<u>About the Debt of Santee Cooper</u>

Three Key Takeaways:

- The security of Santee Cooper's bondholders depends, in large part, on whether Santee Cooper remains intact as a "system". For instance, Santee Cooper has an opinion of bond counsel (bond counsel represents the bondholders, not Santee Cooper) that major asset classes like the transmission or generation sub-systems could not be severed from the greater Santee Cooper system without paying off <u>all</u> outstanding debt of the entire system.
- Santee Cooper has essentially flat principal and interest payments well into the 2030's, declining thereafter. This clearly supports long-term customer price stability.
- Santee Cooper's debt has been, and will continue, going <u>down</u>, not up.

Santee Cooper is a "public power" utility, meaning it is owned by the public, not stockholders. Santee Cooper has no stock. There are many such entities in the United States – the New York Power Authority, the Nebraska Public Power District, Los Angeles Department of Water and Power, the Jacksonville Electric Authority, and the Salt River Project in Arizona are but a few. These entities were created at different times (Santee Cooper is about 85 years old) and for reasons that may vary somewhat by region, but the common theme amongst these companies is that they are publicly owned, created to deliver specific benefits and are economic development engines for their areas. They support the health and growth of their economies by providing low-cost and reliable energy, and in some cases, water, among other benefits.

Having no stock, all of these companies are financed exclusively with a mix of internally generated funds and borrowings. Because they have no stock, these companies tend to have higher debt, or leverage, ratios than their private counterparts. The borrowings of these companies are generally secured not by a lien on assets but with a pledge of "system revenues" – meaning, the aggregate revenues derived from all of their system assets (generation, transmission and distribution assets). There is a "lien" on revenues.

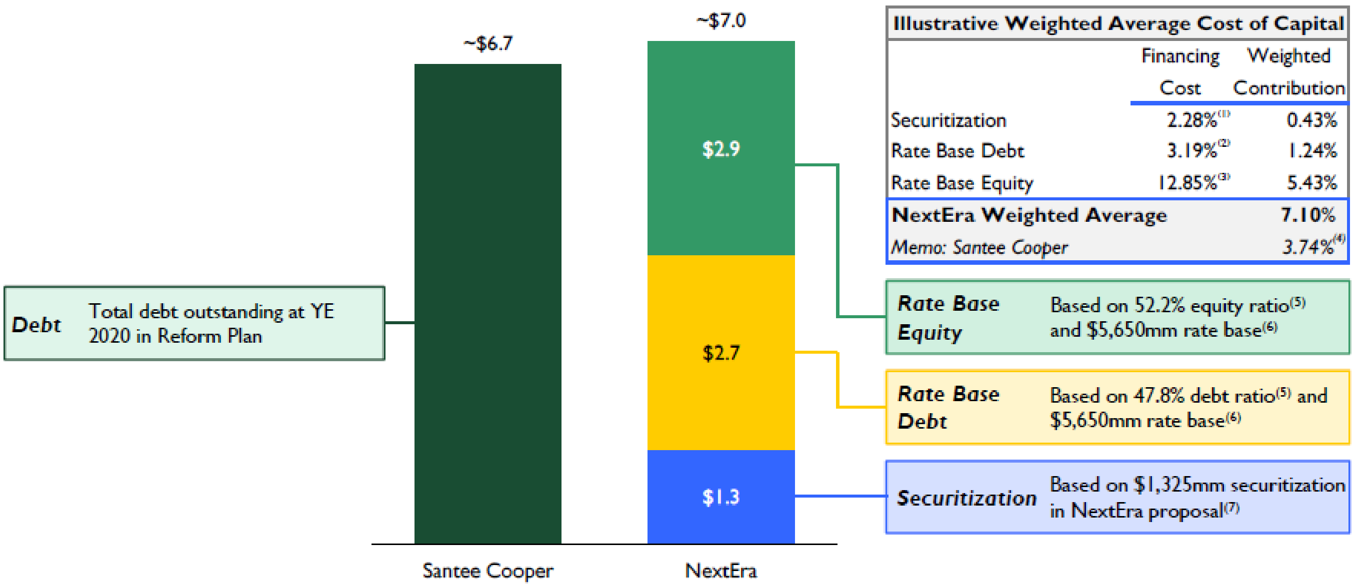
Santee Cooper is financed this way. The "system" is the sum total of both electric and water assets, and this lien on revenues is in fact a first lien. The significance of this "system" approach to financing (as opposed to a "project", or asset by asset approach) is that **parts and pieces of the "system" cannot be severed from the whole (thus losing the revenues therefrom) without injuring the security (revenues) which backs all the borrowings**. For instance, Santee Cooper has an opinion of bond counsel (bond counsel represents the bondholders, not Santee Cooper) that major asset classes like the transmission or generation sub-systems could not be severed from the greater Santee Cooper system without paying off <u>all</u> outstanding debt of the entire system. We addressed this issue in response to a request from a member of the General Assembly, and that response is attached.

Santee Cooper's status as a publicly owned, governmental entity, allows it to enjoy and use the benefits of tax-exempt borrowing, a benefit that is passed down to Santee Cooper's customers. "Tax-exempt" means the interest on such borrowings is not subject to federal income taxation, which of course tends to reduce the cost of borrowing. This is a tax privilege granted to governmental entities, but it is <u>not,</u> by and large, granted to their private investor-owned counterparts. They enjoy other tax benefits. Santee Cooper's unique status enables it to keep the costs of capital lower than it otherwise would be if Santee Cooper were a private entity.

Loss of the tax privilege granted to Santee Cooper as a public entity would likely require recapitalization of the company. This replacement capital would likely be a combination of stocks and new, different debt, both of which would tend to be higher cost than the tax-exempt debt they replace. To suggest that any Santee Cooper debt obligations simply “go away” is to infer they never come back. They may change form, but it is unlikely they disappear. For instance, NextEra’s own proposal of 2020 (per an analysis by Centerview Partners in February 2020) is illustrated below, and it seems clear their proposal was simply to replace Santee Cooper’s capital with a higher cost mix of stock and new debt instruments.

Santee Cooper vs. NextEra Financing Obligations and Costs

Projected Financing Obligations (2020E)



Illustrative Weighted Average Cost of Capital	Financing Cost	Weighted Contribution
Securitization	2.28%[1]	0.43%
Rate Base Debt	3.19%[2]	1.24%
Rate Base Equity	12.85%[3]	5.43%
NextEra Weighted Average		**7.10%**
Memo: Santee Cooper		*3.74%*[4]

Note: NextEra figures based on DOA report published on February 11, 2020 and NextEra “Sale Proposal” published on its investor relations website.
(1) Calculated as 10-Year Treasury Rate + 73bps. Treasury rate of 1.55% as of February 18, 2020. 73bps represents the spread to treasury for securitized debt in NextEra’s bid (disclosed on page 17 of the NextEra sale proposal).
(2) Reflects normalized interest rate for NextEra rate base debt (disclosed on page 77 of DOA report).
(3) Based on allowed ROE of 10.2% from NextEra bid (disclosed on page 90 of DOA report). Cost to ratepayer includes recovery of federal and state corporate tax on the ROE (21% and 5%, respectively).
(4) Reflects average yield to call on Santee Cooper debt.
(5) From NextEra bid (disclosed on page 90 of DOA report).
(6) From NextEra bid (disclosed on page 14 of DOA report).
(7) From NextEra bid (disclosed on page 15 of NextEra sale proposal).

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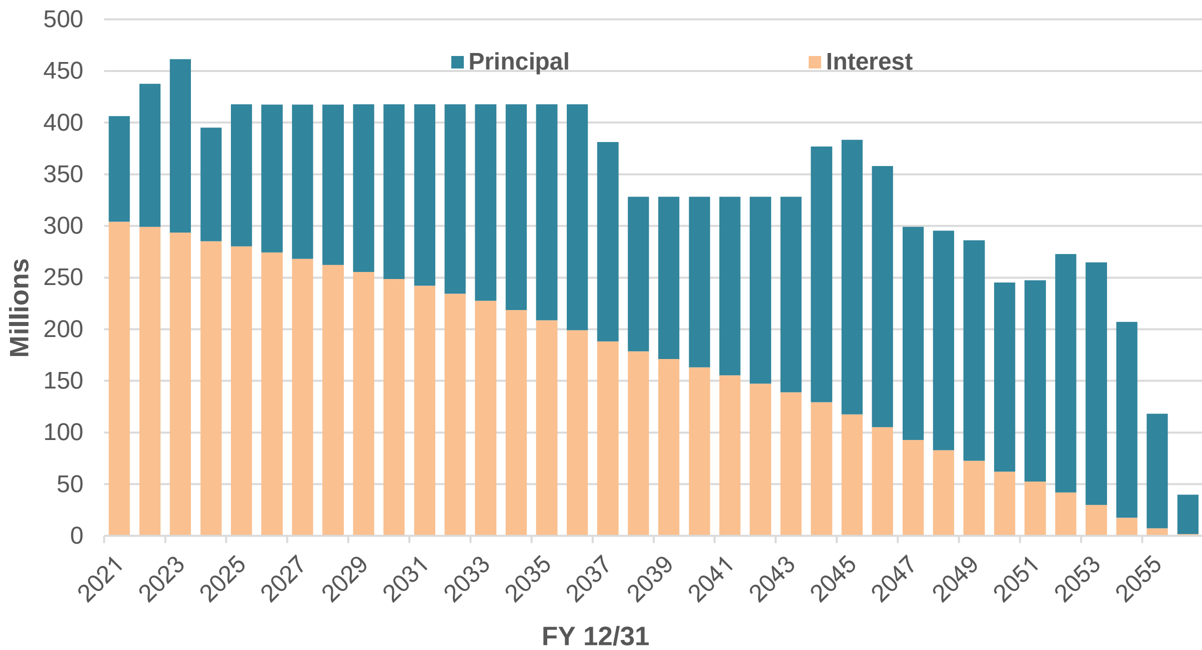
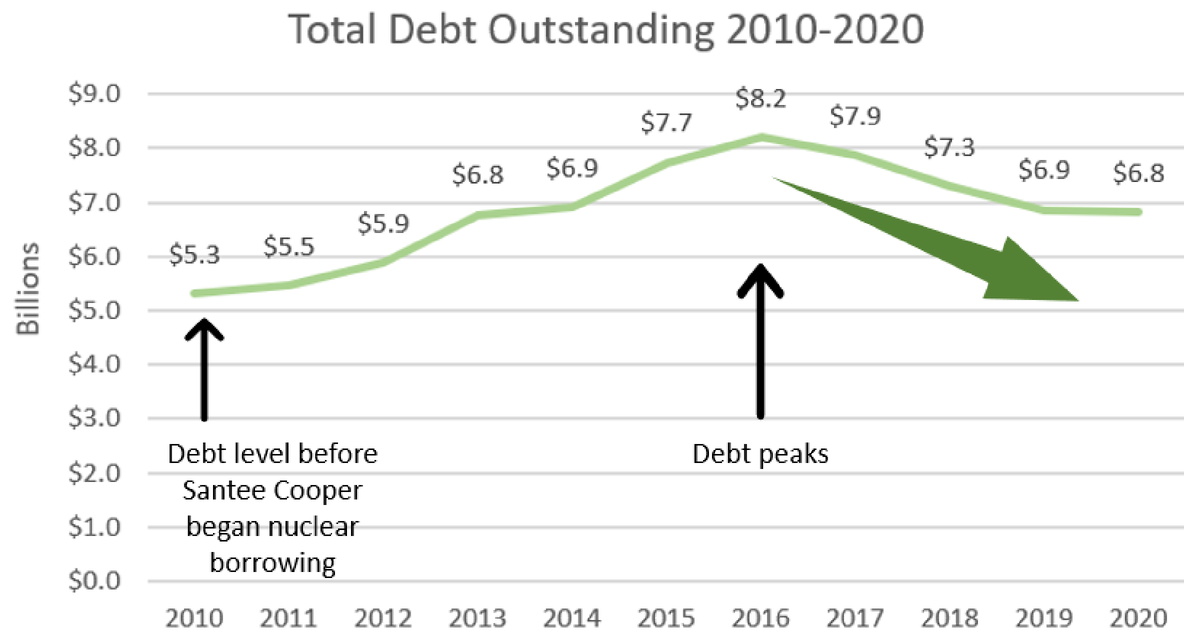
Santee Cooper’s cost of capital tends to be lower than an IOU’s, and is also more stable and predictable. It is not influenced by expectations of stock market returns, as Santee Cooper has no stock. Moreover, Santee Cooper uses a “mortgage style” repayment structure of principal and interest over the life of its debt. This repayment structure (level debt service) provides for consistent, predictable debt service payments year-to-year, regular paydown of principal, and cost stability for customers. Santee Cooper’s current debt repayment schedule, which is already reflected in Santee Cooper’s prices, is illustrated below, and you can see that not only is there heavy principal payoff throughout the schedule, but also total P&I debt service is basically flat through the mid-2030’s, and thereafter declines. The average life of this debt is 18.5 years.



This chart does not include principal payments in 2023 for which Santee Cooper will set aside funds in March 2021.

It is true that Santee Cooper – or any utility for that matter – will have needs periodically for new borrowings. This is because equipment wears out and needs to be replaced, and of course system growth may necessitate system expansion. However; **Santee Cooper is now retiring old debt more rapidly than it has need for new debt, and thus total debt is decreasing, not increasing**. This is illustrated in the chart below, taken from Santee Cooper's published balance sheets from 2010-2020. This shows that Santee Cooper debt grew from 2010 to its peak in 2016 by $2.9 billion predominantly as a result of the nuclear project, and thereafter has steadily declined $1.4 billion by the end of 2020. Given heavy principal amortization already embedded in the debt repayment schedule of Santee Cooper, and assumed refinancing savings, debt is forecast to decline to 2010 levels in the latter 2020's.



In conclusion,

- The security of Santee Cooper's bondholders depends, in large part, on whether Santee Cooper remains intact as a "system". For instance, Santee Cooper has an opinion of bond counsel (Bond Counsel, represents the bondholders, not Santee Cooper) that major asset classes like the transmission or generation sub-systems could not be severed from the greater Santee Cooper system without paying off <u>all</u> outstanding debt of the entire system.
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