Bulletin:

South Carolina Public Service Authority's Rating Unaffected By Settlement Exceptions Recovery; Rate Affordability Drops

February 19, 2025

NEW YORK (S&P Global Ratings) Feb. 19, 2025--S&P Global Ratings believes the recently reached agreement allowing the South Carolina Public Service Authority (Santee Cooper or the authority) to recover $550 million in "Cook settlement exceptions" from ratepayers, is not materially different than what was factored into our recent outlook revision on the authority's outstanding debt. On Jan. 30, 2025, we revised the outlook to stable from negative and affirmed our 'A-' rating on the authority's outstanding debt in advance of the issuance of its 2025 series A, B, and C bonds, which are expected to price on Feb. 25, 2025. For more information, please see the analysis published Jan. 30, 2025, on RatingsDirect.

The authority had been operating under a four-year rate freeze following a court-approved settlement (the Cook settlement), related to the abandoned construction of its V.C. Summer nuclear units 2 and 3. Although the Cook settlement had provided exceptions to the rate freeze, Santee Cooper had been prohibited from recovering these monies until after its expiration on Dec. 31, 2024.

Santee Cooper had identified about $704 million in expenses that it believed qualifies as exceptions, chiefly related to a mine fire that resulted in higher fuel and energy costs incurred during the rate freeze. The authority previously utilized a combination of cash, expense reductions, and credit line draws to finance the higher fuel and energy costs.

The negotiated agreement between Santee Cooper; Central Electric Cooperative Inc. (CECI, which purchases power from Santee Cooper under a coordination agreement); and the counsel for the class-action lawsuit paves the way for Santee Cooper to recover $550 million in Cook settlement exceptions across 14.5 years from customers (including CECI), beginning in July 2025. Management anticipates that the recovery of these exceptions will result in a 2.9% rate increase in 2025 and remain in place through 2039. We understand that the negotiated agreement will need approval from the settlement court, which is anticipated in the near future.

The Cook settlement exceptions agreement's terms are largely in line with those incorporated in our Jan. 30, 2025, rating action. We anticipate Santee Cooper's liquidity will improve as it uses the collection of these monies to retire the draws on its credit lines that were previously used to fund exception-related costs. Although seemingly manageable, we note that the rate increase related to the exception recovery is in addition to management's sizable projected base- and fuel-rate increases, which we believe will result in diminished rate affordability and erode its competitive

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position vis-à-vis other state and regional electric utilities. We also note that Santee Cooper's leverage is expected to increase, as the authority projects an estimated $4.3 billion of additional debt and capital outlay to fund its $5.9 billion 2025-2029 capital plan.

This report does not constitute a rating action.