Public Service Authority (Santee Cooper) is a component unit of the State of South Carolina (GO bonds rated Aaa) and was created by the State Legislature in 1934. It is governed by a 12 member board of directors, 4 year staggered terms, with a 3 term limit, appointed by the Governor with the advice and consent of the Senate. One board member has to come from each congressional district in the state and each of the Authority's direct-serve counties and a chairperson appointed at large. The board will also include two non-voting representatives from Central, Robert C. Hochstetler and Robert G. Ardis, III. Board members serving prior to January 1, 2018 may not be reappointed.

The Authority provides electric service, retail and wholesale, and wholesale water supply in several regions of the state. It also serves in other capacities including flood control; real estate management; park management and economic development assistance for local communities.

The Authority's assets include wholly owned and ownership interests in a variety of coal, natural gas, nuclear, hydro, biomass, landfill and solar generating units totaling 4,830 megawatts (MW) of summer power supply peak capability. This consists of 3,215 MW of coalfired capacity, 1,117 MW of natural gas and oil capacity, 322 MW of nuclear capacity, 142 MW of hydro capacity, 29 MW of landfill methane gas capacity and 5 MW of solar capacity.

The Authority also operates an integrated transmission system which includes lines owned by the Authority as well as those owned by Central, the Authority's largest wholesale customer.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure Methodology published in August 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1170209 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT

S&P Global
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Table Of Contents

South Carolina Public Service Authority; Retail Electric

Credit Profile		
US$289.0 mil rev oblig ser 2021 B due 12/01/2051		
Long Term Rating	A/Stable	New
US$138.0 mil rev oblig ser 2021 A due 12/01/2036		
Long Term Rating	A/Stable	New
South Carolina Pub Svc Auth retail elec		
Long Term Rating	A/Stable	Affirmed

Rating Action

S&P Global Ratings revised the outlook to stable from negative and affirmed its 'A' rating on South Carolina Public Service Authority's (Santee Cooper) debt outstanding. At the same time, S&P Global Ratings assigned its 'A' rating to Santee Cooper's $138 million 2021 tax-exempt refunding bonds series A, and $289 million 2021 tax exempt improvement bonds series B.

The revised outlook reflects our view that:

- The settlement of outstanding litigation related to the cancelled V.C. Summer units 2 and 3 nuclear project resolves cost-recovery risk, under terms that are manageable within the context of the authority's financial profile, and that have led to improved relations and coordination between the authority and Central Electric Cooperative (Central), which accounts for 60% of Santee Cooper's electric revenue;
- Budgetary savings associated with renegotiated coal and rail contracts, fully hedged gas needs, and debt reduction provide the authority with financial headroom to operate under the settlement-imposed rate freeze through 2024;
- The expiration of Act 95 of 2019 (effectively ending the South Carolina Legislature's pursuit of a sale of, or third-party operator for, Santee Cooper) and the adoption of Act 135 enable the authority to continue to purse strategies that enhance flexibility and diversity of its power supply, reduce carbon intensity, reduce operating costs, and deleverage its balance sheet; and
- The adoption of South Carolina's Act 90 of 2021, which enhances governance oversight, preserves the authority's rate-setting autonomy, and does not unduly constrain operational and financial flexibility.

The 2021 series A bonds are being issued to refund currently callable debt, while the 2021 series B bonds will be issued to fund a combination of capital needs and pay down commercial paper outstanding and draws on the authority's revolving credit agreements. We also understand that later this year, the authority plans to refinance additional debt, callable in 2023 and after. The authority had $6.8 billion in debt outstanding at June 30, 2021.

Credit overview

The 'A' rating reflects our opinion of the utility's strong enterprise risk profile and financial profiles.

We base these views on the interplay among the following:

- A deep and diverse service area and customer base, spanning much of South Carolina. Santee Cooper serves about 1 million end-use customers--approximately 20% served directly, and 80% served indirectly, through its sales to Central;
- Competitive rates, but limited rate-raising flexibility while Santee operates under the Cook settlement-imposed rate freeze;
- In the wake of the stranded investment in the cancelled nuclear project, Santee Cooper's power supply plans are designed to preserve system reliability while transitioning its coal-dependent portfolio to a cleaner, more efficient, more flexible, and more diverse generating resource portfolio, while also reducing operating costs to create headroom under the Cook settlement-imposed rate freeze. We generally view these plans as credit supportive, but we also believe that there is a degree of execution risk in pursuing them;
- Strong coverage metrics, with fixed cost coverage (FCC) averaging 1.33x over fiscal years 2018-2020. While the authority's financial forecast suggests modest strengthening in FCC levels, we believe that the rate freeze and power supply plan execution risk makes uncertain the achievement of forecast improvement in metrics;
- Robust liquidity and reserves, which measured $984 million at fiscal year-end 2020 (353 days of operating expenses), although more than half is in the form of available lines of credit and revolving credit agreements supporting commercial paper that can be issued for either capital or operating purposes; and
- A moderately leveraged utility, with debt measuring 76% of total capitalization. We expect this ratio will improve to about 70% by 2026, despite about $1.3 billion in additional debt in support of the authority's $2.3 billion capital plan over fiscal years 2022-2028.

The stable outlook incorporates our view that the legal and political headwinds stemming from the cancellation of the V.C. Summer nuclear project have been largely resolved, without further significant sacrifice (beyond the rate freeze) of operational and financial flexibility, enabling the authority to pursue strategies to remake its power supply. Uncertainties resolved include the settlement of litigation that threatened cost recovery on the nuclear project; legislation that enhanced governance oversight but did not result in a change in authority ownership (under consideration prior to expiration of Act 95); and cost-cutting measures that have created headroom for the authority to operate under a rate freeze through 2024.

Environmental, social, and governance (ESG) factors

We believe that Santee Cooper faces heightened environmental risk. The authority anticipates closure of its coal ash ponds at its Cross and Winyah stations will cost $350 million. Santee Cooper also faces environmental risks related to potential future regulation of carbon emissions from its stakes in the coal-fired units (37% of generation production in 2020) and natural gas plants (24% of energy). Nuclear (12% of energy), hydro (3%), and renewables (3%) provide a modest amount of zero-emission energy, but the authority's effort to reduce its carbon footprint was complicated by the cancellation of the V.C. Summer nuclear project. We note that the authority's current power supply plan envisions the addition of renewables (18% of energy by 2030), and the closure of its Winyah coal units by 2028--reducing energy from coal-fired units to 20%, but increasing natural gas (31%). Therefore, we anticipate that Santee Cooper will be able to lower carbon intensity over the next decade.

Social risks primarily relate to the financial and operational effects of the COVID-19 pandemic and attendant recession as customers grapple with health and safety concerns, a situation exacerbated by below-average incomes. In our view, however, the pandemic and attendant recession have had a limited impact on Santee Cooper. Weather-adjusted sales were down about 5% in 2020, primarily among industrial and commercial customers, but are back to levels forecast prior to the pandemic. Disconnections resumed in June 2020, after a three-month moratorium, and delinquencies have not been meaningful from a credit perspective. Nevertheless, we believe that Santee Cooper has limited financial flexibility to absorb future pressures, as the authority will be operating under a rate freeze through 2024.

We believe that governance risk has lessened with the expiration of Act 95 and the adoption of Act 90, which followed the cancellation of the V.C. Summer nuclear project. Nevertheless, we continue to believe that governance risk is elevated relative to that of the authority's peers, given significant turnover of its board and executive management, the constraints of operating under a rate freeze, and the need to jointly conduct resource planning with Central--with such plans subject to public service commission (PSC) approval.

Stable Outlook

Downside scenario

Although we expect cost-saving measures to produce sufficient financial margins that can provide some resilience if the utility faces unforeseen expenses, we could lower the rating if the utility's ability to implement financial measures in response to rising costs are hampered by the rate freeze that extends through 2024 and/or the requirement that the authority obtain legislative approval as a precondition to accessing capital markets to fund unanticipated expenses.

Upside scenario

We do not anticipate raising the rating on the authority over the next two years given the financial constraints imposed by the rate freeze, and the execution risk in pursuing an aggressive plan to re-make its power supply.

Credit Opinion

Santee Cooper, based in Moncks Corner, S.C., is a state-owned electric and water utility. The electric system, which accounts for about 99% of revenue, derives 36% of its revenue from retail sales, and 64% from wholesale sales.

The electric system directly serves about 194,000 retail customers. Direct sales to residential, commercial, and industrial customers measure 11%, 13%, and 12% of total operating revenue, respectively. The utility indirectly serves another 800,000 electric customers, primarily through its largest wholesale customer, Central, under a coordination agreement that expires in 2058. Central serves 20 member-distribution cooperatives, and accounts for about 60% of Santee Cooper's total operating revenue.

V.C. Summer nuclear project abandonment: Litigation, political backlash, and legislation

In mid-2017, Santee Cooper cancelled the construction of the V.C. Summer nuclear units 2 and 3, after investing $4.5 billion. The utility cited the project's significant delays, substantial cost overruns, and uncertain completion costs in support of its abandonment decision. Although we view these positions as compelling, we believe that the project nevertheless contributed to almost doubling the utility's debt over a decade without delivering prospects for producing project revenues to defray the added debt burden. Cancelling the project also removed prospects for replacing carbon-laden coal-fired generation with zero-emission nuclear generation.

Cost overruns and project cancellation triggered customer and political backlash, contentious board and management changes, and litigation and legislation targeting the utility.

However, a court-approved settlement was reached in the most significant of the litigation, Cook, et al. v. Santee Cooper, et al., which had sought to preclude Santee Cooper from recovering investments in the abandoned project. Under the settlement, Santee Cooper is cash-funding $200 million in payments (spread over fiscal years 2020-2022), and has agreed to freeze rates through 2024. Importantly, the settlement allows Santee Cooper to include the debt costs associated with the nuclear project in its rates, irrespective of the rate freeze.

The project cancellation also resulted in political backlash and passage of Act 95 (2019), which directed exploration of a sale or restructuring of Santee Cooper. But after receiving bids and evaluating what it deemed to be the best sale and third-party operator proposals, the legislature rejected the proposals, and adopted Act 135 (2020), enabling the authority to proceed with its plans to remake its power supply, consistent with its previously submitted reform budget.

Act 95 expired in May 2021, effectively ending the legislature's effort to sell or find a third-party operator for Santee Cooper; we understand that after passing Act 90 in June 2021, the legislature has no plans to revisit the matter.

Key Act 90 provisions address governance reforms touching on the following areas:

- Board composition--including size, representation, terms, and qualifications;
- Debt reforms--creates a process whereby Santee Cooper must seek state Joint Bond Review Committee (JBRC) approval for new money, long-term debt or refundings that do not achieve savings;
- Resource oversight---requires PSC approval for generating facilities larger than 75 megawatts (MW), transmission facilities greater than 125 kV or greater, and power purchase agreements greater than 10 years for non-renewable resources; and
- Rate-making oversight--provides a process whereby intervenors may challenge proposed rate increases, and requires that proposed rate increases be submitted to the state Office of Regulatory Services (ORS).

In our view, Act 90 enhances oversight and provides clearer processes for rates, debt issuance, and resource planning. While it may limit nimbleness of action, it does not create extraordinary constraints relative to other issuers or states. In our view, it preserves Santee Cooper's rate-setting autonomy and should not unduly constrain operational and financial flexibility as long as the authority maintains good communication with the JBRC, the ORS, and the PSC.

Enterprise Risk

Economic fundamentals

The utility serves a broad footprint across South Carolina, with almost 1 million direct and indirect customers. Santee Cooper directly serves 194,000 residential, commercial, and industrial customers (36% of total electric revenue), with each class accounting for near-equal shares. About 60% of the authority's revenue is derived from sales to Central, which has 20 distribution cooperative members, serving about 800,000 end-use customers. Central's distribution members have largely residential bases, and it is a significant contributor to Santee Cooper's revenue stream; we believe that this contributes to stable demand patterns.

In our view, direct-serve industrial customers do not represent a significant percentage of authority revenue. Nevertheless, we note that Santee Cooper recently extended its contract to serve its second-largest direct-serve customer, Century Aluminum (1.3% of revenue) through 2023. We understand that the authority earns small margins on sales to Century, but we also note that these sales serve to support Santee Cooper's fixed costs.

Although South Carolina's unemployment rate is elevated (4.5% in June 2021) due to the pandemic and economic downturn, it is below the national rate. Incomes are below average at 88% of the nation, which we believe contributed to the backlash regarding the nuclear project and the imposition of the rate freeze. In our view, this serves to constrain our assessment of Santee Cooper's economic fundamentals.

Market position

According to the U.S. Department of Energy's Energy Information Administration (EIA), Santee Cooper's weighted-average rate was 87% of the state's average system rate in 2019, the most recent year of available comparative information. As Santee Cooper is a hybrid retail/wholesale entity, we believe that the EIA comparative is somewhat misleading because it includes wholesale rates to Central (but not distribution costs) as well as fully bundled rates to direct-serve retail customers. We also note that Santee Cooper's rates are below those of SCE&G/Dominion and Duke Carolinas across all customer classes, but slightly above Progress Energy's rates.

The authority's most recent base-rate increase, 2.1%, was in 2017. Proposed rate increases for 2018 and 2019 were withdrawn, as the authority cancelled plans to issue $2.5 billion in additional debt to complete financing of the V.C. Summer project. As part of the Cook litigation settlement, rates are frozen through 2024. During the rate freeze, Santee Cooper will not be able to pass along changes in its fuel and purchased power costs beyond what the authority projected in its reform plan. The settlement established monthly fuel-adjustment rates, for both retail customers and Central that will be used during the rate freeze in lieu of calculating monthly rates, as had been the practice.

While we believe the rate freeze places a potential constraint on Santee Cooper's financial flexibility, we nevertheless note that there are carve-outs allowing for rate increases in certain limited circumstances, including named storm events, cyberattacks, and plus or minus 4% deviations in Central's load.

We also understand that since development of the reform plan, coal and coal transportation contracts have been renegotiated and the authority has fully hedged gas costs through 2024, at prices below those contemplated under the reform plan. In our view, this has created headroom to operate under the rate freeze without compromising financial metrics or constraining power supply plans. Supporting this view is Santee Cooper's plan to adopt a modest rate increase in 2027, its first in a decade, which is well after the expiration of the rate freeze.

After the rate freeze, the Authority's fuel and power cost recovery mechanisms will revert to the pre-existing formula that we view as credit supportive: for retail sales, an automatic fuel-cost adjustor based on three-month rolling average, and an automatic adjustor for variance in the demand component of non-firm sales and off-system sales; together, the cost tracker covers about 75% of costs and minimizes budget variance. After the freeze, sales to Central will be adjusted monthly for fuel and annually for non-fuel variances.

Operational Management Assessment (OMA)

Although the authority has a diverse fleet of generation assets and fuels, it still has a $3.6 billion of debt outstanding (and a $3.7 billion regulatory asset) related to the cancelled nuclear project, , and this is captured in our assessment, despite the ameliorative effect of the Cook settlement. Also reflected in the OMA is our view of Santee Cooper's power supply plans, which are designed to preserve system reliability while transitioning its coal-dependent portfolio to a cleaner, more efficient, more flexible, and more diverse generating resource portfolio.

Santee Cooper's 4,830 MW of owned generation (and its allocation of hydroelectric energy from the Southeastern Power Administration) supplies about 80% of the utility's energy requirement, with the remainder coming from market economy purchases and long-term power purchase contracts. Santee Cooper has modest excess capacity, but this is expected to be largely eliminated over the intermediate term, as the authority's power supply plan envisions closure of its Winyah coal units by 2028.

Coal-fired generation accounts for about 37% of the authority's energy, down from about 60% several years ago, as natural gas (24%) has economically displaced coal as the fuel of choice.

Despite a challenging legal and political environment, we believe that management has successfully reduced operating costs and leverage, while driving toward settlement of the Cook litigation and improved relations with Central. We also believe that management has put together a credible plan to remake Santee Cooper's power supply, focusing on carbon reduction, fuel diversification, and reduced fuel costs.

Key elements of Santee Cooper's power supply plan (which are subject to change as the authority's load forecast is revised) include:

- The retirement of 1,150 MW of coal-fired generating capacity at Winyah by 2028, with the phase-out beginning in 2023;
- The installation of up to 200 MW dual-fuel (natural gas and oil) for reliability purposes;
- The purchase of 1,500 MW of solar capacity by 2031 (a greater than 800% increase over current levels);
- The addition of about 950 MW of natural gas-fired generating capacity, including approximately 550 MW to be built in the mid-2020s and approximately 450 MW to be purchased under tolling agreements during the 2030s;
- The addition of approximately 200 MW of battery storage, which may be purchased from the market by 2028; and
- In conjunction with partners, 150 MW of demand-side conservation by 2027, with an additional 50 MW to be achieved by 2037.

In our view, Santee Cooper's power supply plans, if executed, could help the utility achieve further carbon reduction. Management projects coal will account for 20% of energy by 2030 (down from 37% in 2020), largely supplanted by natural gas (31%, up from 24%) and renewables (18%, up from 3% in 2020). Nevertheless, we expect that Santee Cooper will still have a sizable carbon footprint that exposes it to a wide set of environmental regulations.

It is important to note that the costs associated with these plans were built into Santee Cooper's reform budget, upon which the rate freeze was predicated. We also note that Central is not bound to these plans, and has certain opt-out rights on future projects, which effectively forces Santee Cooper to give significant consideration to Central's needs and desires in formulating its power supply plans. Nevertheless, any decision by Central to opt-out of future projects would have no bearing on its obligation to serve then-existing load from Santee Cooper's then-existing resources. And from a practical standpoint, we also believe that there is minimal potential for the opt-out to affect Santee Cooper's power supply plans prior to 2030, when Central's contract with Duke Carolinas expires.

Financial Risk

Coverage metrics

The authority achieved debt service coverage averaging 1.48x over fiscal years 2018-2020. However, we calculate FCC at an average of 1.33x (including 1.29x in 2020). Our calculation of FCC treats payments to the state as an operating expense and a portion of payments to other energy suppliers as debt service rather than operating expenses because we view these payments as vehicles for funding the suppliers' recovery of their investments in generation assets serving the utility.

In 2019, the authority recorded a $200 million special item related to the settlement of the Cook litigation. As this was a non-cash expense, we do not factor it into our coverage calculations. We understand that the authority has used (and expects to continue to use) internally generated funds to pay down the settlement liability--$65 million in 2020 and 2021, and $70 million in 2022.

Based on Santee Cooper's projections for 2021-2025, we calculate FCC of 1.35x-1.45x. In our view, this would continue to support our current rating.

Liquidity and reserves

We view Santee Cooper's liquidity as robust in both absolute and relative terms. The utility recorded $442 million of unrestricted cash and investments at Dec. 31, 2020. In addition, the authority had $542 million of capacity available under revolving credit facilities and lines, which bolstered its liquidity position to 353 days of operating expenses.

While these levels are down from previous years, the decline was anticipated as the authority used Toshiba settlement money (related to the failed V.C. Summer nuclear project) to pay down debt and fund debt service requirements over fiscal years 2018 and 2019. We expect liquidity will remain above 237 days of operating expenses through 2025 and continue to support the current rating.

Debt and liabilities

S&P Global Ratings' leverage ratio calculation yielded a 76% debt-to-capitalization ratio for 2020, which we consider moderately leveraged for a vertically integrated utility. Santee Cooper's $2.3 billion capital plan for 2021-2028 calls for $1.3 billion in additional debt; nevertheless, the authority's debt-to-capitalization ratio is expected to decline to about 70%, as amortization and cash from operations offset the new money issuance.

The authority's debt service schedule is relatively flat, with the exception of a $175 million bullet maturity due in 2023. We understand that the authority has designated $85 million in reserves toward the repayment of the bullet, which would have the effect of levelizing debt service requirements from operation and reducing funding risk.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of August 12, 2021)		
South Carolina Pub Svc Auth retail elec		
Long Term Rating	A/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (AMBAC)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (ASSURED GTY)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (BHAC) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (MBIA) (National)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (National)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (National)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth retail elec (National)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth rev oblig (Taxable) ser 2016D due 12/01/2056		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.