MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns A3 to South Carolina Public Service Authority's Electric Revenue Bonds, 2025 Series bonds; Outlook is stable

14 Feb 2025

Up to approximately $650 million of bonds affected

New York, February 14, 2025 -- Moody's Ratings (Moody's) has assigned A3 to South Carolina Public Service Authority's (Santee Cooper) new bond issuances consisting of up to $342 million of Revenue Obligations, 2025 Tax-Exempt Improvement Series A, up to $250 million of Revenue Obligations, 2025 Tax-Exempt Refunding Series B, and up to $58 million of Revenue Obligations, 2025 Taxable Improvement Series C. The outlook is stable.

RATINGS RATIONALE

Santee Cooper's A3 rating considers 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 Electric Power Cooperative Inc. (Central) maturing at the end of 2058, some generation diversity, and strong adjusted liquidity on hand supported by a total of $1.2 billion of committed bank lines and bank letter of credit backed commercial paper (CP) program ($600 million utilized as of September 2024).

Santee Cooper's A3 credit profile acknowledges that the utility's 53 month rate freeze (began August 2020) ended at the end of 2024, a credit positive. Prior to 2025, the utility's rate freeze represented a substantial credit weakness that led to around $717 million of reported Cook exception costs according to the utility's annual Cook compliance reports through 2023. Another positive development has been the recently announced settlement that addresses the amount and timing for recovery of these exceptions. In February 2025, we understand that both Santee Cooper and Central's boards have approved a settlement that will be submitted for court approval. Key terms of the settlement include the recovery of $550 million of the Cook exceptions over a 14.5 year period starting in July 2025 including associated interest costs to allow for bonding of the settlement amount. We expect any proceeds from the bonding of these costs will be mostly used to repay outstanding debt under the utility's credit facilities and CP program with the remaining used to boost internal liquidity. We also understand that as part of the settlement agreement, Santee Cooper will write down the Cook exceptions regulatory asset to $550 million in FY 2024, which will increase expenses by $154 million and reduce reinvested earnings by this same amount.

In that regard, Santee Cooper's credit profile also recognizes the issuer's high leverage which will persist with its debt ratio around 136% at FY 2023 owing to the termination of the V.C. Summer nuclear project's (Summer) Unit 2 & 3, along with counterparty concentration with Central, carbon transition risk due to coal plant ownership, and uncertainty surrounding the utility's future resource mix.

For 2024, we estimate Santee Cooper achieved financial metrics similar to 2023 with modestly higher net revenue offset by higher debt service. For 2023, the utility had DSCR of 1.17x and 226 days of adjusted liquidity. Looking forward and owing to the lifting of the rate freeze, Santee Cooper expects DSCR of around 1.40x supported by an approved 4.9% base rate increase that will go into effect in April 2025, the resumption of fuel and purchased power cost pass through to customers on a monthly basis, and the recovery of $550 million of Cook exception costs. The return of the utility's full rate setting ability and its willingness to implement rate changes to maintain financial health remain key credit considerations especially as the utility confronts a large, multi-billion dollar capital spending program through at least 2029. Specific capital programs during this period include capital spending to meet stricter environmental rules finalized by the US Environmental Protection Agency, to build new power generation resources to meet growing load, and to invest in its transmission and distribution system.

We also understand that in January 2025 Santee Cooper issued an request for proposals (RFP) regarding the potential completion or alternative use of the two partially completed Summer nuclear power plants, which has been fully owned by Santee Cooper since 2018. The RFP represents a potential for Santee Cooper to benefit from the renewed interest in nuclear generation such as though an asset sale or some other means. In that regard, we also incorporate the view that the utility will not be exposed to any material risks and will not have any contingent or actual financial obligations if any construction at the partially completed units resumes.

RATING OUTLOOK

The stable outlook further reflects our expectation that the utility will have DSCR of averaging 1.40x in 2025 and thereafter.

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 could be downgraded if the utility does not sustain DSCR of at least 1.20x or if adjusted liquidity is below 150 days. The utility's rating could also be downgraded if political influence weighs on Santee Cooper's operations including its rate setting, if new major disputes arise with Central, or if the utility undertakes any material risks associated with any resumption of construction at the partially completed Summer nuclear plants.

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.

USE OF PROCEEDS

After paying for transaction costs, net proceeds from the Series A and C bonds will be used to fund capital spending while net proceeds from Series B bonds will be used for refunding all or portion of Series 2014C and 2015A bonds.

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.

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 on https://ratings.moodys.com/rating-definitions .

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