

South Carolina Public Service Authority

Credit Profile

US\$418.5 mil rev oblig bnds
taxable & tax-exempt ser 2009D-F

Long Term Rating

AA-/Stable
New

South Carolina Pub Svc Auth

Long Term Rating

AA-/Stable
Affirmed

Primary Credit Analysts:

David Bodek
New York
(1) 212-438-7969
david_bodek@
standardandpoors.com

Secondary Credit Analysts:

Jeffrey Panger
New York
(1) 212-438-2076
jeff_panger@
standardandpoors.com

RatingsDirect Publication Date

October 19, 2009

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating to South Carolina Public Service Authority's (Santee Cooper, the utility, or the authority) **proposed \$39.4 million series 2009D** tax-exempt revenue obligations, \$279.1 million 2009E tax-exempt revenue obligations, and \$100 million 2009C taxable revenue obligations. Bond proceeds will refund approximately \$40.1 million of revenue obligations outstanding and finance portions of the utility's capital program. At the same time, Standard & Poor's affirmed its 'AA-' long-term rating and underlying rating on Santee Cooper's existing long-term debt and its 'A-1+' short-term rating on its subordinate lien commercial paper. The outlook on the long-term ratings is stable. The Moncks Corner, S.C.-based utility reported \$4.37 billion of long- and short-term debt as of July 1, 2009, up about \$600 million from Dec. 31, 2007. In our opinion, the ratings reflect the following credit strengths:

- Low-cost coal fired generation dominates the generation portfolio and provides customers with favorable wholesale and retail rates, but potentially exposes the utility to carbon costs.
- Santee Cooper can recover fuel and demand charges dynamically, which we believe allays commodity price risks.

The authority's broad retail and wholesale customer base contributes to what we view as a strong revenue stream, but sharp increases in energy sales created substantial capital needs that led to an almost 40% increase in debt in the past five years and underlies management's projections of more than \$4 billion of capital spending in the next five years. We believe the following challenges temper credit strengths:

- A recent agreement between Santee Cooper and Central Electric Power Cooperative Inc. (AA/Stable/—) permits Central Electric to pursue an agreement with Duke Energy Carolinas LLC (A-/Positive/A-2) to serve 1,000 MW of Central Electric's customers' energy needs.

Pending a final deal between Central Electric and Duke Energy, this development creates resource planning uncertainties for Santee Cooper. Central Electric, which represents about 54% of Santee Cooper's energy sales and about 71% of its peak, has until June 2011 to make a final resource decision.

- Even without the more than \$1.2 billion of investment that Santee Cooper could avoid if coal capacity additions at the Pee Dee station are cancelled, the utility nevertheless projects spending more than \$4 billion on capital projects from 2009-2013 as it pursues the initial phases of additional nuclear investment and several other projects. The authority projects that even without Pee Dee, it may add \$2.5 billion of debt during the same period, a 60% increase from fiscal year-end 2008.
- Santee Cooper's significant reliance on coal-fired generation exposes the utility's operations and financial profile to emissions regulations proposals.

About 20% of the authority's debt extends beyond Central Electric's contract that expires in 2030 and creates a potential for reliance on merchant markets to provide revenues to pay debt service if Central Electric does not extend its contract. We believe that Central Electric's interest in moving a portion of its load to Duke Energy heightens this concern. Santee Cooper is a state-owned electric and water utility, although water sales represent less than 1% of operating revenues. It directly serves 163,000 residential, commercial, and industrial electric customers, and 722,000 customers indirectly through wholesale electric supply arrangements with cooperative and municipal utilities. Central Electric serves most of this latter group of customers. Two Santee Cooper customers, an aluminum smelter and a steel producer, account for about 15% of electric revenues, which adds to credit concerns, particularly because these customers' businesses' fortunes are closely tied to economic cycles. The utility's business profile score is '4' on a scale from '1' to '10,' where '1' is the strongest. In our opinion, Santee Cooper's score reflects its regulatory latitude to set rates, fast-growing markets, efficient and economical operations, average rate competitiveness, and proactive management. Complementing the utility's business position are its sound financial profile, including debt service coverage (DSC) and liquidity. We believe financial performance, as measured by accrual basis net revenues available to service debt, has been strong in recent years, having equaled or exceeded 1.7x coverage. Standard & Poor's also evaluates DSC and financial strength by assessing the utility's transfer payments to the state as fixed obligations. Even with rate increases across all customer classes, fixed charge coverage slipped to 1.4x in fiscal 2008, down from 1.5x at fiscal year-end 2007. The 1.4x coverage remains adequate for the rating, and Santee Cooper projects that further rate increases will restore coverage to levels consistent with historical coverage in the 1.5x-1.6x range. The utility is responding to strong customer growth and electricity use by making sizable generation capacity investments that are fueling debt growth. Santee Cooper added the \$675 million, 600 megawatt (MW) coal-fired Cross Unit 3 plant in January 2007 and the \$755 million, 600 MW Cross Unit 4 in October 2008. From fiscal year-end 2003-2008, it added \$1.4 billion of debt and is projecting more than \$3.7 billion additional debt through 2013. The authority projects debt capitalization will rise to 77% in 2013 from today's 72%. Santee Cooper recently suspended its development plans for the 600 MW, coal-fired Pee Dee power plant, but is still participating in the preliminary phases of developing a nuclear plant together with South Carolina Electric & Gas Co. (SCE&G). Suspending Pee Dee development flows from Central Electric's bid to transfer 1,000 MW of load to Duke Energy; the recession eroding the utility's need for the plant's generation capacity; and the specter of carbon regulation, which Santee Cooper believes raises questions about the propriety of additional coal

investments. The utility depends heavily on coal as a baseload resource. It produces about 80% of its electricity using coal. Pee Dee unit would have increased coal's role. We believe state and national proposals for controlling greenhouse gas emissions could lead to additional expenses, which could have credit implications. For now, the timing and magnitude of carbon costs remain uncertain. Santee Cooper is exploring diversifying its fuel mix through renewable resources and the proposed nuclear capacity additions. The authority and SCE&G are pursuing regulatory approvals for two new nuclear plants and executed an engineering, procurement, and construction (EPC) contract with Westinghouse Electric Co. Santee Cooper will own a 45% interest in the plant. Its board authorized \$1.9 billion of capital spending through 2011 for regulatory applications and EPC contract commitments. Completing the nuclear plants will likely cost several times the amounts the board approved for the projects' preliminary phases through 2011. Major construction is unlikely before 2011. If the nuclear projects are not completed, SCE&G and Santee Cooper might be able to recoup some of the initial investment by selling components fabricated for the proposed plants. Here too, we believe that Central Electric's moving load to other suppliers could add operational and financial uncertainties to the authority's participation in the nuclear capacity additions.

Outlook

The stable outlook reflects our expectation that Santee Cooper will implement rate adjustments as it adds debt to support its very sizable capital program to help maintain its financial profile. A positive rating action is unlikely, given the capital program's size, concerns about the utility's significant coal dependence and the potential exposure to emissions regulations' costs, customer concentration issues tied to industrial customers, and the planning uncertainties that Central Electric's discussions with Duke Energy present.

Related Research

USPF Criteria: "Electric Utility Ratings," June 15, 2007

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.

<i>Ratings Detail (As Of 19-Oct-2009)</i>		
<i>South Carolina Pub Svc Auth comm ppr prog</i>		
Short Term Rating	A-1+	
<i>South Carolina Pub Svc Auth rev oblig tax-exempt ser 1999A dtd 09/01/1999 due 01/01/2003-2019 2022</i>		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
<i>South Carolina Pub Svc Auth (wrap of insured) (AMBAC & FSA) (SEC MKT)</i>		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
<i>South Carolina Pub Svc Auth (BHAC)</i>		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth elec		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
South Carolina Pub Svc Auth rev oblig		

Ratings Detail (As Of 19-Oct-2009) (cont. 'd)

Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
-------------------	------------------	----------

Many issues are enhanced by bond insurance.

Published by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. Executive and Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280 Option 2. Copyright © 2010 by Standard & Poor's Financial Services LLC (S&P). All rights reserved.

No part of this information may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P. S&P, its affiliates, and/or their third-party providers have exclusive proprietary rights in the information, including ratings, credit-related analyses and data, provided herein. This information shall not be used for any unlawful or unauthorized purposes. Neither S&P, nor its affiliates, nor their third-party providers guarantee the accuracy, completeness, timeliness or availability of any information. S&P, its affiliates or their third-party providers and their directors, officers, shareholders, employees or agents are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such information. S&P, ITS AFFILIATES AND THEIR THIRD-PARTY PROVIDERS DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates or their third-party providers and their directors, officers, shareholders, employees or agents be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained herein even if advised of the possibility of such damages.

The ratings and credit-related analyses of S&P and its affiliates and the observations contained herein are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or make any investment decisions. S&P assumes no obligation to update any information following publication. Users of the information contained herein should not rely on any of it in making any investment decision. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of each of these activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P's Ratings Services business may receive compensation for its ratings and credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge) and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

S&P uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from S&P, its affiliates, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write to us at: privacy@standardandpoors.com. For more information about The McGraw-Hill Companies Customer Privacy Policy please visit www.mcgraw-hill.com/privacy.html.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-7280 Option 2; or by email to: research_request@standardandpoors.com.