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# Fitch Rates South Carolina Public Service Auth's $575 million 2012 Series D & E Bonds 'AA-'

NEW YORK--(BUSINESS WIRE)--Fitch Ratings assigned the following ratings on South Carolina Public Service Authority's (Santee Cooper) proposed Revenue Obligations:

--$312,825,000 series 2012 D (tax-exempt) and $262,200,000 series 2012 E (taxable)'AA-'

The bonds are expected to price via negotiation on April 3, 2012. Proceeds of the bonds will be used to refund $100 million of commercial paper notes and to fund a portion of the authority's ongoing capital improvement program.

In addition, Fitch affirms the following ratings:

--$5.01 billion revenue obligations at 'AA-';

--$352.7 million commercial paper notes at 'F1+'.

The Rating Outlook is Stable

SECURITY

The revenue bond obligations are secured by a gross lien on system revenues and are paid prior to operating expenses and other outstanding obligations.

KEY RATING DRIVERS

DIVERSIFIED CUSTOMER BASE: South Carolina Public Service Authority (Santee Cooper or the authority) is one of the nation's largest municipal wholesale systems, serving either directly or indirectly (through Central Electric Cooperative) nearly one-third of the state of South Carolina.

REALIGNMENT OF GENERATING CAPACITY: Santee Cooper has been working to restructure its power supply mix with a slowdown in customer growth, the elimination of electric sales to five Central customers (1,000 megawatts/Mw), who will be served by Duke Power beginning in 2013, lower natural gas prices and environmental issues. The authority is also attempting to reduce its ownership interest in the new V.C. Summer nuclear plant expansion project (units 2 and 3), from 45% to 20%.

NUCLEAR UNIT LICENSE ANTICIPATED: The authority expects to receive the Combined Construction and Operating License (COL) in early 2012 and anticipates Summer 2 will go into service approximately five years after the COL is issued. Santee Cooper expects Summer 3 will go into service about sixteen months after Summer 2.

HEAVILY COAL-FIRED: The authority's generating resources are primarily coal-fired, with the fuel mix (energy) being: coal (70.5%), natural gas (13.4%), nuclear (8.7%), power purchases (6.1%) and other (1.3%). While the utility has been aggressive in meeting environmental requirements, management is currently budgeting approximately $300 million for coal-plant improvements and is considering shutting down or reducing operations at several older units.

FINANCIAL METRICS TRENDING STABLE: Financial ratios have drifted lower over the past five years (reflected in the rating downgrade from 'AA' to 'AA-' in January 2012). Fitch calculated debt service coverage (DSC) stood at 1.50x in 2011, compared with 1.95x in 2006. This reflects participation in the capital-intensive V.C. Summer nuclear project, the slower economy and much higher coal stockpiles that need to be worked down. The 10-year financial forecast assumes DSC stabilizing around 1.50x with debt to equity of around 70% to 75%.

WHAT COULD TRIGGER A RATING ACTION

SIGNIFICANT CONSTRUCTION DELAYS: As the COL approval process moves forward, Fitch will evaluate any changes to the project schedule, design and/or budget and evaluate any impact on the authority.

WEAKENED FINANCIAL POSITION: Central to the current rating and outlook is the expectation that management and the board of directors will raise rates as necessary to maintain financial metrics and operating flexibility.

## CREDIT PROFILE

Santee Cooper sells electricity to wholesale and retail customers throughout South Carolina, approximating two million customers in 46 counties. The authority's direct customers currently include 29 large industrial users, Central Electric Cooperative and two municipal systems. The authority owns and operates various power resources (primarily coal-fired) that have a combined (summer) generating capacity of 5,665 Mw.

In September 2009, the authority and Central entered into an agreement which would permit Central to purchase electric power and energy requirements necessary to serve five of its member cooperatives located in the upper part of the state. These were formerly member systems of Saluda River Electric Cooperative and are connected to the transmission system of Duke Energy Carolinas, LLC. The upstate load 1,000 Mw, which is approximately 22% of Central's current energy requirements, will transition to the new supplier over a six-year period beginning in 2013. While certain Central members will be moving off the Santee Cooper system, the Central member systems have extended their power purchase agreements through December 31, 2030.

Santee Cooper is participating in the development of the V.C. Summer units 2 and 3, which are expected to be in commercial operation in 2016 and 2019, respectively. The plan was to acquire a 45% ownership interest (990 Mw) in the proposed two-1,100 Mw nuclear units. The participation in the project continues to be a key component in the authority's strategy to address the potential for increasing costs associated with environmental regulation and carbon emissions.

However, in light of lower forecasted growth (estimated at 1% annually) combined with the gradual loss of up to 1,000 Mw of Central load through 2019 and a possible reduction or loss of the Alumax load (potential closure due to pricing pressure for aluminum), Santee Cooper is now reviewing its level of participation in the nuclear units. Santee Cooper's forecast also assumes an April 1, 2016 retirement of Grainger (170

Mw) and Jefferies 1&2 (92 Mw) and retrofitting Jefferies 3&4 (306 Mw). However, these assumptions may be modified upon further review of existing and proposed regulations.

Santee Cooper reported stable financial results for calendar year 2011, with Fitch calculated DSC at 1.50x, in line with the authority's stated target of 1.50x: equity to capitalization stood at a reasonable 25%. Fitch' recognizes that the authority's plan to reduce or adjust its participation interest in the V.C. Summer project is an important factor in maintaining strong financial metrics and bolstering its financial flexibility.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'U.S. Public Power Rating Criteria' (Jan. 11, 2012);

--'Revenue-Supported Rating Criteria' (June 20, 2011).

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U.S. Public Power Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=665815

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130

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## Contacts

Fitch Ratings
Primary Analyst
Alan Spen, +1-212-908-0594
Senior Director
Fitch, Inc.
One State Street Plaza
New York, NY 10004
or
Secondary Analyst
Dennis Pidherny, +1-212-908-0738
Senior Director
or
Committee Chairperson
Emily Wong, +1-212-908-0651
Senior Director
or
Media Relations:
Sandro Scenga, +1-212-908-0278
Email: sandro.scenga@fitchratings.com