

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Santee Cooper's (SC) A2 rating to 2022 Tax-Exempt Refunding Series A and B; Outlook remains stable

20 Jan 2022

Approximately \$600 million of debt affected

New York, January 20, 2022 -- Moody's Investors Service ("Moody's") has assigned a A2 rating to South Carolina Public Service Authority's (Santee Cooper or the Authority) \$300 million of Revenue Obligations, 2022 Tax-Exempt Refunding Series A and \$300 million of Revenue Obligations, 2022 Tax-Exempt Refunding Series B. The rating outlook is stable.

RATINGS RATIONALE

Santee Cooper's A2 rating considers the resolution of all major pieces of litigation involving the issuer over the past year, providing greater certainty with respect to its future obligations, as well as positive developments regarding its governance structure with a new CEO expected to start on March 1, 2022.

Santee Cooper's credit quality also reflects recent new legislation that provides further clarity concerning changes to governance, retail rate setting and due process for challenges, debt approval requirements and certain limitations on new construction and acquisition and purchase of major utility facilities, among other items. Santee Cooper's ownership structure is expected to remain unchanged for the time being, which provides a greater level of stability to operations.

The rating further considers expected fixed charge coverage ratio (FCCR) between 1.35x to 1.50x, adjusted days liquidity well above 110 days, and Santee Cooper's essential role of providing retail and wholesale electric service directly or indirectly to approximately two million people in South Carolina. However, high leverage following the termination of the Summer Unit 3 and 4 nuclear project will persist for many years which is likely to chronically pressure the Authority's ability to recover costs while maintaining its cost competitiveness.

In the near term, Santee Cooper also faces challenges of higher fuel and purchased power costs due to coal supply issues and a forced outage at the Summer Unit 1 nuclear plant. On the former, the Authority had approximately 562,000 tons of coal on hand at year end 2021, which is lower than their targeted range of 800,000 to 1.2 million tons. The low coal inventory has led to a rationing of coal generation to the more economically attractive periods. Santee Cooper expects a gradual improvement to coal supply to occur during the first half of 2022 with coal inventory returning to the lower end of their targeted range by the end of Q2 2022. That said, recent cold weather in the first two weeks of January 2022 have led to a further decrease of around 100,000 tons that serves to further challenge Santee Cooper's goal to rebuild coal inventory to their targeted range. On the nuclear plant outage, the Summer Unit 1 went offline in November 15, 2021 due to the failure of the main step up transformer. A replacement of the transformer was completed on December 10, 2021. The impact to net revenue in 2021 due to both events is expected to be around a negative \$68 million mostly due to higher fuel and purchased power costs and these events highlight the inherent risk of the rate freeze in place through January 15, 2025 under the Cook Settlement that limits the typical fuel cost pass through provisions for a majority of customers.

RATING OUTLOOK

The stable outlook reflects the view that Santee Cooper will be able to manage its expenses and expected fixed charge coverage ratios ranging between 1.35x to 1.50x and liquidity well above 110 adjusted days liquidity on hand.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Further mitigation steps are executed to reduce leverage caused by the Summer project through a combination of expenditure reductions, new revenues, refinancing opportunities, and customer growth
- Clarity about the Authority's resource plan and approach to replace the Winyah Generating Station as part of

a carbon transition plan

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Costs rise substantially and the higher expenses are not passed to customers
- Fixed charge coverage falls below 1.30x or liquidity is below 110 days on a sustained basis
- Further political influence weighs on Santee Cooper's operations

LEGAL SECURITY

The 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 but Santee Cooper must deposit annually into the Capital Improvement Fund an amount which, together with amounts deposited during the prior two years, equals to a minimum of 8% of required revenues in the preceding three fiscal years. As of December 31, 2020, the capital improvement fund balance was \$123.8 million. These funds are typically used for debt service or for capital but could be used for any corporate purpose. The amount Santee Cooper is required to transfer to the state is restricted to a maximum of 1% of Santee Cooper's projected operating revenues. There is no external rate regulation except for federal regulation on transmission rates.

USE OF PROCEEDS

Proceeds from issuance will be used to purchase bonds according to Santee Cooper's bond tender offer and pay transaction costs.

PROFILE

South Carolina Public Service Authority (Santee Cooper or Authority) 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 Authority also operates an integrated transmission system which includes lines owned by the Authority as well as those owned by Central Electric Power Cooperative Inc, the Authority's largest wholesale customer.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure Methodology published in August 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1170209 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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