



Rating Action: Moody's revises South Carolina Public Service Authority's outlook to stable from negative; revenue bonds A3 rating affirmed

30 Oct 2023

Approximately \$6.9 billion of bonds affected

New York, October 30, 2023 – Moody's Investors Service has affirmed South Carolina Public Service Authority's (Santee Cooper) A3 rating on its revenue bonds and revised the outlook to stable from negative.

RATINGS RATIONALE

The affirmation of Santee Cooper's A3 rating and change in outlook to stable from negative considers the substantial moderation in power and natural gas prices since 2022 that should lead to substantially stronger financial metrics for 2023 compared to 2022. In 2023, US Henry Hub natural gas prices have fallen around 60% compared to 2022 with a similar reduction to power prices across most major power markets. The lower fuel and purchased power costs and lower debt service are expected to lead to the utility improving its debt service coverage ratio (DSCR) to between 1.15x to 1.20x compared to 0.43x for 2022.

The rating action also incorporates Santee Cooper's forecast that it should be able to achieve DSCR close to 1.30x for 2024 as fuel and purchased power costs further moderate while maintaining strong adjusted liquidity exceeding 200 days. After 2024, a key consideration to Santee Cooper's financial performance will be the implementation of new rates to recover capital, operating, and Cook exception costs of which the latter remains under dispute. In addition, the utility will need to have excess coverage to improve its financial health and fund higher capital spending to improve system reliability and decarbonize its power supply. Given the length of the rate freeze and extensive cost inflation that has occurred over the rate freeze period, we see uncertainty around the amount and timing of these necessary rate changes. If all of the necessary rate changes are implemented in 2025, the utility's customers could experience material rate shock that could lead to more disputes with customers. That said, we incorporate a conservative assumption that the utility will set rates sufficiently to achieve DSCR in the 1.20x to 1.40x range on a Moody's adjusted basis. To the extent, Santee Cooper implements all rate increases in 2025 including a hypothetical five to ten year period to fully recover the Cook exception costs, we estimate the utility could have DSCR in excess of 1.50x.

The A3 rating also recognizes the utility's broad service area directly or indirectly serving approximately 2 million people in South Carolina, ownership by the state of South Carolina (Aaa stable), and competitive rates. Additional credit strengths include a long term, all requirements contract with Central maturing at the end of 2058 and some generation diversity.

Further weighing on the issuer's credit quality are high leverage with its debt ratio around 140% owing to the termination of the Summer nuclear project, counterparty concentration with Central, carbon transition risk due to coal plant ownership, and uncertainty surrounding the utility's future resource mix. Through 2024, the utility's rate freeze represents its most significant credit weakness.

RATING OUTLOOK

The stable outlook further reflects expected improvement to the utility's financial performance with DSCR returning to 1.15x to 1.20x for 2023 and at least 1.20x by 2024 given the moderation of fuel and power costs. The stable outlook also considers our assumption that Santee Cooper will implement sufficiently prudent rate increases once the rate

freeze ends after 2024 to ensure the utility's financial health leading to DSCR in the 1.20x to 1.40x.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

The utility's rating could be upgraded if Santee Cooper demonstrates strong rate setting and conservative financial management post rate freeze that leads to DSCR above 1.50x on a sustained basis and maintenance of strong adjusted liquidity above 200 days.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

Santee Cooper's rating can be downgraded if the utility does not implement rate changes that lead to DSCR of at least 1.20x or if unexpectedly high fuel and purchased power costs substantially increases the utility's debt burden or reduces adjusted liquidity below 150 days. The utility's rating could also be downgraded if political influence weighs on Santee Cooper's operations, if new major disputes arise with Central, particularly as it relates to the rate freeze, or if the borrower is not able to renew its bank lines at beneficial terms.

LEGAL SECURITY

Santee Cooper's bonds benefit from a pledge of the electric and water system's gross revenues and a sum sufficient rate covenant. There is no debt service reserve account or additional bonds test.

PROFILE

South Carolina Public Service Authority (Santee Cooper) was created by the South Carolina State Legislature in 1934 and provides both retail and wholesale electric service directly or indirectly to approximately two million people in all 46 counties of the state. Santee Cooper also has a water system serving over 200,000 people. The utility also operates an integrated transmission system which includes lines owned by the issuer as well as those owned by Central Electric Power Cooperative Inc, Santee Cooper's largest wholesale customer.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at <https://ratings.moodys.com/rmc-documents/398041>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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