Santee Cooper Is In Strong Financial Condition

Three Key Takeaways:

- Actions taken in 2020, including reducing operating expenses and settling the Cook litigation, allow us to meet terms of the rate freeze, continue to reduce debt, and implement our leaner, greener resource plan.
- Our stable "A" credit rating aligns with the top 4% of U.S. investor-owned utility holding companies and our metrics will continue to support that rating.
- After the payment of all debt service, operating expenses and payments to the State, Santee Cooper will have more than $150 million each year during the rate freeze period to invest in capital needs and accelerate debt paydown above and beyond regularly scheduled debt retirement.

Santee Cooper enters 2021 in strong financial condition, which positions the company well for continued, successful execution of key components of the Reform Plan. Santee Cooper had "A" rated financial metrics for 2020, enjoys robust liquidity and access to capital, and has resolved all significant litigation against the company. In this paper, we summarize the state of Santee Cooper's financial condition, address concerns about our finances raised by third parties and examine how the national credit rating agencies and bond investors assess our financial strength.

Accomplishments in 2020: Santee Cooper has continued to execute on key components of the Reform Plan since its submission to the Department of Administration in the Act 95 process and to the extent permitted by Act 135. Select accomplishments include the following:

- Reduced operating costs and headcount to deliver strong financing and operating results despite the impact of COVID-19
- Issued a Request for Proposals (RFP) to solicit up to 500 megawatts of solar generation, jointly with Central, and executed the first of the contracts originating from this RFP
- Refinanced debt at attractive interest rates, producing $134 million of net present value savings to customers
- Settled all significant remaining litigation against the company including the Cook case which resulted in a 4.5 year rate freeze for customers
- Proactively managed risks during the rate freeze period by hedging future gas and coal costs

Resolution of the Cook case removed significant legal uncertainty for Santee Cooper and was identified by the national credit rating agencies as an important positive development for our financial profile. The settlement provided for $520 million of payments to customers, of which Dominion funded $320 million and Santee Cooper is funding $200 million. Some third parties have erroneously claimed that Santee Cooper will be unable to fund these payments, but we have recorded the full $200 million expense in our financial statements for 2019, already made the initial $65 million payment in 2020, and the remaining payments to be made in 2021-2022 are fully reflected in our financial forecasts, including the credit metrics presented herein.

"A" Rated Financial Metrics: The national credit rating agencies, banks and bond investors evaluate Santee Cooper and other public power companies using three primary financial metrics: Debt Service Coverage, Days Cash or Liquidity on Hand, and Debt/Capitalization. Santee Cooper's metrics in these three categories currently support our "A" category ratings and these metrics are projected to remain in the "A" category, as recently reviewed and validated by the credit rating agencies.

Our "A" rating is higher than the rating of 96% of US investor owned utility holding companies, including all of the investor owned utilities serving customers in South Carolina.

Debt Service Coverage: This statistic is a measure of the company's ability to pay principal and interest over time. As presented in the table below, excluding the Cook settlement charge, Santee Cooper has Debt Service Coverage between 1.31 and 1.42x in the historical and forecast period from 2018-2024. This means that Santee Cooper has "cushion" of 31% to 42% over and above annual debt service payments and after paying all operating expenses and the annual payment to the State. In the period 2021-2024, this "cushion" ranges between approximately $150 million and $200 million each year. This excess cash is available to invest in the utility system, accelerate the repayment of debt and provide for contingencies.

It is important to note that Santee Cooper, like other public power companies, issues primarily amortizing debt, which requires payment of principal along with each interest payment like a home mortgage. Investor owned utilities by contrast tend to issue "bullet" bonds which pay interest-only until the principal amount is payable in total at maturity. Because Santee Cooper has amortizing bonds, we are regularly paying down principal over the life of the debt. And the 31% to 42% "cushion" is after the payment of BOTH principal and interest. Over the Reform Plan forecast period, Santee Cooper will pay down debt through normal amortization and use a portion of the "cushion" to further accelerate debt reduction. In total, these debt payments are forecast to exceed the amount of new debt Santee Cooper raises to invest in new equipment which results in continued reduction in the total amount of Santee Cooper debt.

Some observers have incorrectly suggested that Santee Cooper is "underfunded" and must choose between making debt payments and funding capital expenditures. As evidenced by our Debt Service Coverage statistics, that is not the case.

	2018	2019	2020	2021	2022	2023	2024
Debt Service Coverage	*1.42x*	*0.87x**	*1.31x*	*1.38x*	*1.42x*	*1.31x*	*1.37x*

** Includes the $200 million Cook charge recorded in 2019. Without the one-time charge, the adjusted DSC would have been 1.32x.*

Days Cash or Liquidity on Hand: Days Cash on Hand measures the number of days of cash available and represents the ability of the company to fund its operations from existing cash resources. Days Liquidity on Hand measures both unrestricted cash and available bank credit line capacity against daily operating cash needs. As shown in the table below, Santee Cooper's historical and projected Liquidity on Hand exceeds 330 days, which is consistent with a AAA rating (the highest rating awarded by the credit rating agencies).

More importantly, our Cash on Hand comfortably exceeds our 90 days target during the rate freeze years as we set aside cash for unforeseen contingencies. By the end of the rate freeze in

2024, this contingency amount (approximately $70 million) will be deployed to reduce debt. It is important to note that our financial forecast, including these liquidity calculations, includes the impacts of Cook settlement payments. Said differently, our cash and liquidity levels after making Cook settlement payments comfortably exceed the targets for an ‘A rated’ utility.

	2018**	2019	2020	2021	2022	2023	2024
Days Liquidity on Hand*	*531*	*343*	*345*	*342*	*376*	*331*	*356*
Days Cash on Hand	*286*	*157*	*152*	*148*	*118*	*115*	*93*

**Days Liquidity On Hand is based on the unused portion of the current $850 million of bank credit lines maintained by Santee Cooper.*

*** High levels of cash and liquidity in 2018 due to availability of Toshiba settlement funds which have since been fully used to reduce debt.*

Debt/Capitalization: This statistic measures total debt divided by the total of debt and equity on our balance sheet. Our debt/capitalization in the historical and forecast period of 2018-2024 supports our “A” rating and is in line with other generation and transmission-oriented public power companies. As shown in the table below, Santee Cooper’s projections provide for significant debt repayment over time which will continue to improve our already strong debt/capitalization. The reduction of debt over time results from principal payments on existing debt exceeding the amount of new debt raised over time to fund new equipment.

	2018	2019	2020	2021	2022	2023	2024
Debt to Capitalization	76%	77%	76%	75%	74%	74%	73%
Debt Outstanding ($bn)	7.3	6.9	6.8	6.6	6.5	6.2	5.9

Strong Financial Condition Validated by Third Parties: Santee Cooper’s robust financial condition is recognized by sophisticated financial market participants, including the rating agencies that recently upgraded our credit outlook, large investors who subscribed to our recent bond sale at record low interest rates, and banks that continue to offer us credit lines.

The Three National Credit Rating Agencies Rate Santee Cooper in “A” Category: Santee Cooper maintains a credit rating from Standard & Poor’s, Moody’s, and Fitch Ratings. These ratings are used by banks and bond investors to gauge the credit quality of companies to which they lend funds. All three of these agencies provide an “A” category rating for Santee Cooper which is a high investment grade rating. In October 2020, two of the rating agencies upgraded Santee Cooper’s rating outlook to “Stable”, citing the settlement of Cook and their expectation that our financial metrics will remain consistent with the rating through the rate freeze period.

Proven Access to Capital Demonstrated in Recent Bond Financing: In October, Santee Cooper raised approximately $638 million in taxable and tax-exempt bonds, the majority of which refinanced existing debt at lower interest rates. The bonds were purchased by some of the largest, most sophisticated institutional investors in the world.

The order book for the bonds was oversubscribed by over 5.5x, meaning there were approximately $3.5 billion of orders for the bonds from these investors. This robust demand allowed Santee Cooper to issue the debt at an interest rate of approximately 2.9% for bonds with an average maturity of 13 years. The success of this bond offering demonstrates that expert third party investors validate the strength of our financial condition.

Furthermore, Santee Cooper continues to maintain $850 million in aggregate bank facilities from leading financial institutions of which $650 million was successfully renewed in 2020.

Optionality: Santee Cooper's resource and financial plans are infused with a great deal of optionality to enable responsiveness to changing conditions. For instance, if load declines, the retirement of the Winyah Generating Station can and should be accelerated. If load grows faster than anticipated, the anticipated gas-fired resource, second tranche of solar, and batteries now anticipated for the later 2020s would need to be advanced. The option remains open as to whether to build or buy such resources – no decisions have been made in this regard, and shouldn't be until required.

Conclusions:

- Santee Cooper has strong, investment grade financial metrics and major litigation risk has been mitigated
- Credit rating agencies, banks, and sophisticated investors validate our financial strength
- After the payment of all debt service, operating expenses and payments to the State, Santee Cooper will generate in excess of $150 million each year to invest in the utility and accelerate debt paydown
- Santee Cooper's debt balance will continue to decline as principal payments on existing debt exceed the amount of new debt raised to fund new equipment
- This strong financing condition provides the foundation for the execution of Santee Cooper's Resource Plan and key components of Santee Cooper's Reform Plan, which will transform our electric generation fleet, maintain our world-class reliability and safety, continue our important economic development efforts, pay down our debt, and maintain the lowest utility rates among large utilities in the state of South Carolina