South Carolina Public Service Authority (Santee Cooper)

Utility System Revenue Obligations

Full Rating Report

Ratings

Outstanding Debt

$7,000,000,000 Revenue Obligations	A–

Rating Outlook

Negative

Key Utility Statistics

Fiscal Year Ended 12/31/17	
Electric System Type	Retail
NERC Region	SERC
No. of Retail Customers	180,658
Annual Revenues ($ Mil.)	1,757.0
Top User (% of Combined Revenues)	57.6
Primary Fuel Source	Coal
Peak Demand (MW)	4,989
Energy Growth (%)	(3.9)
Debt Service Coverage (x)	1.39
Days Cash and Inventory	182
Net Adjusted Debt + Adjusted NPL/Adjusted FADS (x)	10.8

NERC – North American Electric Reliability Corporation.
SERC – Southeastern Reliability Council.
FADS – Funds available for debt service.

Related Research

South Carolina Electric & Gas Co. (Subsidiary of SCANA Corporation) (August 2018)

Public Power - Fitch Analytical Comparative Tool (FACT) - 2018 (June 2018)

U.S. Public Power (Peer Review) (June 2018)

Fitch Places Santee Cooper (SC) Revenue Obligations on Rating Watch Negative (March 2018)

2018 Outlook: U.S. Public Power and Electric Cooperative Sector (December 2017)

Analysts

Kathy Masterson
+1 512 215-3730
kathy.masterson@fitchratings.com

Dennis Pidherny
+1 212 908-0738
dennis.pidherny@fitchratings.com

Key Rating Drivers

Pronounced Legal and Political Risk: The downgrade to 'A–' from 'A+' reflects risk stemming from the legal claim presented by Central Electric Cooperative (Central). The legal process may take months or years before a final determination is made, but the nature of the pending claim by such a large customer — approximately 60% of South Carolina Public Service Authority's (Santee Cooper) revenues — fundamentally diminishes Santee Cooper's revenue flexibility in Fitch Ratings' view. The downgrade further incorporates ongoing concerns related to governance dysfunction brought on by political uncertainty.

Wholesale and Retail Utility: Santee Cooper is a large wholesale and retail system, serving a population of approximately 2 million. Central is the largest of Santee Cooper's six wholesale customers, and has a long-term (2058) all-requirements power sales agreement.

Lower Financial Performance Assumed: Management projects debt service coverage (DSC) will fall slightly below its 1.4x target in fiscals 2019 and 2020. The agency projects higher coverage in the following years, but this improvement is predicated on assumed rate increases in fiscals 2021–2024. If there are no increases, Fitch expects coverage would likely remain slightly below 1.4x, but adequate for the rating.

High Leverage: Leverage is high, with net debt to funds available for debt service (FADS) at 10.8x in fiscal 2017, although it is substantially lower than 13.1x in fiscal 2016, following receipt of the Toshiba settlement funds — Fitch's calculation nets available cash against outstanding debt. Leverage should slowly trend lower over the next five years as a result of scheduled debt amortization and no additional debt plans, but will remain elevated for the rating category.

Sufficient Power Supply: Management projects load growth to average less than 1% annually, following the loss of sizable industrial load in 2016 and Century Aluminum Co.'s contracted load, which is only assumed through 2020. Current generation resources appear ample due to the Cross 2 plant's return to service in 2019 and no additional capacity needed through 2032.

Rating Sensitivities

Unfavorable Decision Regarding Cost Recovery: The removal from Negative Watch and assignment of a Negative Outlook reflect potential for further downward movement in the rating, possibly multiple notches, if Santee Cooper is legally or legislatively unable to collect costs related to the approximately $4 billion in outstanding debt related to nuclear costs at Summer Units 2 and 3. This could occur if Central ceases making payments during the ongoing legal dispute, or in the event of a final legal determination or settlement in favor of Central's claim.

Santee Cooper currently has the legal authority to recover costs from remaining customers. However, in the event Central is not obligated to make payments, the resulting operating and financial profile would be uncharacteristic of the 'A' rating category.

Rating History

Rating	Action	Outlook/ Watch	Date
A–	Downgrade	Negative	11/14/18
A+	RW On	RWN	3/9/18
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

RW – Rating Watch.
RWN – Rating Watch Negative.
Source: Fitch Ratings.

Related Criteria

Rating Criteria for Public-Sector Revenue-Supported Debt (February 2018)

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 much of the state of South Carolina. Santee Cooper 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 agency currently provides retail electric service directly to approximately 180,000 retail customer accounts and 27 large industrial customers. Wholesale service provided 63% of total revenue in fiscal 2017. Central remains by far the largest of five all-requirements wholesale customers and accounts for 60% of total revenues.

Santee Cooper's board of directors voted on July 31, 2017 to suspend construction at Summer Units 2 and 3. By that time, Santee Cooper spent $4.3 billion, and construction of the nuclear plant expansion was 36% complete, with the engineering and procurement efforts both over 90% complete. 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. Management projects next-generation options considered as part of Santee Cooper's analysis will be less expensive than completion of the nuclear unit.

Recent Credit Developments

Fitch placed Santee Cooper's long-term rating on Rating Watch Negative on March 7, 2018. The action reflected the heightened credit risk posed by the legal cross claim filed by Central that disputes Santee Cooper's authority to bill Central for certain costs. Central's claim asserts 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 legal claim was filed as a cross claim to the litigation filed in state court by one of Central's cooperative members that challenges its obligation to pay Central for the nuclear-related costs.

Prior to the legal claim, Central was an active participant in project-related decision making in coordination with Santee Cooper. Central expressed support for Santee Cooper's decision to abandon nuclear construction in 2017, and by implication, with the understanding that nuclear construction costs incurred would still need to be paid. Central's legal claim that it is not obligated to pay those costs was a material departure from its prior position regarding the project.

Activity to date in the lawsuit includes the state trial court denying Central's request to deposit the portion of its monthly payments to Santee Cooper relating to nuclear costs with the court. The court denied Santee Cooper's request to stay the case, pending the South Carolina Supreme Court's determination of Santee Cooper's petition for original jurisdiction. The court denied Santee Cooper's request to dismiss the cross claim on Nov. 7, 2018.

Fitch does not presume the outcome of the legal claim and anticipates final resolution may take months or years, or could potentially take the form of a settlement. Central continues to pay its monthly invoices to Santee Cooper as the legal cases proceed. If Central ceases making payments during the legal dispute, a multiple-notch downgrade and below-investment-grade rating would be likely.

However, given the material risk presented by Central's legal claim based on the magnitude of the disputed amounts in relation to total revenues, Fitch believes Santee Cooper's overall financial flexibility is reduced. The legal claim is a manifestation of the overarching issue stemming from the substantial amount of debt incurred, but offers no corresponding asset or energy supply. Santee Cooper's reduced financial flexibility in conjunction with other credit characteristics, such as Santee Cooper's elevated leverage and ongoing political and legislative discord, is factored into the rating downgrade.

Potential Sale of Santee Cooper

The decision to suspend nuclear construction in 2017 ignited controversy across the state and drew the scrutiny of legislators and regulators. Since that time, the governor of South Carolina has been clear in his pursuit and preference for a sale of Santee Cooper. A sale of Santee Cooper, or a portion of its assets, will require approval by the South Carolina Legislature. The bond resolution also requires all of Santee Cooper's outstanding debt be retired or defeased, such that the potential for the sale of Santee Cooper in its entirety should be credit neutral. The credit implications of a partial asset sale are unclear. The sale of Santee Cooper would give Central the option to terminate its long-term power purchase contract with the agency.

The Legislature established an Evaluation and Recommendation Committee in 2018 to study the issue of selling Santee Cooper. The committee's objectives include determining the best course of action for ratepayers, taxpayers and the state's electric cooperatives, deciding whether Santee Cooper should be sold whole or in parts, development of a public and transparent process to consider and conduct a potential sale, and determine how natural resources owned by Santee Cooper would be protected. The committee is working toward providing a recommendation to the legislature for the 2019 session that begins in January.

Fitch's rating action reflects the ongoing political and regulatory uncertainty that continues 18 months after the decision to abandon nuclear construction at Summer Units 2 and 3. Potential legislation was introduced in 2018 that would have affected Santee Cooper's governance structure and rate regulatory construct. While the legislation did not pass in 2018, it may re-emerge in the 2019 session. The by-product of the unfavorable political environment could pressure Santee Cooper to keep rates as low as possible at the expense of financial margins.

Governance and Management

A 12-member board of directors appointed by the governor, with confirmation by the state Senate, governs the agency. 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 2019 at the earliest, extending through 2025. Two board seats are currently vacant.

Full rate-setting authority rests with the board, as does the appointment of the agency's president and CEO, who in turn is responsible for the appointment of the utility's executive management team. Following the 2017 decision to suspend construction, Santee Cooper CEO Lonnie Carter announced his retirement. He continued to serve as CEO until Oct. 6, 2017, when the board appointed interim CEO James Brogdon, who retired from Santee Cooper in 2014 after serving as general counsel and executive vice president. Mr. Brogden signed a one-year contract extension through October 2019. However, the contract will not be finalized until it can be approved by the board, currently scheduled for the December board meeting, if held.

Board-Level Dysfunction and Political Discord

Governor McMaster called for the sale of Santee Cooper. He has regulatory authority over Santee Cooper in his appointment of the board and has been critical of the state agency on multiple occasions over the past year. The governor's continued criticism of Santee Cooper is a credit concern, given his position of regulatory oversight of the utility. Furthermore, there are direct implications to Santee Cooper's board of directors stemming from the governor's and state Senate's inability to reach consensus regarding the appointment of the board chairman.

Santee Cooper has not held a board meeting since June 2018 as a result of a procedural dispute between the governor and the state Senate about who holds the position of Santee Cooper's board chairman. The state Senate sued the governor in the South Carolina Supreme Court seeking resolution to the issue. The governor asserts he has the authority to appoint the board chairman, without Senate approval, when the Senate is in recess. On Nov. 28, 2018, the South Carolina Supreme Court found the Governor has the right to appoint the board chairman in this circumstance. The dysfunction resulting from the political climate of mistrust is a credit concern that was factored into the rating downgrade.

Customer Profile and Service Area

Santee Cooper serves a statewide service territory. Through its wholesale agreements, Santee Cooper serves both rural and developed suburban areas. The agency has the exclusive right under state law to provide retail electric service to its retail customers and to serve the existing industrial customers outside its assigned territory. The agency is allowed to serve 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 accounted for 59.9% of total revenues in fiscal 2017. Central, which is made up of 20 small, mostly residential distribution cooperatives operating throughout the state, is served by the agency pursuant to a long-term wholesale agreement, which extends to 2058 following a 2013 agreement revision. Central's 20 members have all-requirements contracts with Central that extend through 2058.

Even with the ongoing legal claim, Central has not disputed the validity of the agreement, only whether or not Santee Cooper has the authority under the agreement to bill for costs related to a nuclear plant that was not completed and will never generate. Fitch views the long duration of the wholesale agreement favorably, as it provides long-term operating stability to the agency and allowed for the extension of 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 agency in the future.

Prior to the 2013 contract amendment, there was a 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 agency 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 overall 9% net reduction in Central's energy purchases from Santee Cooper by the end of 2019. The agreement flattened the agency's projected long-term energy needs.

The agency also serves the cities of Georgetown, Bamberg, Seneca, SC, and Waynesville, NC, on a wholesale basis, pursuant to agreements that expire between 2023 and 2033. The agency 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.

The agency's retail customer base is considerably more diverse, made up primarily of around 180,000 residential, commercial and small industrial customers, and 26 large industrial customers. Revenue and energy sales attributable to these segments accounted for about 38% and 36% of operating revenues and energy sales, respectively, in fiscal 2017. Retail sales were relatively flat, while energy sales to industrial customers declined by 39% in 2016 and remained flat in 2017.

Energy Sales and Revenue Information

($000)	2013	2014	2015	2016	2017	Five-Year CAGR
Retail Customers	168,846	171,599	174,054	176,775	180,688	—
Peak Demand (MW)	5,053	5,696	5,869	4,819	4,989	—
Wholesale Sales (GWh)	15,246	16,151	15,307	15,342	14,591	(1.3)
Retail Sales (GWh)	3,697	3,859	3,852	3,874	3,768	0.7
Industrial Sales (GWh)	7,421	7,343	7,339	4,484	4,420	(10.1)
Total Electric Sales (GWh)[a]	26,364	27,353	26,498	23,700	22,779	(3.2)
Sales Growth (%)	(1.5)	3.8	(3.1)	(13.4)	(14.0)	—
Retail GWh Sales (%)	14	14	15	16	17	—
Direct Industrial GWh Sales (%)	28	27	28	19	19	—
Wholesale GWh Sales (%)	58	59	58	65	64	—
Wholesale Revenues	1,058,943	1,181,350	1,121,326	1,080,399	1,089,472	(1.0)
Retail Revenues	356,040	394,683	381,527	406,770	408,282	4.0
Industrial Revenues	381,689	399,817	354,148	234,463	235,068	(9.6)
Total Revenues	1,796,672	1,975,850	1,857,001	1,721,632	1,732,822	(1.5)
Wholesale Revenues (%)	59	60	60	63	63	—
Retail Revenues (%)	20	20	21	24	24	—
Industrial Revenues (%)	21	20	19	14	14	—

[a]Taken from continuing disclosure. GWh – Gigawatt-hour.
Source: Santee Cooper.

Total energy sales declined in the last four fiscal years, prompting an average annual growth rate of negative 3.2% since 2012. The declining sales reflect lower wholesale sales as a result of the agreement with Central to transition a portion of its load to another supply and lower industrial sales in 2016. Similar to low and declining growth trends experienced both regionally and nationally, the agency's declining sales were a driver of the agency'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.

Industrial Sales Decline in 2016

Santee Cooper makes direct sales to industrial customers. Century was historically the largest. Century accounted for 7.2% of total revenues in fiscal 2015, but declined to around 1.4% in fiscals 2016 and 2017. Nucor Corp. remains steady at around 5% of total revenues.

Century curtailed one of its two operating aluminum production lines in 2016, which reduced its energy usage by around 50%. Santee Cooper and Century signed an extension of the power supply agreement in October 2018 through December 2020. Santee Cooper's 2019 forecast consequently includes continued sales to Century's operation of one production line in fiscals 2019 and 2020; the 2018 forecast conservatively removed all sales to Century beyond fiscal 2018.

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 more than $1 billion 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 completed in June 2018. Volvo indicated publicly that plant staffing is expected to increase to 4,000 by the end of 2021, although it also noted concerns regarding the impact on the plant from U.S. steel and aluminum tariffs, as well as potential car tariffs that result from developing trade policies in the U.S. Santee Cooper will serve the facility indirectly through one of its wholesale customers. The plant is located in an industrial park developed by Santee Cooper in conjunction with the South Carolina Department of Commerce.

Assets and Operations

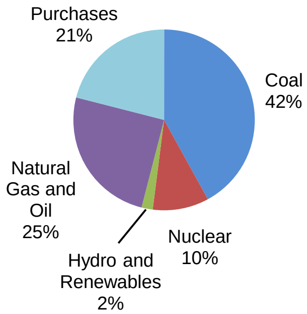
Generation ownership equal to 5,104MW, together with 388MW of firm hydroelectric output and 74MW of biomass capacity, is generally sufficient to meet peak demand that declined to 4,989MW in 2017 from 5,869MW in 2015 due to lower Century load and declines in Central's purchases. Santee Cooper uses short-term 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 agency's portfolio of resources, accounting for nearly two-thirds of existing capacity, but less than half the energy supplied in fiscal 2017. Natural gas-fired and nuclear generation combined accounted for about 32% and 35% of capacity and energy, respectively, in 2017.

Generation capacity includes 565MW of a coal-fired power plant (Cross Unit 2) that was idled in 2017. Santee Cooper made the decision to idle this plant, in addition to the retirement of 550MW of its oldest coal and oil-fired generating units in 2012 and 2015 due in part 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 1,000MW of generation capacity and would have placed Santee Cooper in a long position, even with the planned sale of 5% of the Unit 2 and 3 capacity to South Carolina Electric & Gas Co. Last estimates before the unit abandonment indicated Santee Cooper would have had over 600MW of excess capacity in the years following nuclear completion, resulting in reserve margins over 26%.

Even with the suspension of Summer Units 2 and 3, generation looks to be sufficient. Santee Cooper estimates its excess capacity above the reserve margin will gradually decline to around 360MW in 2027 from over 600MW. This assumption includes Cross 2, which Santee Cooper expects to un-idle beginning in fiscal 2019.

2017 Energy Supply by Fuel Type

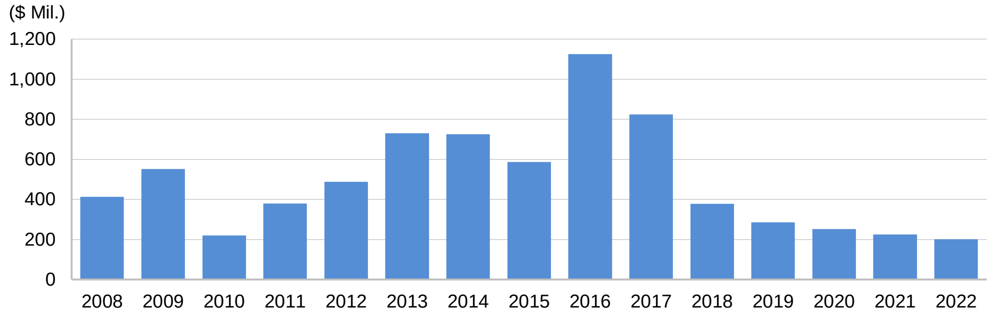


Source: Santee Cooper.

Capital Program and Debt Profile

The agency's capital plan was radically reduced as a result of its decision to abandon nuclear construction. Santee Cooper's capital program is projected at around $2.2 billion over fiscals 2019–2027, compared with around $5.9 billion prior to termination of nuclear construction. Environmental compliance accounts for only around $465 million of this total. The majority of capital spending is expected to be funded with internal funds, and an estimated 28% will be funded from additional debt.

Capex



Source: Santee Cooper.

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 fund nuclear construction costs increased the agency'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.

This upward trend in leverage, as measured by net adjusted debt to adjusted FADS reversed with Santee Cooper's decision to abandon nuclear construction, although leverage will remain high for the foreseeable future. Following the receipt of the Toshiba settlement proceeds in 2017, net adjusted debt to adjusted FADS exhibited a large decline to 10.8x in fiscal 2017, reflecting the high cash balances at the end of 2017.

The entirety of Santee Cooper's approximately $7.0 billion of outstanding revenue obligations at the close of Sept. 30, 2018 was issued as fixed-rate debt. Santee Cooper is a participant in the South Carolina Retirement System and contributes to the state's pension plan on behalf of its 1,745 employees. Annual contributions are minimal, equal to less than 1% of total revenue. The net pension liability attributable to Santee Cooper totaled $338.7 million in fiscal 2017, equal to just 4% of the agency's total debt and long-term liability burden. Current and long-term obligations related to post-employment benefits offered by the agency 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 agency 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.

Retail Base Rate Adjustments

(%)	
2009	3.40
2010	—
2011	—
2012	3.50
2013	3.50
2014	—
2015	—
2016	5.34
2017	2.09
2018	—

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

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 agency offers nonfirm rates to industrial customers to encourage peak shaving.

After the agency 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 agency now projects no retail rate increases will be needed in fiscals 2018 and 2019, 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 retail revenue per kWh was 7.86 cents per kWh in 2017, below the state average of 9.96 cents per kWh. However, this reported rate reflects Santee Cooper's predominantly industrial load as part of its overall retail mix. Residential rates are more in line with the state average.

Financial Performance and Legal Provisions

The agency has financial targets that include minimum DSC of short- and long-term debt and state payments of 1.4x, 180 days cash on hand, days liquidity in excess of 360 days, 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.

2018 Fitch Medians

(x)	A– Wholesale Category	Santee Cooper 2017 Results
Debt Service Coverage	1.31	1.39
Coverage of Full Obligations	1.20	1.31
Days Cash on Hand	102	182
Days Liquidity on Hand	290	273
Net Adjusted Debt/Adjusted FADS	7.2	10.8
Equity/ Capitalization (%)	23.4	20.3

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

Fitch-calculated DSC was 1.4x in fiscal 2016 and 1.39x in fiscal 2017. Coverage of full obligations after incorporating an annual distribution made to the state and payments in lieu of taxes to local governments was satisfactory at over 1.3x in both years. Santee Cooper's financial forecast projects DSC will decline slightly below the agency's 1.4x target in fiscals 2018–2020, even with the assumed use of settlement funds and reserves.

Days cash on hand and days liquidity, including unused capacity available under revolving credit agreements, were robust at the end of fiscal 2017, at 182 days and 273 days, respectively. Liquidity is expected to remain around these levels, which is considered adequate for the rating.

Santee Cooper has a $250 million CP program supported by two liquidity facilities with Bank of America and Wells Fargo Bank that both expire in 2019. It also has four revolving credit agreements totaling $850 million that provide additional corporate liquidity. Approximately $270 million drawn against the revolvers was repaid in full in fiscal 2018 with proceeds from the

Toshiba settlement agreement. The revolvers have expiration dates ranging from August 2019 to June 2021.

Future Financial Performance

The agency's preliminary financial forecast, provided in November 2018, reflects the use of Toshiba settlement funds in fiscal 2018 to repay short- and long-term debt, with an estimated $270 million remaining to be used to avoid new debt and a portion to offset the repayment of debt service in fiscals 2019–2021.The forecast shows DSC dipping slightly below the agency's internal target of 1.4x in fiscals 2019 and 2020, with assumed minimal base rate increases to be phased in beginning in fiscal 2020. The forecast assumes slightly higher load growth than the last forecast and assumes continued sales to Century in fiscals 2019 and 2020. Planning assumptions appear reasonable, although Fitch considered future financial performance without the inclusion of additional rate increases over the five-year forecast, given the current political climate. The result would be DSC below the policy target of 1.4x, but not substantially below.

With planned margins, debt amortization and limited new debt issuance, leverage is projected to decline but remain elevated at over 9.0x net adjusted debt to adjusted FADS during the next five years, without any rate increases. A sizable decline in leverage occurred in fiscal 2017 with the receipt of the Toshiba settlement funds. Going forward, existing debt amortizes slowly.

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

($000, Audited Years Ended Dec. 31)	2013	2014	2015	2016	2017
DSC (x)					
DSC	1.44	1.52	1.29	1.40	1.39
Adjusted DSC (Including Transfer/PILOT/Dividend as O&M Expense)	1.38	1.47	1.25	1.36	1.36
Coverage of Full Obligations (PP as D/S and Transfer/PILOT/Dividend as O&M Expense)	1.33	1.40	1.22	1.32	1.31
Liquidity Metrics					
Days Cash and Investments on Hand	197	178	180	255	182
Days Liquidity on Hand	317	278	251	395	273
Leverage Metrics (x)					
Debt/FADS	13.2	11.8	13.6	14.5	13.3
Net Adjusted Debt/Adjusted FADS	11.8	10.7	12.3	13.1	10.8
Net Debt/Net Capital Assets (%)	98.3	94.1	82.1	85.3	137.5
Equity/Capitalization (%)	22.7	23.2	19.4	19.0	20.3
Other Financial and Operating Metrics (%)					
Operating Margin	16.1	18.9	20.1	21.2	22.8
Wholesale Electric Revenue/MWh ($/MWh)	69.5	73.1	73.3	70.4	74.7
Retail Electric Revenue/kWh (Cents/kWh)	6.6	7.1	6.6	7.7	7.9
Transfer and PILOT and Tax/Total Operating Revenue (x)	1.4	1.3	1.4	1.4	1.3
Capex/D&A	324.1	369.4	295.3	549.1	400.4
Debt Service/Cash Operating Expenses	22.1	22.1	26.0	26.7	28.0
Income Statement					
Total Operating Revenue	1,816,576	1,997,347	1,879,553	1,745,657	1,756,983
Total Operating Expense	1,524,182	1,619,224	1,502,488	1,374,942	1,357,171
Operating Income	292,394	378,123	377,065	370,715	399,812
Adjustment to Operating Income	229,257	225,318	208,078	218,130	218,289
FADS	529,137	610,983	592,702	596,420	625,684
Total Annual Debt Service	367,824	402,452	457,818	425,571	448,587
Balance Sheet					
Unrestricted Funds (Cash and Liquid Investments)	699,322	692,112	644,533	816,738	574,861
Restricted Funds	1,055,700	1,248,190	1,461,047	1,011,190	1,268,053
Total Net Assets/Members' Equity	2,040,127	2,168,463	1,941,790	2,030,336	2,121,267
Total Debt	6,962,123	7,198,990	8,076,885	8,668,870	8,309,172
Cash Flow Statement					
FCF (FADS – Transfer and PILOT – Total Annual Debt Service)	140,919	187,872	114,768	151,657	159,346
Capex	730,119	725,145	587,228	1,126,306	824,255
FCF Less Capex	(589,200)	(537,273)	(472,460)	(974,649)	(664,909)

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

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.