South Carolina Public Service Authority (Santee Cooper), South Carolina

Utility System Revenue Obligations

Full Rating Report

Ratings

Outstanding Debt

$7,407,328,000 Revenue Obligations	A+

Rating Outlook

Stable

Key Utility Statistics

Fiscal Year Ended 12/31/16

Electric System Type	Retail
NERC Region	SERC
No. of Retail Customers	176,775
Annual Revenues ($ Mil.)	1,745.7
Top User (% of Combined Revenues)	57.6
Primary Fuel Source	Coal
Peak Demand (MW)	4,819
Energy Growth (%)	(3.0)
Debt Service Coverage (x)	1.40
Days Operating Cash	255
Equity/Capitalization (%)	19.0

NERC – North American Electric Reliability Corporation.
SERC – Southeastern Reliability Council.

Related Research

Fitch Downgrades SCANA to 'BB+'/SCE&G to 'BBB–''; Negative Watch Maintained (September 2017)

Fitch: Closure of Nuclear Plant Limits Risks for US Public Power (August 2017)

2017 Fitch Analytical Comparative Tool (FACT) — Public Power (June 2017)

U.S. Public Power (Peer Review) (June 2017)

Fitch Places Santee Cooper Rev Obligations on Rating Watch Negative (February 2017)

2017 Outlook: U.S. Public Power and Electric Cooperative Sector (December 2016)

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Key Rating Drivers

Outlook to Stable on Nuclear Suspension: The removal from Negative Watch and the assignment of a Stable Outlook reflect Fitch Ratings' view that South Carolina Public Service Authority's (Santee Cooper or the authority) decision to suspend nuclear construction will limit near-term credit risk and capital requirements, as well as Fitch's expectation that disciplined rate-setting will support financial performance. Lower than anticipated energy needs and lower cost of alternative generation should help stabilize margins and reduce leverage over time.

Statewide Utility: Santee Cooper is one of the nation's largest municipal wholesale systems, serving, either directly or indirectly, customers spanning all 46 counties within the state of South Carolina (long-term Issuer Default Rating AAA/Stable). Central Electric Cooperative Inc. (Central) is the largest of Santee Cooper's six wholesale customers with a long-term (2058) all requirements power sales agreement, and has actively participated in the decision to suspend nuclear construction.

Rate Increases Offset by Settlement Funds: Santee Cooper's rates are currently competitive with surrounding suppliers in the state. However, rate pressure could build as a result of legislative and regulatory scrutiny over the nuclear suspension. Santee Cooper expects it will not need additional rate increases in fiscals 2018 and 2019, given the planned use of settlement proceeds to pay debt service during the next four years.

Stabilized Financial Performance: The authority's financial plan indicates financial margins supportive of the 'A+' rating. Debt service coverage (DSC) should remain at or above Santee Cooper's 1.4x target and above Fitch's category median. Leverage is high, with net debt to funds available for debt service (FADS) at 13.1x in fiscal 2016, but should trend below 9.0x with reduced capital requirements and no new debt expected over the next five years.

Sufficient Power Supply: Load growth is projected to average less than 1% annually, following the loss of sizable industrial load in 2016 and Central's ongoing transition of designated load away from the authority through 2019. Current generation resources appear sufficient, with no additional capacity needed through 2025.

Continued Rate Autonomy Assumed: Fitch's rating assumes the intense legislative and regulatory climate in South Carolina resulting from the decision to suspend nuclear construction at Summer Units 2 and 3 will not hamper or alter Santee Cooper's autonomous rate authority or ability to recover sufficient revenues to support current DSC and leverage.

Rating Sensitivities

Declining Margins or Increased Leverage: Sustained declines in Santee Cooper's projected financial margins, an uptick in leverage that results from the avoidance of rate increases or higher than expected additional debt could prompt a rating downgrade. The Stable Outlook reflects Fitch's expectation that this is unlikely in the next two years, even given the ongoing intense legislative and regulatory scrutiny surrounding Santee Cooper's decision to suspend nuclear construction.

Rating History

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	10/25/17
A+	Affirmed	RWN	2/17/17
A+	Affirmed	Stable	6/24/16
A+	Affirmed	Stable	12/10/15
A+	Affirmed	Stable	2/5/15
A+	Affirmed	Stable	10/9/14
A+	Downgrade	Stable	6/5/14
AA–	Affirmed	Negative	7/18/13
AA–	Affirmed	Stable	3/27/12
AA–	Downgrade	Stable	1/10/12
AA	Affirmed	Stable	9/9/11
AA	Affirmed	Stable	12/2/10
AA	Affirmed	Stable	10/16/09
AA	Affirmed	Stable	10/20/08
AA	Affirmed	Stable	9/19/07
AA	Affirmed	Stable	11/16/06
AA	Affirmed	Stable	11/16/05
AA	Affirmed	Negative	12/17/04
AA	Upgraded	Stable	7/22/98
AA–	Upgraded	Stable	9/26/95
A+	Assigned	Stable	9/18/92

RWN – Rating Watch Negative.
Source: Fitch.

Related Criteria

Rating Criteria for Public Sector Revenue-Supported Debt (June 2017)

U.S. Public Power Rating Criteria (May 2015)

Credit Profile

Santee Cooper is a state agency that provides electric service to a population of approximately two million, spanning parts of all 46 counties in South Carolina. The authority is governed by a 12-member board of directors appointed by the governor and confirmed by the state senate. Santee Cooper's enabling legislation gives its board the power to set rates sufficient to provide for all expenses, including principal and interest on indebtedness. The authority currently provides retail electric service directly to 176,775 retail customer accounts and 26 large industrial customers, and wholesale service to six customers. Wholesale service provides 65% of total revenue.

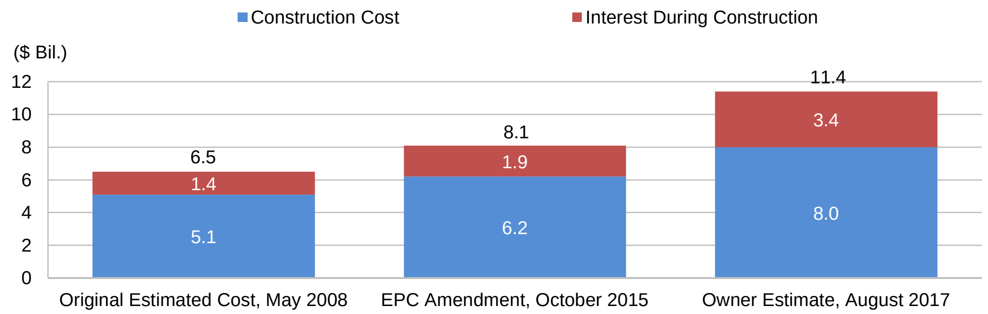
Recent Credit Developments

Rating Outlook Returned to Stable

Fitch placed Santee Cooper's long-term rating on Negative Rating Watch on Feb. 17, 2017. The action reflected the heightened credit risk posed by the weakened credit profile of Toshiba Corp., as the majority owner of the project's primary contractor, Westinghouse Electric Co. Toshiba guaranteed certain Westinghouse obligations, so the weakened credit profile had the potential to negatively affect construction and completion of Summer Units 2 and 3 being undertaken by South Carolina Electric & Gas Co. (SCE&G; 55%) and Santee Cooper (45%).

Santee Cooper's board of directors voted on July 31, 2017 to suspend construction. By that time, Santee Cooper spent $4.3 billion, and construction of the plant was 36% complete, with engineering and procurement efforts both over 90% complete. The decision followed Santee Cooper and SCE&G's review of the project cost and timeline following Westinghouse Electric Co. filing for Chapter 11 protection in the U.S. in March 2017. The outcome of Santee Cooper's analysis indicated the cost to complete Summer Units 2 and 3 would be $8.0 billion in construction costs, or $11.4 billion including financing costs, with a final completion date in 2023.

Santee Cooper Estimated Share of Units 2 and 3



EPC – Engineering, procurement and construction.
Source: Santee Cooper.

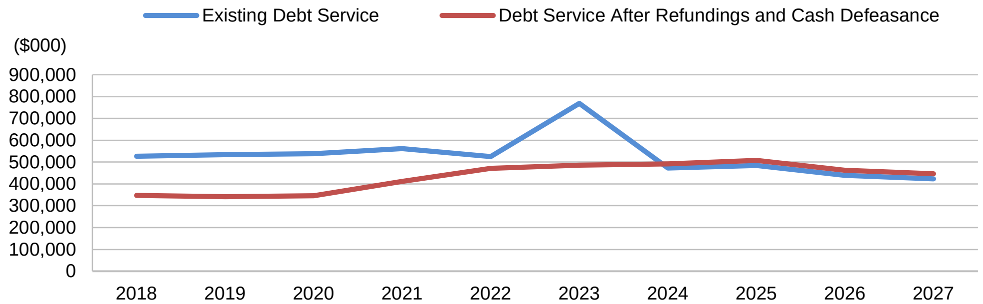
The decision to suspend construction reflects revised cost and timeline estimates considered in the context of developments since the original decision to proceed. Specifically, Santee Cooper's load profile decreased such that even with the suspension of nuclear construction, existing generation resources are expected to be sufficient through 2025. Next generation options considered as part of Santee Cooper's analysis are projected to be less expensive than completion of the nuclear unit. Management expects the wind-down at the construction site to continue through 2018 at a cost to Santee Cooper of $68 million through 2018 and $5 million annually thereafter. No assumptions regarding any equipment sales or salvage values are included in the financial projections.

Settlement Funds Offset Debt Service Payments

SCE&G and Santee Cooper negotiated a settlement agreement with Toshiba regarding obligations under its parental guaranty of certain Westinghouse obligations. Toshiba agreed to pay Santee Cooper $975.6 million over five years. Santee Cooper sold the Toshiba receivable and received $898.7 million in return. The sale of the receivable resolves the credit uncertainty related to receipt of payments from Toshiba over the next five years.

Santee Cooper plans to use the Toshiba settlement funds and approximately $200 million in existing reserves to pay a portion of debt service during fiscals 2018–2024 and defease debt, as estimated in the *Revised Debt Service Schedule* chart below. Fitch views the use of a portion of the funds to pay annual scheduled debt service over the next six years as a less financially conservative use of funds from a credit perspective than using the full settlement amount to reduce outstanding principal. However, the decision allows Santee Cooper to mitigate higher debt service payments structured in the existing debt service schedule, and removes the need for additional rate increases in fiscals 2018 and 2019. The timing of the next rate increase has not been determined.

Revised Debt Service Schedule



Note: Excludes CP and new debt issuance.
Source: Santee Cooper.

Legislative and Regulatory Scrutiny of Decision

The decision to suspend nuclear construction ignited controversy across the state and drew the scrutiny of legislators and regulators. If such scrutiny results in any type of financial constraint or the introduction of additional procedural hurdles to Santee Cooper's independent rate authority, credit quality could be weakened.

Legislation was introduced in the South Carolina House legislature (House Bill 4376) that proposes to reconstitute the Santee Cooper board of directors and require future rates to be subject to South Carolina Public Service Commission approval, and prohibits any new rates or changes from being imposed for the repayment of costs associated with the abandoned nuclear construction. However, some protection is afforded by language that states in all cases the electric rates must be sufficient to pay required debt service on all bonds and indebtedness of the authority.

Despite the proposed legislation, Fitch views disruption to Santee Cooper's statutory, autonomous rate-setting authority as unlikely at this time, and such a change in law is not reflected in the rating. However, the by-product of the current environment could pressure Santee Cooper to keep rates as low as possible within its autonomous rate authority at the expense of financial margins. Fitch's rating assumes the board will act to preserve the utility's current financial profile for bondholders.

Fitch views proposals regarding the sale of Santee Cooper as credit neutral to bondholders, given the expectation that privatization would require the repayment or defeasance of all outstanding debt obligations.

Governance and Management

A 12-member board of directors appointed by the governor, with confirmation by the state senate, governs the authority. One board member must be chosen from each of the state's seven congressional districts and the three counties being served on a retail basis — Berkeley, Horry and Georgetown Counties. The balance of the board, which includes the chairman, is chosen on at large. Members serve staggered seven-year terms and continue absent the appointment of a successor. Expiration of terms applicable to all 12 current members occurs in 2018 at the earliest, extending through 2023.

Full rate-setting authority rests with the board, as does the appointment of the authority's president and CEO, who in turn is responsible for the appointment of the utility's executive management team. Following the decision to suspend construction, Santee Cooper's long-term CEO, Lonnie Carter, announced his retirement. He continued to serve as CEO until Oct. 6, 2017, when the board appointed an interim CEO, James Brogdon, who retired from Santee Cooper in 2014 after serving as general counsel and executive vice president. A national search for a permanent CEO is underway. The board simultaneously named Marc Tye COO. He previously served as the executive vice president of competitive markets and generation.

Customer Profile and Service Area

Santee Cooper serves an exceptionally broad, primarily stable service territory that extends to 2 million people in South Carolina, in parts of all 46 counties in the state. Through its wholesale agreements, Santee Cooper serves both rural areas and developed suburban areas. Under state law, the authority has the exclusive right to provide retail electric service to its retail customers and the rights to serve the existing industrial customers located outside that assigned territory. The authority is allowed to serve to new wholesale or industrial customers if it has excess power resulting from the discontinuation of service by existing customers.

Central Electric Cooperative Accounts for Most Wholesale Sales

Central remains by far the largest of five all-requirements wholesale customers, and accounts for 60% of total revenues. Central, which is made up of 20 small, mostly residential distribution cooperatives operating throughout the state, is served by the authority pursuant to a long-term wholesale agreement that extends to 2058 following a revision to the agreement in 2013. Central's 20 members have all-requirements contracts with Central that extend through 2058.

Fitch views the long duration of the wholesale agreement favorably, as it provides long-term operating stability to the authority. The contract extension enabled Santee Cooper to begin extending final debt maturities beyond the original contract termination debt of 2030. The 2013 contract amendment also introduced key changes to resource planning that allow Central to determine whether or not it participates in any new generation resources constructed by the authority in the future.

Prior to the 2013 contract amendment, there was an important 2009 agreement that permitted Central to begin purchasing a fixed portion of its load requirements from Duke Energy Corp. beginning in 2013, with the full amount transitioned away from the authority by the end of 2019. The load is associated with five cooperatives that formerly purchased energy from Duke prior to joining Central in 2008 that remain physically connected to Duke's transmission system. Fitch estimates the agreement results in an approximately 10% net reduction in Central's energy purchases from Santee Cooper at the end of 2019. The agreement flattened the authority's projected long-term energy needs.

The authority also serves the cities of Georgetown, Bamberg, Seneca and Waynesville, SC, on a wholesale basis, pursuant to agreements that expire between 2023 and 2033. The most recent of these customers are the city of Seneca (service began July 2015) and the city of Waynesville (service began January 2017). The authority also has wholesale power agreements with Piedmont Municipal Power Agency and Alabama Municipal Electric Authority for specific amounts of energy; these are not all-requirements contracts.

Energy Sales and Revenue Information

	2011	2012	2013	2014	2015	2016	Five-Year CAGR (%)
Retail Customers	164,680	166,842	168,846	171,599	174,054	176,775	—
Peak Demand (MW)	5,697	5,407	5,053	5,696	5,869	4,819	—
Wholesale Sales (GWh)	16,263	15,604	15,246	16,151	15,307	15,342	(1.2)
Retail Sales (GWh)	3,845	3,643	3,697	3,859	3,852	3,874	0.2
Industrial Sales (GWh)	7,443	7,509	7,421	7,343	7,339	4,484	(9.6)
Total Electric Sales (GWh)	27,551	26,756	26,364	27,353	26,498	23,700	(3.0)
Sales Growth (%)	(2.2)	(2.9)	(1.5)	3.8	(3.1)	(10.6)	—
Retail GWh Sales (%)	14	14	14	14	15	16	—
Direct Industrial GWh Sales (%)	27	28	28	27	28	19	—
Wholesale GWh Sales (%)	59	58	58	59	58	65	—
Wholesale Revenues ($000)	1,129,445	1,144,223	1,058,943	1,181,350	1,121,325	1,080,946	(0.9)
Retail Revenues ($000)	350,093	334,843	356,040	394,683	381,527	406,770	3.0
Industrial Revenues ($000)	415,309	389,742	381,689	399,817	354,148	234,463	(10.8)
Total Revenues ($000)	1,894,847	1,868,808	1,796,672	1,975,850	1,857,000	1,722,179	(1.9)
Wholesale Revenues (%)	60	61	59	60	60	63	—
Retail Revenues (%)	18	18	20	20	21	24	—
Industrial Revenues (%)	22	21	21	20	19	14	—

GWh – Gigawatt-hours.
Source: Santee Cooper.

The authority's retail customer base is considerably more diverse, made up primarily of 176,000 residential, commercial and small industrial customers, and 26 large industrial customers. Revenue and energy sales attributable to these segments accounted for about 37% and 35%, respectively, of operating revenues and energy sales in fiscal 2016. Retail sales were relatively flat while energy sales to industrial customers declined by 39% in 2016.

Total energy sales declined in four of the prior five fiscal years, prompting a negative average annual growth rate of 3.0% since 2011. The weakening wholesale sales reflect the agreement with Central to transition a portion of its load to another supply. While not unlike growth trends experienced both regionally and nationally, the authority's declining sales were a driver of the authority's decision to halt construction of Summer Units 2 and 3. The load forecast projections in 2006 and 2008, when initial decisions were made to move forward with the construction at Summer Units 2 and 3, looked significantly higher than current load forecasts.

Decline in Industrial Sales in 2016

Santee Cooper makes direct sales to 26 industrial customers. Century Aluminum Co. was historically the largest of the nine industrial customers. Century accounted for 7.2% of total revenues in fiscal 2015, but declined to 1.8% in fiscal 2016. Nucor Corp. remained steady at 4.9% of total revenues in both years.

Century curtailed one of its two operating potlines (aluminum production lines) in 2016, which reduced its energy usage by around 50%. Santee Cooper executed a new contract with Century in February 2016 that allowed the company to further reduce its energy purchases from Santee Cooper in favor of purchasing energy from other market sources. The new contract requires Century to continue purchasing 25% of its energy needs from Santee Cooper through 2018, but the contract has a 60-day termination notice. Santee Cooper removed any assumed revenues from Century from its financial forecast in fiscal 2017 and beyond to be conservative.

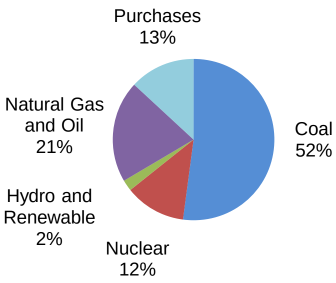
Stable Service Area Economy

The state's economic base continues to expand into the services industry, with the largest share of employment having moved into the trade, transportation and utilities sectors. Renewed growth in the state's already large manufacturing sector aided in moderating unemployment rates despite strong labor force gains. Volvo Car USA's construction of a $500 million manufacturing plant within Santee Cooper's service area should bode well for the state's economy. The 1,500-employee plant was announced in 2015 and should be completed in 2018. Santee Cooper will serve the facility indirectly through one of its wholesale customers.

South Carolina steadily added jobs since the most recent economic recession, at a pace that mirrored or exceeded the nation, resulting in an unemployment rate that improved to 4.5% as of August 2017, equal to the U.S. rate. The state's wealth levels remain below average. Revenue collection, despite lagging wealth indicators, is consistently near perfect, and electric rates remained generally affordable to the rate base.

Assets and Operations

2016 Energy Supply by Fuel Type



Source: Santee Cooper.

Generation ownership equal to 5,104 MW, together with 388 MW of firm hydroelectric output and 74 MW of biomass capacity, is generally sufficient to meet peak demand that declined to 4,810 MW in 2016 from 5,869 MW in 2015 due to lower Century load and declines in Central's purchases. Santee Cooper used short-term on-peak and off-peak purchase contracts through The Energy Authority to supplement its long-term generation resources.

Santee Cooper owns and operates 31 generating facilities. Coal-fired generation dominates the authority's portfolio of resources, accounting for nearly two-thirds of existing capacity and just over half of energy supplied in fiscal 2016. Natural gas-fired and nuclear generation combined accounted for about 32% and 33% of capacity and energy, respectively, in 2016.

Generation capacity of 5,104 MW in 2016 includes 565 MW of a coal-fired power plant (Cross Unit 2) that was idled in 2017. Santee Cooper made the decision to idle this plant, and retired 550 MW of its oldest coal- and oil-fired generating units in 2012 and 2015, in part due to the expectation that Summer Units 2 and 3 would be constructed and provide replacement generating capacity. Construction of Units 2 and 3 would have provided an additional 1,000 MW of generation capacity and would have placed Santee Cooper in a long position, even with the planned sale of 5% of total capacity to SCE&G. Last estimates before the unit suspension indicated Santee Cooper would have had over 600 MW of excess capacity in the years following nuclear completion, resulting in reserve margins over 26%.

With the suspension of Summer Units 2 and 3, generation looks to be sufficient through 2025, and Santee Cooper will not be in a significantly excess position beyond its load requirements and a 15% reserve margin. Santee Cooper expects to potentially un-idle Cross 2 after 2025, which could be done in a two-year time frame at an estimated cost of $120 million–$150 million. Another option Santee Cooper may pursue as it approaches 2025 is the construction of a combined-cycle natural gas unit, with an assumed construction period of 4–5 years. During its decision process regarding whether to continue construction on Summer Units 2 and 3, both options were considered and provided a lower cost over time to Santee Cooper's ratepayers than continuing with construction of Summer Units 2 and 3, based on a number of assumption scenarios, including potential future carbon regulations.

Generating Facilities and Operating Performance — Santee Cooper

Plant	Fuel Type	% Interest	Capacity (MW)	Operation Date
Jefferies Hydro Station	Hydro	100	134	1942
Wilson Dam Station	Hydro	N.A.	2	1950
Combustion Turbines				
Nos. 1 and 2	Oil/Gas	100	16	1962
Nos. 3 and 4	Oil	100	19	1972
Combustion Turbine Unit 5	Oil	100	21	1976
Combustion Turbine Unit 1	Oil	100	16	1973
Combustion Turbine Unit 2	Oil	100	16	1974
Combustion Turbine Unit 3	Oil	100	52	1979
Winyah Generating Station				
No. 1	Coal	100	275	1975
No. 2	Coal	100	285	1977
No. 3	Coal	100	285	1980
No. 4	Coal	100	285	1981
Summer Nuclear Unit 1	Nuclear	33.3	322	1983
Cross Generating Station				
Unit 1	Coal	100	580	1995
Unit 2	Coal	100	565	1983
Unit 3	Coal	100	610	2007
Unit 4	Coal	100	615	2008
Various Landfill Gas	LMG	100	29	2001–2011
Rainey Generating Station				
Unit 1	Gas	100	460	2002
Unit 2A and 2B	Gas	100	292	2002
Units 3, 4 and 5	Gas	100	225	2004
Total			**5,104**	

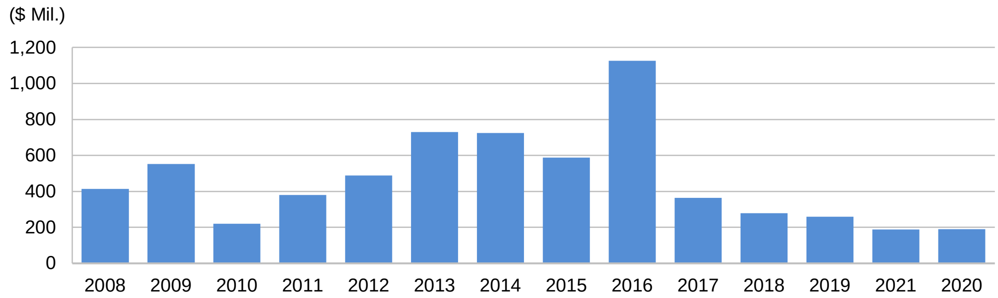
N.A. – Not applicable. LMG – Landfill methane gas.
Source: Santee Cooper.

Capital Program and Debt Profile

Capex Considerably Reduced

The authority's capital plan was radically reduced as a result of its decision to abandon nuclear construction. At the time of the last Fitch review, Santee Cooper's capital program was estimated at $5.9 billion through 2025. In comparison, capital spending is now projected at $2.5 billion over 2018–2027. Environmental compliance accounts for only around $300 million of this total. This $300 million is expected to be debt financed while the remainder of capex will be funded from revenues.

Capex



EPC – Engineering, procurement and construction.
Source: Santee Cooper.

Debt Profile

Santee Cooper's leverage ratios steadily increased since beginning construction of the nuclear units in 2008. The issuance of more than $4.3 billion to date to fund nuclear construction costs increased the authority's total debt outstanding by more than 50%, weakening the ratios of net adjusted debt to adjusted FADS and debt as a percentage of capitalization to 13.1x and 81%, respectively, at fiscal year-end 2016. Fitch's median ratios for the rating category are 6.7x and 84%, respectively.

This upward trend in leverage, as measured by net adjusted debt/adjusted FADS will reverse with Santee Cooper's decision to abandon nuclear construction, although leverage levels will remain high for the foreseeable future. Prior to Westinghouse's bankruptcy declaration, Santee Cooper expected to borrow an additional $3.3 billion in debt over the next five years. Santee Cooper's current capital improvement plan estimates capital spending will total $1.3 billion over the next five years, only $390 million of which will be debt financed.

The entirety of Santee Cooper's $8.1 billion of outstanding revenue obligations at the close of fiscal 2016 was issued as fixed-rate debt. Debt service related to outstanding revenue obligations steadily increases over the next several years before peaking at $572.2 million in 2021. Annual debt service declines thereafter, notwithstanding a bullet payment in 2023 related to the recently issued series 2016D bonds. The bullet maturity was structured to allow Santee Cooper to use expected sale proceeds from SCE&G for the 5% ownership of Summer Nuclear Units 2 and 3 to pay this maturity. Management now intends to refinance the bullet as long-term debt, and the impact of this refinancing is included in the financial forecast.

Santee Cooper contributes to the state's pension plan on behalf of its 1,762 employees. Annual contributions are minimal, equal to less than 1% of total revenue. The net pension liability attributable to Santee Cooper totaled $324.9 million in fiscal 2016, equal to just 4% of the authority's total debt and long-term liability burden. Current and long-term obligations related to post-employment benefits offered by the authority are similarly negligible.

Cost Structure

Santee Cooper's autonomous rate-setting authority, competitive rates and timely cost recovery support the rating. Rate-setting authority rests solely with the board. The authority also employs automatic fuel and demand sales adjustments clauses monthly in wholesale and retail rates to reflect the variability in fuel costs and changes in nonfirm sales.

Rates to wholesale customers, including Central, are subject to the automatic monthly fuel cost adjustment mechanism, and fuel accounts for over 60% of rates. The remaining nonfuel costs — including operating expenditures, debt service and a capital improvement fund charge — are established annually.

Retail rates also include an automatic monthly fuel cost adjustment mechanism, adjusted according to actual fuel costs, when actual costs differ from the predetermined cost assumed within the base rates. Retail rates also include a demand sales adjustment clause that recovers or returns any difference in nonfirm and off-system energy sales when revenues differ from amounts assumed in base rates. This is an important structural feature because the authority offers nonfirm rates to industrial customers to encourage peak shaving. The authority had 785 MW of nonfirm power under contract in 2015.

Quickly after the authority announced its decision to halt nuclear construction, Santee Cooper withdrew two already-approved retail rate increases averaging 3.7% in each of fiscals 2018 and 2019. Each rate increase would have generated approximately $24 million in annual revenues. The board's rationale was that the rate increases were designed to pay costs related to the nuclear construction, which is now suspended. The authority now projects no retail rate increases will be needed in fiscals 2018 and 2019. This is driven in large part by the use of Toshiba settlement funds to pay a share of debt service costs during those years.

According to U.S. Energy Information Administration data, Santee Cooper's total average revenue per kWh was 9.87 cents per kWh in 2015, in line with the state average of 9.58 cents per kWh. However, rate competitiveness is tempered by the negative rate climate in the state.

Retail Base Rate Adjustments

	Adjustments (%)
2009	3.40
2010	—
2011	—
2012	3.50
2013	3.50
2014	—
2015	—
2016	5.34
2017	2.09

Note: Does not reflect movement in fuel cost adjustment or annual changes to wholesale rates.
Source: Santee Cooper.

Financial Performance and Legal Provisions

The authority has financial targets that include minimum DSC of 1.4x, days cash on hand of six months and days liquidity in excess of one year, and debt to capitalization that will decline to around 70% from the current 80%. Financial margins weakened from historical levels in fiscal 2012 after nuclear construction began in earnest, and energy sales began to soften slightly after the recession. Margins remained lower than historical levels, but still supportive of the 'A+' rating since that time.

Fitch-calculated DSC was 1.4x or higher during three of the last four years. Coverage after incorporating an annual distribution made to the state and payments in lieu of taxes to local governments was satisfactory at 1.25x or higher in all of the last four years. Payments to the state and local governments accounted for a modest 1.4% of total utility income in fiscal 2016, and are made after satisfying debt service obligations pursuant to the bond indenture.

Liquidity improved, although this reflected the ramp-up in nuclear construction that necessitated higher cash and liquidity levels. Days cash on hand and days liquidity, including unused capacity available under revolving credit agreements, were robust at the end of fiscal 2016, at 255 days and 395 days, respectively. Liquidity levels are expected to decline slightly,

2017 Fitch Medians

(x)	A+ Wholesale Category	Santee Cooper 2016 Results
Debt Service Coverage	1.26	1.40
Coverage of Full Obligations	1.21	1.32
Days Cash on Hand	133	255
Days Liquidity on Hand	261	395
Net Adjusted Debt/Adjusted FADS	6.7	13.1
Equity/ Capitalization (%)	16.3	19.0

FADS – Funds available for debt service.
Source: Fitch.

as the authority expects to use around $200 million in reserves to pay debt service and defease debt. Lower liquidity in light of the much smaller capital program should remain adequate for the rating.

Issuer's Financial Forecast

The authority's latest financial forecast, provided in September 2017, assumes the abandonment of nuclear construction and receipt of Toshiba settlement funds prior to fiscal year-end 2017. The forecast shows DSC remaining at or above the authority's internal target of 1.4x and includes reasonable energy sales assumptions of less than 1% growth annually. Additional planning assumptions appear reasonable and include: no salvage value for nuclear equipment or sale of Summer Units 2 and 3; site wind-down costs are included; no retail rate increases in fiscals 2018 and 2019; no sales to Century; and costs related to the potential decision to un-idle Cross 2 in 2026 and included in the out years of the 2018–2027 financial pro forma. With planned margins, debt amortization and limited new debt issuance, leverage is projected to decline to below 9.0x debt/FADS by the end of the next five years.

Legal Provisions

Security

Outstanding parity bonds are payable from net revenues from the operation of the authority's electric system.

Rate Covenant

The bond resolution requires the establishment of rates sufficient to provide net revenues equal to 100% of total annual debt service requirements.

Capital Improvement Fund Requirement

The bond resolution requires maintenance of a capital improvement fund equal to no less than 8% of the revenue amount required by the rate covenant over a rolling three-year average.

Debt Service Reserve

The bonds are not supported by a debt service reserve fund.

Financial Summary — South Carolina Public Service Authority (Santee Cooper), South Carolina

($000, Audited Years Ended Dec. 31)	2012	2013	2014	2015	2016
Debt Service Coverage (DSC) (x)					
DSC	1.26	1.44	1.52	1.29	1.40
Coverage of Full Obligations (PP as D/S and Transfer/PILOT/Dividend as O&M Expense)	1.19	1.33	1.40	1.22	1.32
Liquidity Metrics					
Days Cash and Investments on Hand	144	197	178	180	255
Days Liquidity on Hand	244	317	278	251	395
Leverage Metrics (%)					
Debt/FADS (x)	11.3	13.2	11.8	13.6	14.5
Adjusted Debt (Including PP Adjusted)/Adjusted FADS (Including PP Adjusted) (x)	11.0	12.6	11.4	13.1	14.1
Net Debt/Net Capital Assets	93.2	98.3	94.1	82.1	85.3
Equity/Capitalization	24.5	22.7	23.1	19.4	19.0
Debt/Capitalization	75.5	77.3	76.9	80.6	81.0
Adjusted Debt/Capitalization	76.6	78.6	78.2	81.5	81.6
Other Financial and Operating Metrics					
Operating Margin (%)	16.8	16.1	18.9	20.1	21.2
Wholesale Electric Revenue/MWh ($/MWh)	73.3	69.5	73.1	73.3	70.4
Retail Electric Revenue/kWh (Cents/kWh)	6.5	6.6	7.1	6.6	7.7
Transfer and PILOT and Tax/Total Operating Revenue	1.3	1.4	1.3	1.4	1.4
Capex/D&A (%)	233.4	324.0	369.4	295.3	549.1
Debt Service/Cash Operating Expenses (%)	23.9	22.1	22.0	26.0	26.7
Income Statement					
Total Operating Revenue	1,887,797	1,816,576	1,997,347	1,879,553	1,745,657
Total Operating Expense	1,571,480	1,524,182	1,619,224	1,502,488	1,374,942
Operating Income	**316,317**	**292,394**	**378,123**	**377,065**	**370,715**
Adjustment to Operating Income for Deferred Revenue	214,087	229,257	225,318	208,078	218,130
FADS	538,536	529,137	610,983	592,702	596,420
Total Annual Debt Service	428,706	367,824	402,452	457,818	425,571
Balance Sheet					
Unrestricted Funds (Cash and Liquid Investments)	538,644	699,322	692,112	644,533	816,738
Restricted Funds	730,179	1,055,700	1,248,190	1,461,047	1,011,190
Total Net Assets/Member's Equity	1,974,583	2,040,127	2,168,463	1,941,790	2,030,336
Total Debt	**6,077,444**	**6,962,123**	**7,198,990**	**8,076,885**	**8,668,870**
Cash Flow Statement					
FCF (FADS – Transfer and PILOT – Total Annual Debt Service)	90,213	140,919	187,872	114,768	151,657
Capex	488,236	730,119	725,145	587,228	1,126,306
FCF Less Capex	**(398,023)**	**(589,200)**	**(537,273)**	**(472,460)**	**(974,649)**

PP – Purchased power. D/S – Debt service. PILOT – Payment in lieu of taxes. FADS – Funds available for debt service. D&A – Depreciation and amortization.
Source: Santee Cooper, Fitch.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.