

FITCH PLACES SANTEE COOPER (SC) REVENUE OBLIGATIONS ON RATING WATCH NEGATIVE

Fitch Ratings-Austin-07 March 2018: Fitch Ratings has placed the 'A+' long-term rating on \$7.4 billion revenue obligations issued by the South Carolina Public Service Authority, SC (Santee Cooper) on Rating Watch Negative.

The Negative Watch reflects concerns stemming from a legal claim made by Santee Cooper's largest customer, Central Electric Cooperative Inc., SC (Central) that disputes Santee Cooper's authority to bill Central for certain costs. Central asserts that Santee Cooper does not have the statutory authority or the ability under the Coordination Agreement (the long-term contract between Santee Cooper and Central) to recover costs related to the abandoned nuclear construction at Summer Units 2 and 3.

The 'A+' rating has, up to this point, reflected Fitch's view that Central has been an active participant in project-related decision making. The rating has further reflected Central's directly expressed support for Santee Cooper's decision to abandon nuclear construction and, by implication, the understanding that nuclear construction costs incurred would still need to be paid. Central's current claim that it is not obligated to pay those costs represents a material departure from Fitch's understanding.

Fitch's Rating Watch does not presume the outcome of the legal claim, but reflects what Fitch believes could be a degradation of Santee Cooper's financial flexibility in all of the potential outcomes, given the magnitude of Central's contribution to Santee Cooper's overall revenues. Fitch believes that while the litigation progresses, Santee Cooper may experience rate pressure that could lower financial margins, increase leverage and deplete liquidity more than was previously anticipated.

Fitch expects to address the Rating Watch in the next six months. While the legal claim is unlikely to be resolved during that timeframe, it should allow for further review of the complaints and an assessment of Central's reluctance to pay its share of costs related to Summer Units 2 and 3, as well as Santee Cooper's response. To the extent we determine that Santee Cooper's financial flexibility has diminished, Fitch expects to downgrade the rating, potentially by more than one-notch. In the longer term, a negative outcome that results from the legal claim, or a settlement to the legal claim, could have further decidedly adverse rating implications. The same is true for a broader legislative or legal change to Santee Cooper's rate autonomy.

For more information on South Carolina Public Service Authority, see the full rating report 'South Carolina Public Service Authority (Santee Cooper), South Carolina' dated Dec. 5, 2017, available at 'www.fitchratings.com'.

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Applicable Criteria

Rating Criteria for Public-Sector, Revenue-Supported Debt (pub. 26 Feb 2018)

<https://www.fitchratings.com/site/re/10020113>

U.S. Public Power Rating Criteria (pub. 18 May 2015)

<https://www.fitchratings.com/site/re/864007>

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