

# South Carolina Public Service Authority

September 27, 2017

Investor Communication



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# Presentation Participants



**Jeff Armfield**  
*Senior Vice President and  
Chief Financial Officer*



**Rahul Dembla**  
*VP Planning & Pricing*



**Shawan Gillians**  
*Interim Treasurer*

- Over the past six months, there have been several developments at Santee Cooper:
  - Decision to suspend construction of Summer Nuclear Units 2&3
  - Withdrawal of electric rates
  - Senior leadership changes announced
  - Public and political scrutiny
- Despite these developments, Santee Cooper's credit remains strong and risk has been reduced in several areas
- Our goal today is to summarize the underlying facts of recent decisions and developments which show that Santee Cooper remains committed and is well positioned to achieve its mission of:
  - Providing low cost and reliable power to its customers; and
  - Maintaining a strong financial and credit profile for its investors and capital market partners

# Santee Cooper Overview



## Our Business

- An electric utility headquartered in Moncks Corner, South Carolina
- Owned by the State of South Carolina
- One of the nation's largest public power utilities
  - \$12.2 billion of assets (12/31/2016)
  - \$1.7 billion of revenues (2016)

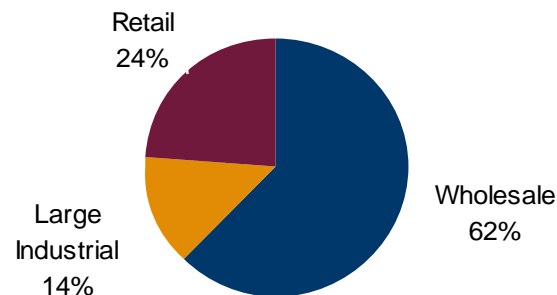
## Our Rates

- Autonomous rate making ability
- Competitive wholesale and retail rates in state
- Automatic rate adjustment on over 75% of costs

## Our Customers

- Retail and wholesale provider serving 2 million South Carolinians in all 46 counties
- Authority provided over 23,000 GWh in 2016 to its customers
- Largest customer is Central Electric Power Cooperative; providing approximately 60% of Authority's revenues

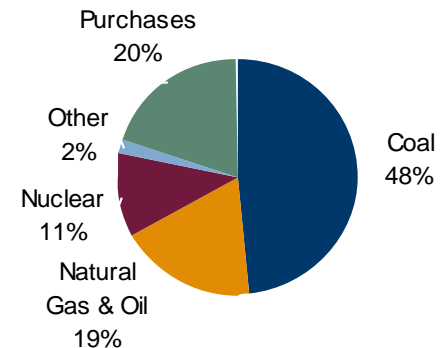
## 2016 Customer Composition (% of Revenue)



## Our Assets

- Power supply comes from 5,100 MW of owned generation
- Power supply portfolio is coal based; supplemented with natural gas and nuclear generation

## 2016 Energy Sources (MWh)



# Recent Developments



There has been substantial activity in the last several months

**March 29, 2017**  
Interim  
Assessment  
Agreement

**April 28, 2017**  
First Interim  
Assessment  
Agreement  
Extension

**June 26, 2017**  
Second Interim  
Assessment  
Agreement  
Extension

**July 27, 2017**  
Parental  
Guaranty  
Settlement  
Agreement

**July 31, 2017**  
Construction of  
Summer 2&3  
Suspended

**August 11, 2017**  
Suspension of  
2018/19 Rate  
Increases

**March 29, 2017**  
Project Review  
Begins

**July 31, 2017**  
Project Review  
Ends

**August 25, 2017**  
Lonnie Carter  
announces  
decision to retire  
as CEO of Santee  
Cooper

# Senior Leadership Positions



## Chief Executive Officer

- On August 25, 2017, Lonnie Carter, Santee Cooper's long-time CEO announced his retirement from Santee Cooper
- The Board accepted Lonnie's retirement "with great respect and admiration for all that he has done during his career"
  - Lonnie will continue to serve as CEO until an interim CEO is appointed and remains available to the interim CEO and the Board through February 2018

## Chairman of Board of Directors

- Leighton Lord, Chairman of Santee Cooper's Board of Directors, indicated that he will not seek reappointment when his term expires in May 2018
- Chairman Lord has served as Chairman since 2013 and has been a member of the Board of Directors since 2009
- Chairman Lord will serve until a new Chairman is appointed

# Public Scrutiny

**Santee Cooper is addressing state government inquiries and media reports regarding the suspension of construction**



**Santee Cooper recognizes that public perception matters and will continue to educate stakeholders and the public to ensure full transparency and understanding of its decision to suspend construction**



# Nuclear Project Review Process

Santee Cooper undertook a comprehensive review of the nuclear project to determine the most prudent and economical path forward

Evaluation  
Team

SCANA  
(Project Manager)

Santee Cooper

High Bridge  
(Consultant)



New Detailed Project Data

What Was Learned?

Project  
Consortium

Westinghouse

Fluor



Sub-contract costs and  
schedules

Procurement status



Project costs would be  
much higher than expected

Productivity gains  
assumptions were  
unrealistic

Construction would take  
much longer

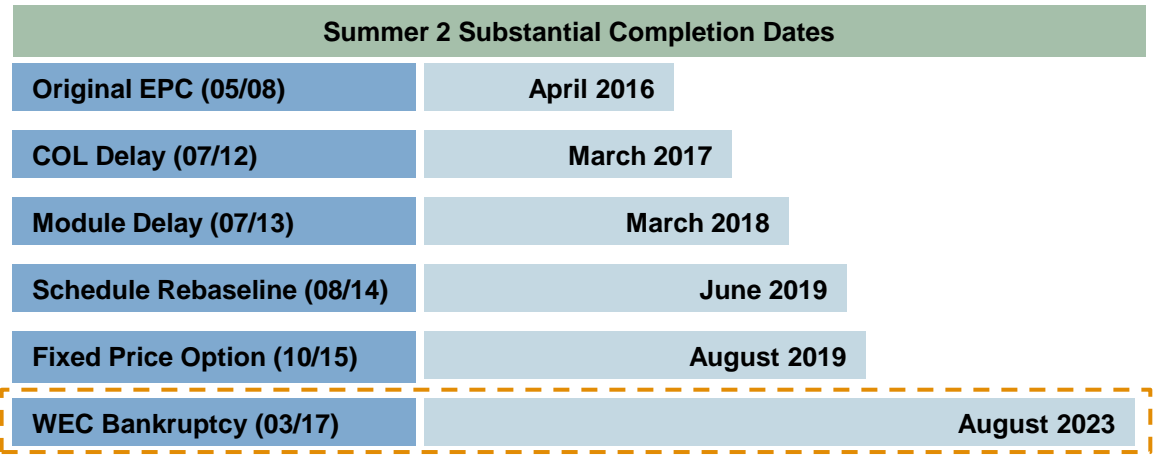
Labor costs would be  
much higher than  
expected

# Decision Factors: Longer Schedule and Higher Cost



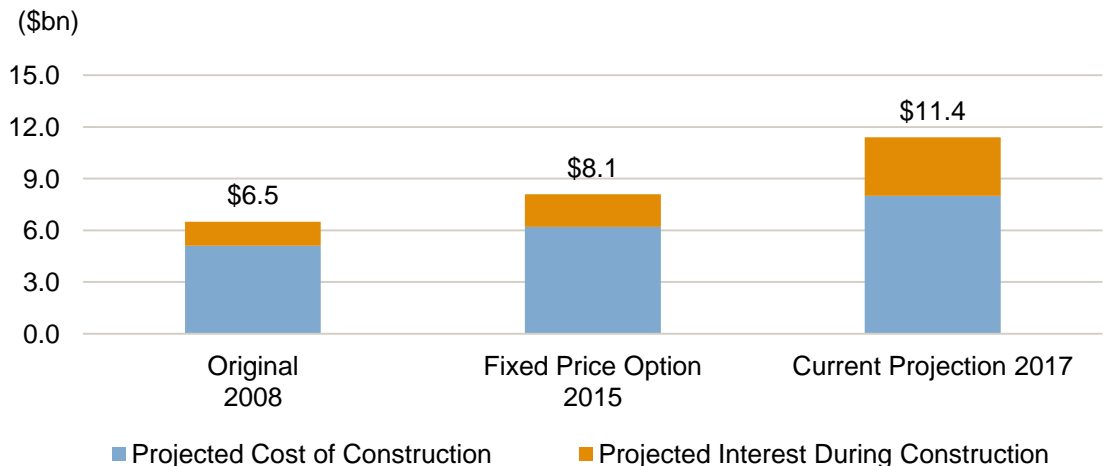
## Longer Schedule

- New estimates show project completion in 2023-2024; 4 years longer than current schedule. The additional delay is due to:
  - Lower productivity assumptions
  - Conservative site coordination assumptions



## Higher Cost

- New estimates show Santee Cooper's cost to complete the project would increase to \$11.4 billion from the current projected cost of \$8.1 billion
- Factors for cost increases:
  - Higher labor costs
  - Higher material and overhead costs
  - Higher interest costs during construction



# Decision Factor: Reduced Risk Profile



**The decision to suspend construction on nuclear project immediately reduced substantial risk and uncertainty in key areas for Santee Cooper**

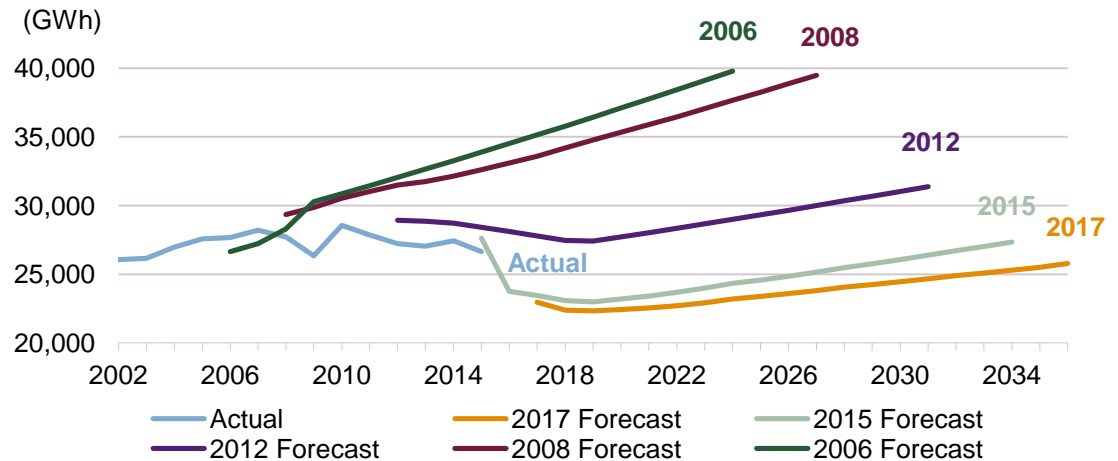
<b>Construction</b>	<ul style="list-style-type: none"><li>➤ Eliminates nuclear construction execution risk</li><li>➤ Eliminates nuclear construction cost risk</li></ul>
<b>Operations</b>	<ul style="list-style-type: none"><li>➤ Reduces nuclear operation execution risk uncertainty associated with new technology</li></ul>
<b>Regulatory</b>	<ul style="list-style-type: none"><li>➤ Reduces scope that the Nuclear Regulatory Commission (“NRC”) has over Santee Cooper’s power supply</li></ul>
<b>Financial</b>	<ul style="list-style-type: none"><li>➤ Improvement on projected metrics</li><li>➤ Reduces uncertainty of operating costs of new technology</li><li>➤ Reduces Santee Cooper’s reliance on capital or private market funding</li></ul>
<b>Rates</b>	<ul style="list-style-type: none"><li>➤ Lower projected system rates</li><li>➤ Reduces risk that fixed costs would have to be reallocated if load growth declines due to economic slowdown, technological advances and conservation</li></ul>
<b>Customers</b>	<ul style="list-style-type: none"><li>➤ Central participated in the review process</li><li>➤ Supports decision to suspend construction</li></ul>

# Supporting Factors: Lower Customer Requirements and Ample Power Supply



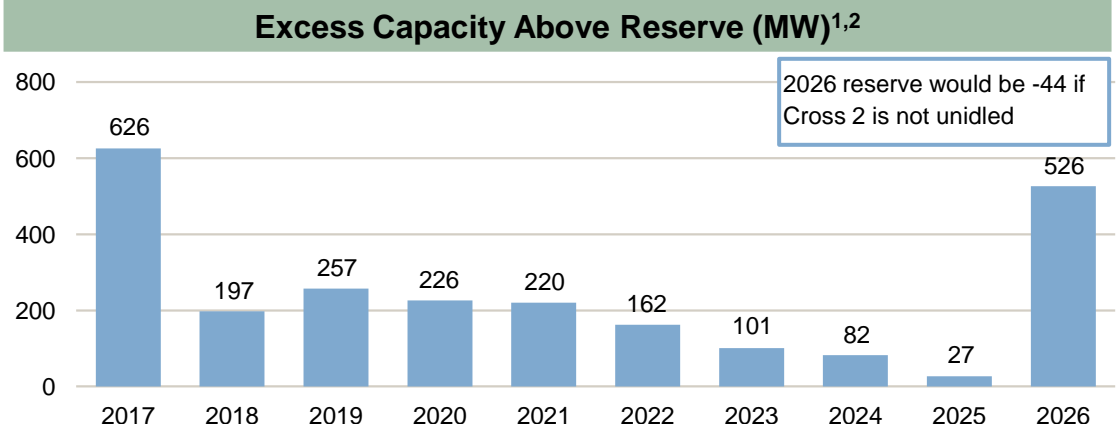
## Lower Customer Requirements

- Santee Cooper's energy needs are substantially lower than earlier estimates
- Santee Cooper's existing power resources are well positioned to meet its customer's needs until 2026
- Unidling Cross 2 allows Santee Cooper's resources to meet forecasted needs until at least 2036



## Ample Power Supply

- Santee Cooper has over 5,100 MW of owned generation capacity
- Santee Cooper has ample and economical power supply options to meet its customer's needs for the next 15-20 years



1. Based on Preliminary Nuclear Cancellation estimates. Based on winter capacity.  
 2. Based on recent load forecast (No Nuclear with Cross 2). Based on winter capacity

# Supporting Factors: Unidling Cross 2 and Future Natural Gas Unit



## Unidling Cross 2

Unidling Cross 2 provides an option for reliable, low cost power supply



## Future Natural Gas Unit

Santee Cooper has evaluated site and project specifications for a large Combined Cycle Unit



<b>Unit</b>	➤ Cross 2
<b>Capacity</b>	➤ 565 MW
<b>Estimated Unidle Date</b>	➤ 2026
<b>Estimated Unidle Cost</b>	➤ \$120-\$150 million
<b>Timing</b>	➤ 2 years from unidling initiation

<b>Size</b>	➤ Size will be modified based upon Santee Cooper's future anticipated energy requirements
<b>Site</b>	➤ Pee Dee
<b>Estimated COD</b>	➤ Not currently in forecast
<b>Estimated Unit Cost</b>	➤ \$570 million (1,081 MW) <sup>1</sup>
<b>Est. Trans. Cost</b>	➤ \$84 million per year
<b>Natural Gas In a GHG Constrained Environment</b>	➤ Lower environmental impact since gas generation produces half of the CO <sub>2</sub> of coal generation

1. 2017 dollars

# Supporting Factor: Viable Options and More Time for GHG Regulations



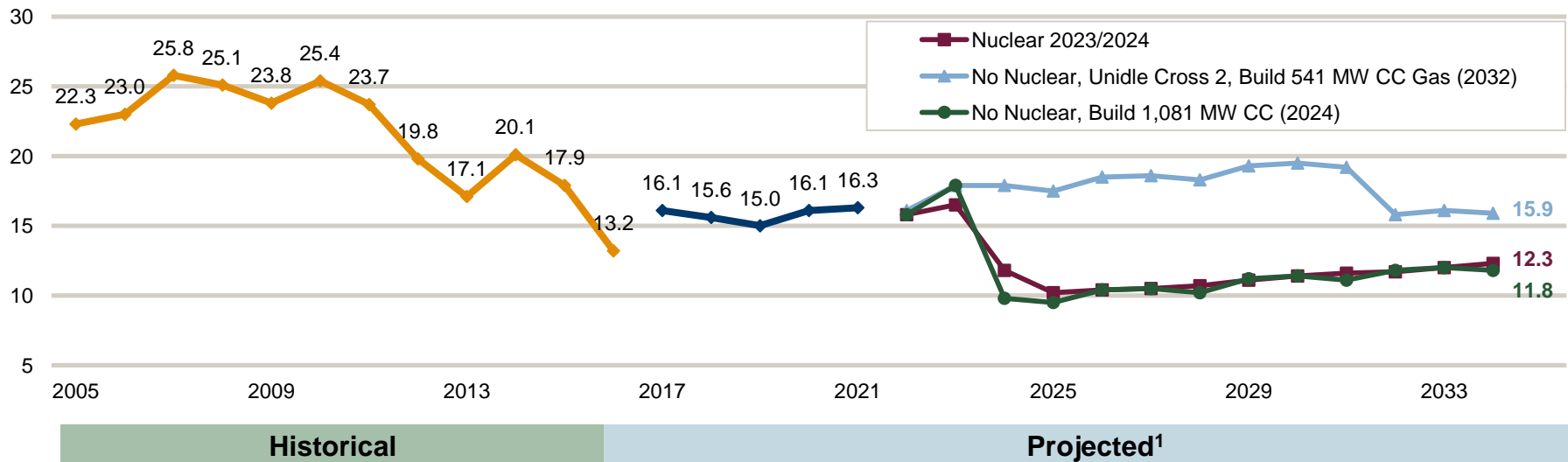
The slowdown of GHG regulations provides Santee Cooper with additional flexibility with existing assets and available power supply options

## Santee Cooper Options

- Unidling Cross remains a viable option as a bridge of power supply to Santee Cooper’s next generation of power supply
- Greater reliance on natural gas via new natural gas generation facilities could assist Santee Cooper to continue its GHG reductions as it moves away from coal-fired dominant power supply, even without the new nuclear units
- The South Carolina Energy Plan gives favorable treatment to the substitution of coal fired generation with natural gas units, an approach in line with the three building blocks focus set forth in the Clean Power Plan

## CO<sub>2</sub> Emissions Exposure per Stayed Clean Power Plan from 2005 to 2034

(Million Tons/Year)

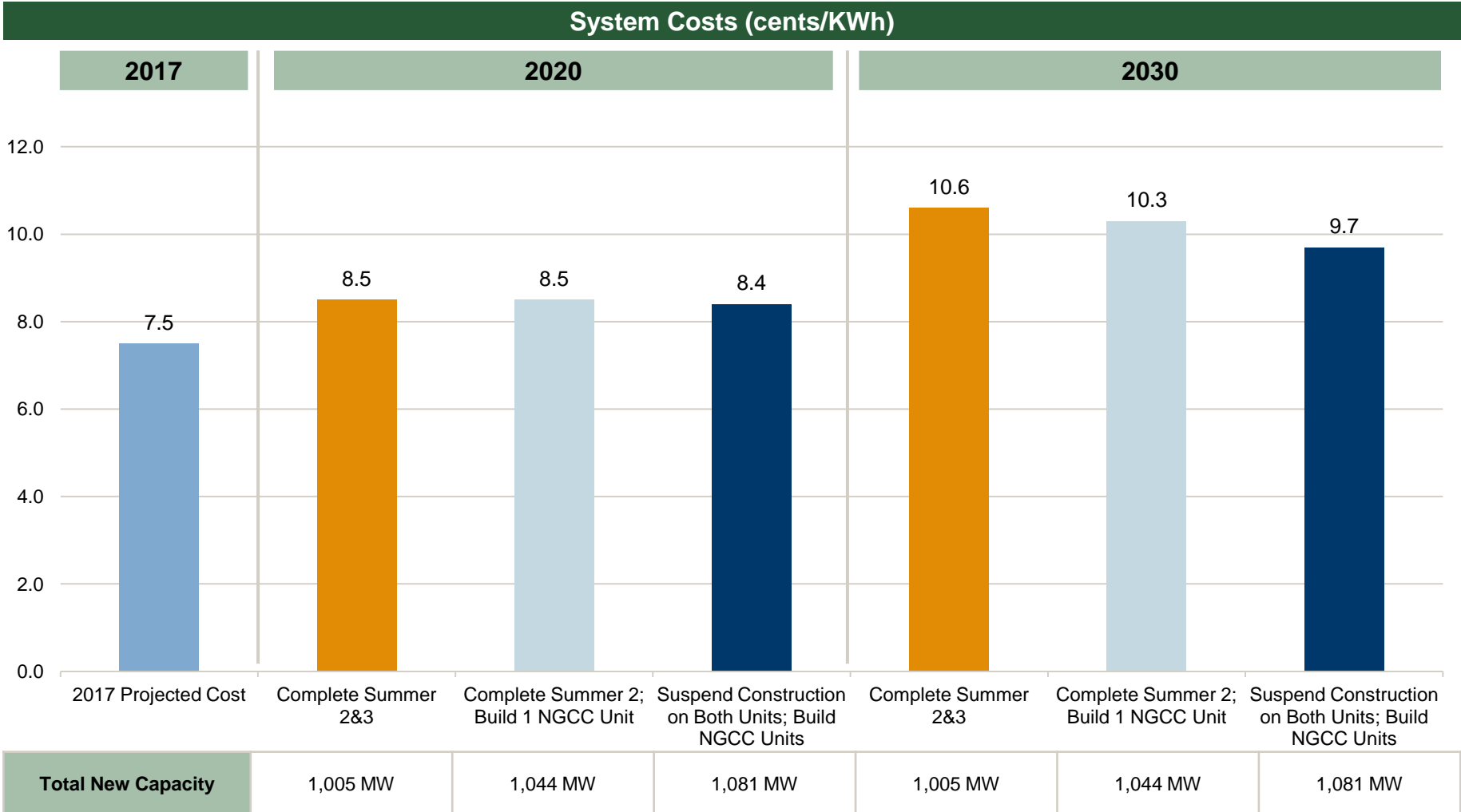


1. Actual CO<sub>2</sub> emissions data represent data submitted via EPA’s Electronic Data Reporting (EDR) system. Emission sources include Cross Station, Rainey Station, and Winyah Station. Projected emissions are based on Santee Cooper’s load forecast, past performance of our existing units. Forecasts are subject to change based on several external factors

# Supporting Factor: Lower Costs



**Suspending construction of the nuclear project would result in lower projected costs relative to the Complete Summer 2 and 3 scenario**



# Decision Rationale Summary

**Facts are facts; the decision to suspend was the prudent and economical path for Santee Cooper's ratepayers**

## Decision Factors

Projected cost increases

Projected schedule delays

Reduced risk profile upon construction suspension

## Supporting Factors

Lower customer requirements

Ample power supply

Viable future power supply Options

Lower costs

Manageable wind down of construction site

Greater time and flexibility regarding GHG regulations

Central support of suspension decision

Suspension of Construction



## Santee Cooper was able to withdraw a planned rate increase due to favorable cost and revenue developments

### Rate Increase Withdrawal

- On August 11, 2017, Santee Cooper withdrew a planned rate increase
- Santee Cooper had recommended a rate increase of an average 3.7% in each of 2018 and 2019
- The rate increases would have applied to Santee Cooper's retail customers<sup>1</sup>

### Rationale

- The Board's rationale for the withdrawal was due to changing conditions since the rate study was conducted:
  - Construction suspension of Summer Units 2 and 3 which eliminated issuance of over \$2.5 billion of debt in next 3 years
  - Finalization of the Settlement Agreement with Toshiba which schedules the payment of \$975.6 million to Santee Cooper from the Parental Guaranty
- Santee Cooper's forecast shows strong financial metrics that are consistent with financial targets without the previously planned rate increases

### Going Forward

- Santee Cooper will monitor its financial condition and will initiate rate adjustment process as needed to maintain its financial targets

1. Santee Cooper's wholesale customers' rates are cost based and change automatically as costs change

# Settlement Agreement with Toshiba

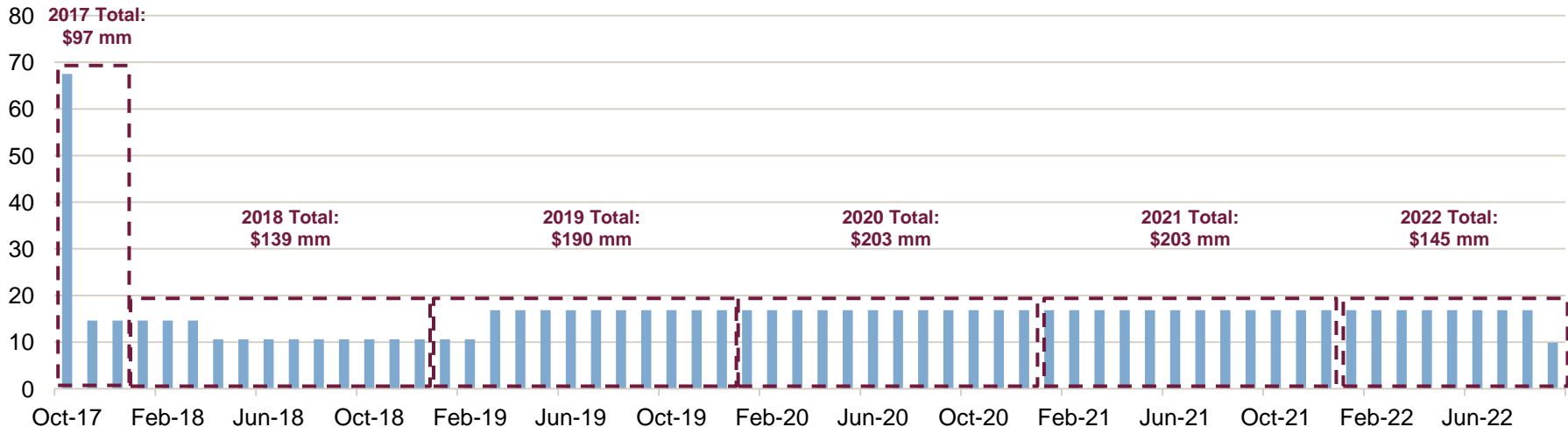


## Santee Cooper reached a Settlement Agreement with Toshiba to accelerate the amounts due under the Parental Guaranty

- On July 27, 2017, Santee Cooper and Toshiba reached an agreement for Toshiba to pay \$2.168 billion to SCANA and Santee Cooper
  - Santee Cooper's share is \$975.6 million
  - The payments will fully satisfy Toshiba's guaranty of the Westinghouse obligation under the EPC contract for Summer 2 and 3
  - The payments must be made regardless of whether the projects are completed
  - Toshiba committed to make payments in a series of installments starting in October 2017 and ending in September 2022
- Santee Cooper is pursuing strategies to monetize the Toshiba payments



### Payment Schedule – Santee Cooper Portion (\$mm)



# Recent Financial Results



**Santee Cooper 2017 results are expected to be in line with expectations and historical trends**

## Historical Financials

(\$mm)	Fiscal Year Ending (12/31)						6 Months Ending (6/30)	
	2011	2012	2013	2014	2015	2016	2016	2017
<b>INCOME STATEMENT</b>								
Operating Revenues	\$1,915	\$1,888	\$1,817	\$1,997	\$1,868	\$1,746	\$827	\$840
Operating Expenses	<u>1,556</u>	<u>1,572</u>	<u>1,524</u>	<u>1,619</u>	<u>1,501</u>	<u>1,375</u>	<u>568</u>	<u>565</u>
Operating Income	359	316	293	378	367	371	259	275
<b>BALANCE SHEET</b>								
Net Utility Plant	\$3,855	\$4,298	\$4,268	\$4,199	\$4,165	\$3,916	\$4,162	\$3,984
CWIP	1,231	1,644	2,101	2,713	3,362	4,293	3,677	4,647
Debt	5,468	5,887	6,820	6,959	7,732	8,195	7,740	8,071
Net Position	1,890	1,975	2,041	2,168	1,932 <sup>1</sup>	2,030	1,950	2,067
<b>CASH FLOW STATEMENT</b>								
Capital Expenditures	\$381	\$488	\$744	\$725	\$587	\$1,126	\$462	\$515

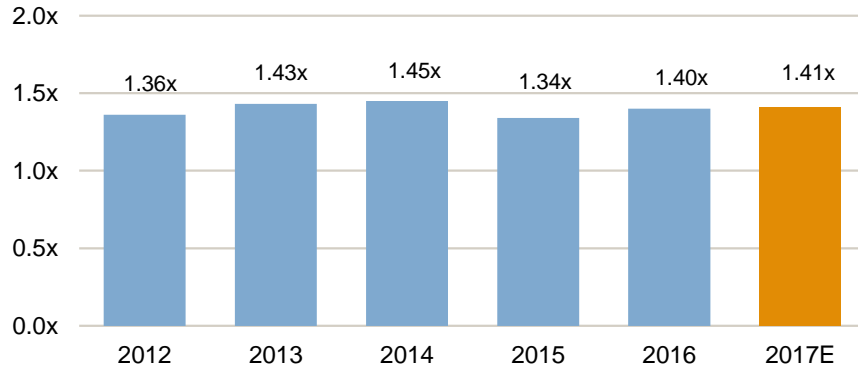
1. In 2015, Santee Cooper recorded a liability of approximately \$270 million as a result of GASB 68.

# Financial Metrics



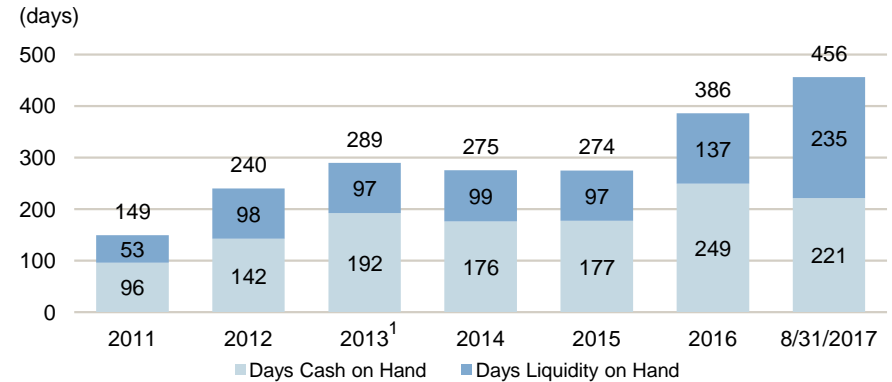
Santee Cooper is committed to maintaining strong financial metrics

## Debt Service Coverage<sup>1</sup>



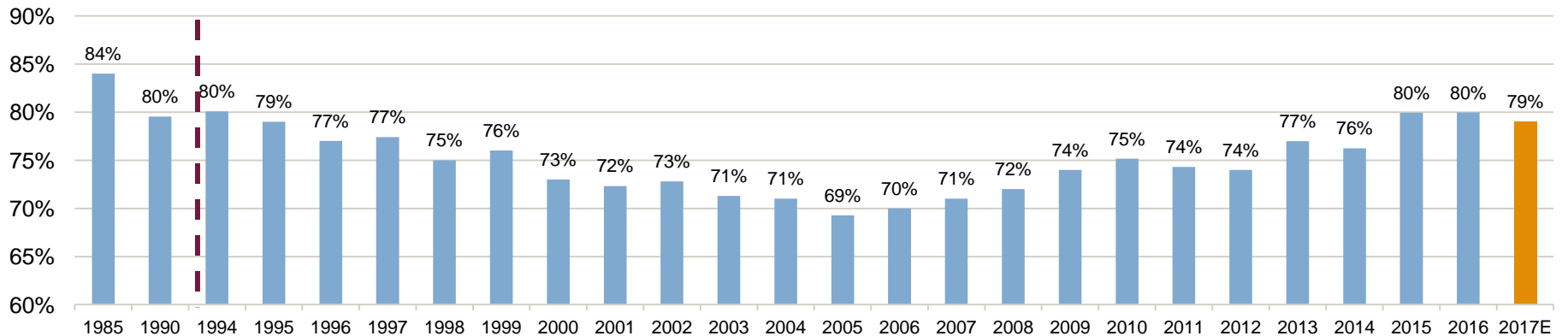
1. Includes CP and Payments to the State

## Liquidity



1. CP Capacity adjusted \$75 million lower to account for \$75 million FRN issue

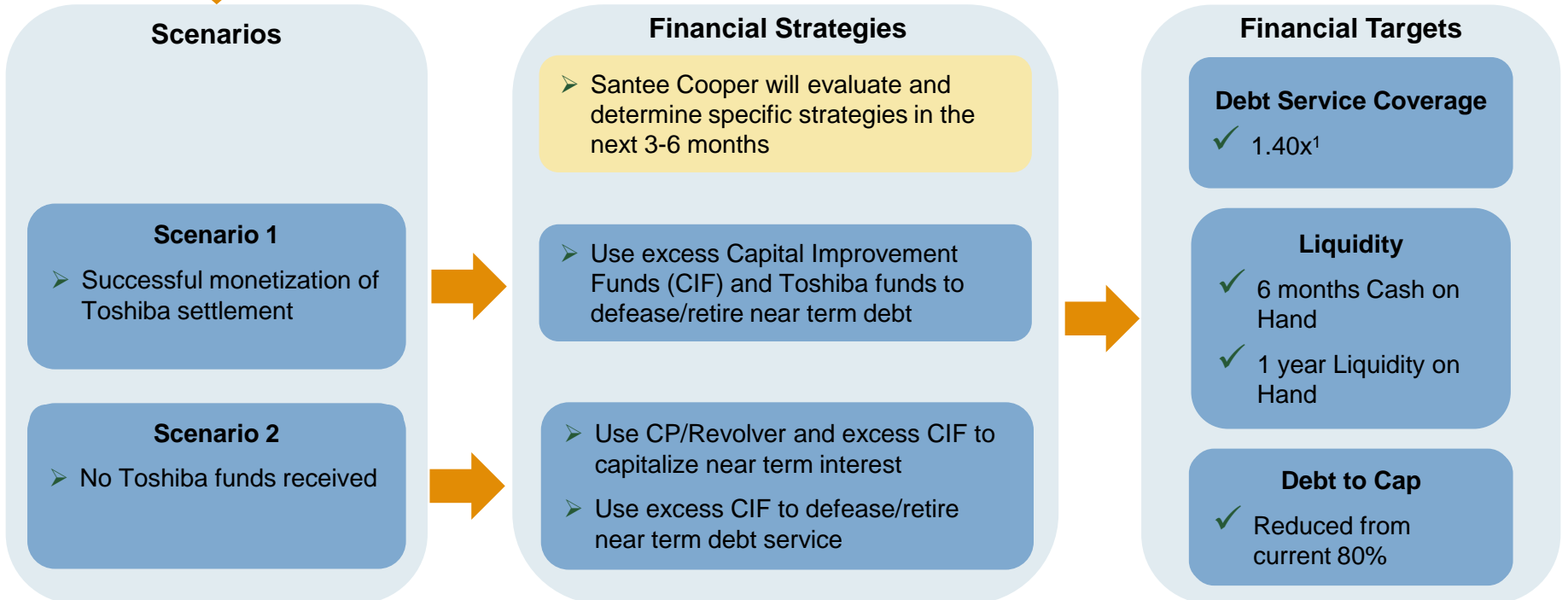
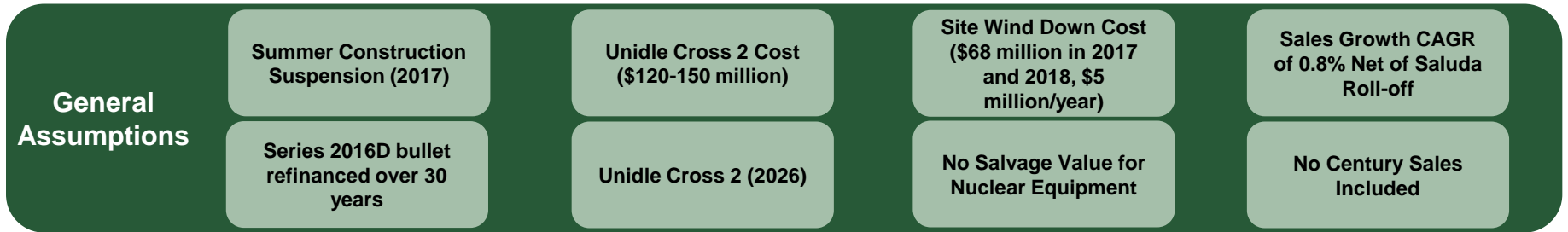
## Debt to Capitalization<sup>3</sup>



# Forecast Assumptions and Scenarios



Santee Cooper has developed potential financial strategies based upon conservative forecast assumptions that will generate metrics that meet or exceed its financial targets



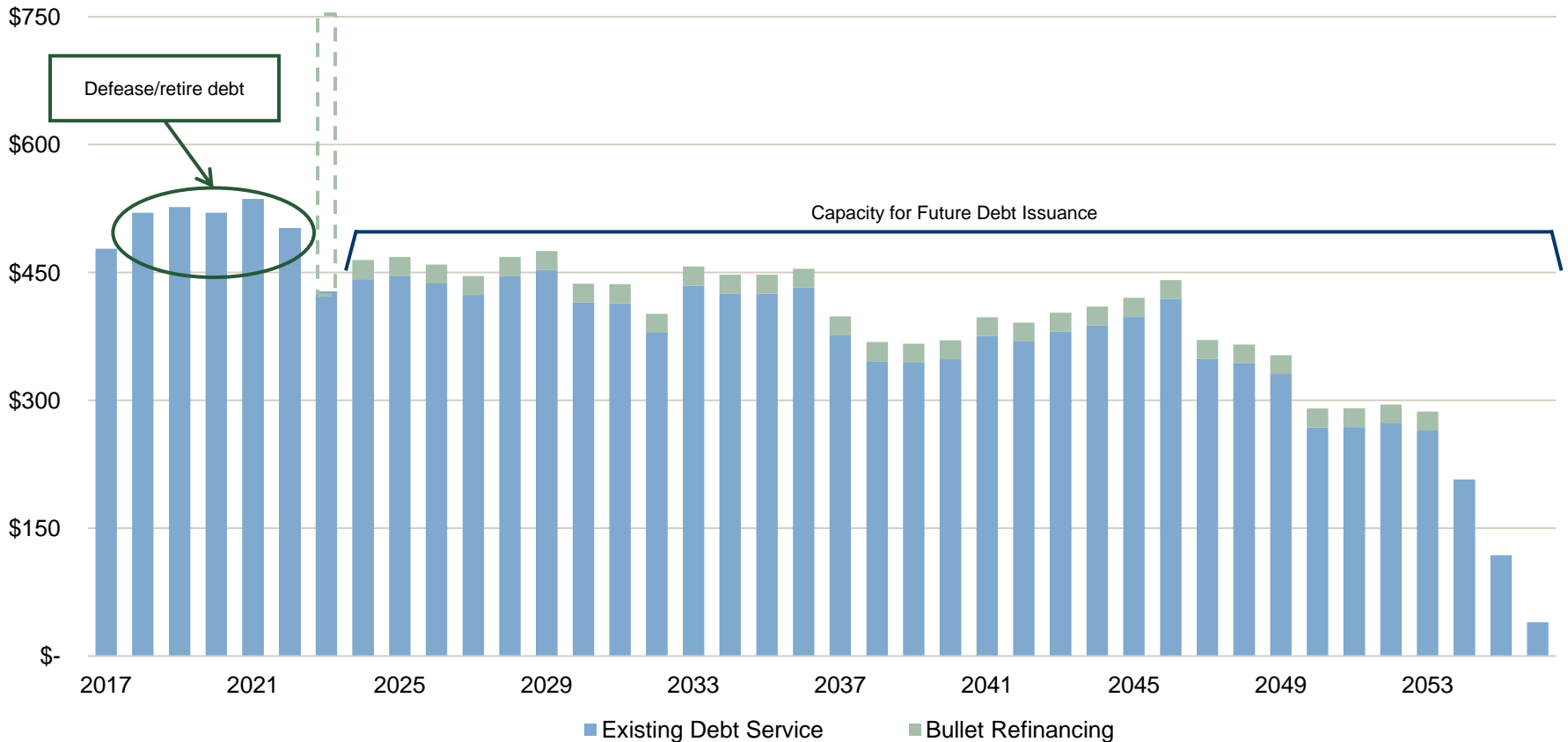
1. Includes CP and Payments to the State 21

# Debt Service Strategies



**Santee Cooper is evaluating strategies to utilize excess funds to defease and retire debt to level its debt service; leaving ample bond capacity for the future**

**Nuclear and Non-Nuclear Debt Service Schedule (\$mm)<sup>1</sup>**

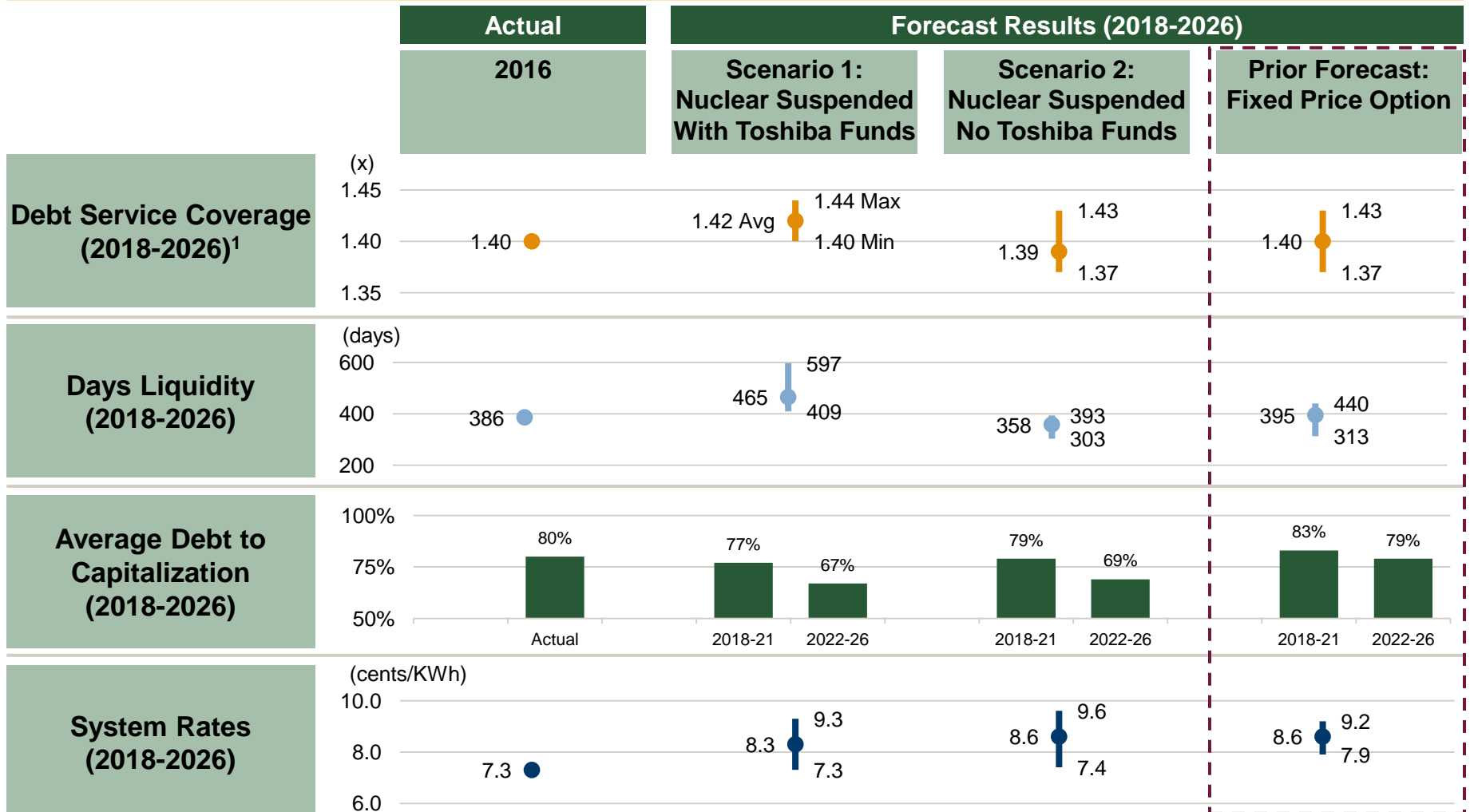


1. Assumes Series 2016D bullet maturing in 2023 refinanced as 30 year Level Debt Service at 5.50%. Only representative of existing debt service—does not reflect projected issues

# Forecast Results



Santee Cooper's forecasts strong financial metrics with minimal impact on rates



1. Includes CP and Payments to the State

# Summary

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- The Board adopted a strategic plan encompassing critical areas of future Santee Cooper operations
  
- Financial strength is a key component of the strategic plan
  
- Santee Cooper remains committed to bondholders and the strategic plan, and will set rates as needed to achieve metric goals



# Key Contacts



## Santee Cooper



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