

ISSUER COMMENT

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RATINGS

South Carolina Public Service Authority	
Tax-exempt Revenue Bonds	A2
Outlook	Negative

Source: Moody's Investors Service

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South Carolina Public Service Authority

Cook litigation settlement is credit positive for Santee Cooper

On 20 July 2020, the South Carolina state circuit court approved a \$520 million settlement to end a class action lawsuit related to the abandonment of the construction of the V.C. Summer nuclear power plants Units 2 and 3 in 2017, through a joint venture between Santee Cooper and SCANA Corporation, which was subsequently acquired by Dominion Energy, Inc. (Dominion: Baa2 stable). The plaintiff's counsel estimated the \$520 million settlement represents 96% recovery of the costs incurred by the customer class through project abandonment.

Santee Cooper will cover \$200 million and Dominion will cover \$320 million of the total settlement payment. Further, per the terms of the settlement, Santee Cooper is required to hold rates for the substantial majority of its customers to levels reflected in the Reform Plan it submitted to the General Assembly in January of this year, for next four and a half years; an additional benefit to the customer class estimated by the plaintiff's counsel of roughly \$510 million.

The settlement is viewed as a positive development for Santee Cooper as it places an upper limit on the uncertainty associated with the lawsuit. As part of the settlement, Santee Cooper and Dominion resolved all disputes between them related to the V.C. Summer 2&3 project. The cash payments will be made over the next three years, with \$65 million in each of 2020 and 2021, and \$70 million in 2022, which helps alleviate the liquidity impact on the utility. As of December 31, 2019, Santee Cooper had \$481 million of unrestricted cash, corresponding to approximately 158 days cash. This level of liquidity is lower than the 333 three year days cash average for the 2016-2018 period, as a result of the \$360 million par debt defeasance using cash on hand during the year. Debt service coverage for FY 2019 when including the full \$200 million legal settlement liability dips from 1.32x, which is somewhat lower than the 1.45x 3-year average from 2016-2018, to 1.05x. However, while this impact on DSCR is fully realized in 2019, the actual cash outflows associated with the settlement will occur over a three year period, as delineated above.

Although the cash settlement negatively affects Santee Cooper's liquidity, the settlement will be paid out over three years, which alleviates the cash impact. Further, as part of its submitted reform plan, Santee Cooper had already projected not having any rate base adjustments through 2027 for retail customers. Since fuel costs have declined relative to what was previously considered in the reform plan, Santee Cooper anticipates the lower operating costs will help it mitigate the rate freeze impact over the next several years.

Also, the state court decision overruled all objections made to the final court order (78 opt-outs in total), which helps to bring closure to the litigation. Although any party that objected had 30 days to file an appeal, such action would not alter the finality or amount

of the settlement but rather the timing of the reimbursement, and/or an adjustment to the apportionment of the cash settlement among the various parties. Century Aluminum (Century) filed an objection which led to a settlement being reached whereby Century will receive a larger portion of the \$520 million common benefit fund. As such, a revised order was entered by the court on July 31, making August 31st, the new deadline to appeal. The Century settlement did not impact Santee Cooper's or Dominion's cash settlement.

While the settlement is a positive development, uncertainty still remains as to whether Santee Cooper will be reformed or sold. We expect this issue to be addressed during the General Assembly session that will begin in January 2021. If Santee Cooper were to be sold, it is fair to assume that South Carolina would include terms which guarantee that the utility's obligations under the settlement would be taken over by the purchasing party.

Moody's related publications

Credit Opinion:

[South Carolina Public Service Authority: Update to credit analysis, August 12, 2019](#)

[Dominion Energy, Inc.: Update to credit analysis, July 14, 2020](#)

Issuer Comment

[Report by the Department of Administration provides greater insight into Santee Cooper's future, February 26, 2020](#)

Issuer In-depth:

[South Carolina Public Service Authority: FAQ: What is next for Santee Cooper?](#)

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