South Carolina Public Service Authority (Santee Cooper) (SC)

The 'A-' rating reflects South Carolina Public Service Authority's (Santee Cooper or the authority) somewhat volatile historical financial performance and elevated leverage ratio, measured as net adjusted debt to adjusted funds available for debt service (FADS). The rating also factors in a sizeable increase in planned capital spending since Fitch Ratings' last review, which the authority believes is necessary to address anticipated load growth.

The Positive Outlook reflects Fitch's expectation that Santee Cooper's financial flexibility and revenue defensibility will improve. The authority's agreement to lock rates recently expired, and it has reached a proposed settlement related to litigation challenging its ability to recover previously deferred costs. Improved rate flexibility and revenue defensibility based on these developments would allow the authority to support higher leverage.

The rate lock agreement was originally reached as part of a legal settlement to resolve significant litigation challenging the authority's ability to recover costs related to the V.C. Summer nuclear project (the Cook Settlement). Unanticipated challenges related to coal supply, higher natural gas consumption, rising gas prices, and other circumstances led to operating costs from 2021 through 2024 that the authority was unable to recover because of the rate lock.

Santee Cooper recorded roughly $704 million of deferred costs through Dec. 30, 2024 with the intent of recovering these costs in the future. Pursuant to a proposed settlement with Central Electric Power Cooperative (Central; A+/Stable) and other plaintiffs, Santee Cooper will recover roughly $550 million of these costs over a 14.5-year period. The parties have approved the settlement, which is subject to the review and approval of the court.

The authority's financial profile and rating are further supported by strong economic and contractual underpinnings that support revenue collections, as well as the strong credit quality of Central, Santee Cooper's largest wholesale customer. The rating also incorporates the authority's very low operating risk due to very low operating costs.

Security

The revenue obligations are payable from, and secured by a lien on, the net revenues of the authority.

Ratings

Long-Term IDR	A-

Outlooks

Long-Term IDR	Positive

New Issues

Approximately $342,000,000 2025 tax-exempt improvement series A

Approximately $250,000,000 2025 tax-exempt refunding series B

Approximately $58,000,000 2025 taxable improvement series C

Sale Date

Week of February 25, 2025

Outstanding Debt

Revenue Obligations	A-
Revenue Obligations (Federally Taxable Build America Bonds - Direct Payment)	A-
Revenue Obligations (Taxable)	A-
Revenue Obligations Improvement	A-
Revenue Obligations Improvement (Taxable)	A-
Revenue Obligations Refunding	A-
Revenue Obligations Refunding & Improvement	A-
Revenue Obligations Refunding (Taxable)	A-
Revenue Refunding & Improvement Obligations	A-
Revenue Refunding Obligations	A-
Revenue Refunding Obligations (Taxable)	A-

Applicable Criteria

U.S. Public Power Rating Criteria (March 2024)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (January 2025)

Related Research

Fitch Rates Santee Cooper Series 2024 A, B & C Revenue Bonds 'A-'; Outlook Stable (July 2024)

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Key Rating Drivers

Revenue Defensibility – 'a'

Statewide Electric Provider; Rate Flexibility Should Improve

Santee Cooper's strong revenue defensibility assessment reflects its vibrant and growing service area and contracts that ensure steady revenue from retail and wholesale customers. Retail customers make up 39% of total revenue, while wholesale customers account for 61%. Santee Cooper's board maintains rate-setting authority; however, revenue defensibility remains constrained as the full effect of planned rate increases and improved cost recovery have yet to be realized in the authority's financial results and final approval of the deferred cost settlement agreement is pending.

Rate flexibility and revenue defensibility should improve with the expiration of the rate lock, implementation of approved annual rate increases averaging 4.9% for retail customers, the resumption of timely cost recovery adjustments during 2025 and approval of the pending settlement related to the recovery of deferred costs. Despite anticipated rate increases, wholesale costs should remain competitive and retail rates affordable given prevailing market cost pressures, the authority's low-cost base and strong service area characteristics.

Revenue defensibility is further supported by the credit quality of Central, which accounts for roughly 58% of Santee Cooper's revenue. The authority provides approximately 75% of the total power and energy requirements of Central and its member cooperatives under an agreement that cannot be terminated until 2058.

Operating Risk – 'aa'

Very Low Operating Costs; Evolving Resource Portfolio

Operating costs have averaged approximately 5.9 cents per kilowatt hour (kWh) over the past five years, which are low for the authority's wholesale business but very low for the retail business. The operating cost burden reflects a diverse mix of energy generation resources, which are predominately coal-fired. Santee Cooper's integrated resource plan (IRP) outlines the authority's goal for further diversifying its resource portfolio and replacing 1,150 megawatts (MWs) of coal-fired capacity with solar and natural gas-fired resources by 2031.

Capital planning and management should remain strong as capital spending is expected to rise dramatically over the next five years, comfortably exceeding depreciation. Operating costs should similarly increase but remain in line with the assessment.

Financial Profile – 'a'

Leverage Expected to Stabilize

Santee Cooper's leverage ratio declined to 10.4x in 2023 from 12.2x in 2022 but remains elevated and volatile given swings in operating income and FADS. Fitch expects leverage to rise at year-end 2024 due to the lingering effects of the rate lock and plant outages. However, ratios should trend toward 10.0x beginning in 2025 in Fitch's rating case scenario when rates are increased and full and timely cost recovery resumes. Further improvement in leverage is likely to be limited because of the authority's higher capital spending program of roughly $1.1 billion annually and anticipated debt issuance.

Coverage of full obligations and total liquidity also improved in 2023 to 1.7x and 281 days, respectively. Fitch expects coverage to stabilize at around 1.4x and liquidity to remain adequate and comfortably above 90 days.

Asymmetric Additive Risk Considerations

There are no asymmetric risk considerations factored in the rating.

Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Failure to adequately adjust base rates and improve cost recovery following expiration of the rate lock;
- Failure to reduce leverage ratios to levels approximating 10.0x in Fitch's rating case scenario.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Timely collection of previously deferred operating costs that reduces borrowing requirements and/or improves liquidity;
- Leverage ratios approximating 9.0x in Fitch's rating case scenario;

- Improved revenue defensibility, as evidenced by the implementation of timely rate increases and cost recovery actions following expiration of the rate lock, as well as approval of the proposed settlement related to previously deferred costs.

Profile

Santee Cooper is a state agency that provides wholesale power supply, as well as direct retail electric service to approximately 212,000 retail customer accounts and 27 large industrial customers. Including the retail base of Central, Santee Cooper supplies electricity to a population of approximately two million spanning much of the state of South Carolina. The authority also owns the Lake Moultrie and Lake Marion regional water systems, two drinking water treatment systems serving over 230,000 people.

Cancelled Nuclear Construction Strains Credit Profile

Santee Cooper's decision to suspend construction of the Summer nuclear units 2 and 3 in 2017 triggered a number of legal, political and financial challenges for the authority. At the time of the decision, Santee Cooper had spent $4.3 billion and construction of the nuclear plant expansion was 36% complete, with the engineering and procurement efforts both over 90% complete.

Strong customer and political opposition to the recovery of stranded costs related to the project led the governor to sign Act 95, which allowed the state to consider options to sell, manage or reform the authority. Committees in the State Senate and House of Representatives rejected all three of the final proposals considered pursuant to Act 95, including the authority's own reform plan.

Legal and Legislative Resolution

In early-2020, Santee Cooper took a major step toward stabilizing its operating profile by agreeing to the Cook Settlement, which provided for the release of major claims against the authority in exchange for payments for the benefit of utility customers totaling $200 million, and an agreement by Santee Cooper to hold rates at levels consistent with its reform plan.

During June 2021, the general assembly unanimously passed, and the governor signed, Act 90, which amended certain provisions related to the authority. Act 90 provided for manageable changes related to the authority's governance, broader state oversight over certain debt issuance, real estate transactions and resource planning and the establishment of a process for challenging rate adjustments approved by the board. Importantly, Act 90 did not include any provision to sell the authority, or undermine the board's sole rate-making authority.

Fuel Supply Issues and Deferred Costs

The authority began incurring higher operating costs during 2021 that could not be immediately recovered as a result of the rate lock. Production and transportation challenges caused by the pandemic, storm costs and higher fuel costs because of business disruptions at the authority's largest coal supplier all contributed to operating costs that were higher than budgeted figures.

The board of directors authorized the authority to create a regulatory asset in 2021 and begin deferring certain costs for future recovery after the rate lock period. A portion of the amounts deferred has been financed through a combination of commercial paper issuance and draws under the authority's revolving credit agreements. Pursuant to a recent settlement agreement, Santee Cooper expects to recover a significant portion of these costs through 2040.

Santee Cooper's recent decision to seek proposals to acquire and complete the Summer units 2 and 3 is neutral to the rating at this time.

New and Updated Environmental Protection Agency Regulations

In May 2024, the Environmental Protection Agency (EPA) released final standards regarding the regulation of carbon emissions for existing coal and gas-fired power plants. The regulations require the closure or significant modification of existing coal-fired power plants by 2032. While Santee Cooper management plans to retire its Winyah coal-fired facilities (1,150 MW) by 2031, it has no plans to decommission the Cross coal-fired units. The EPA carbon standards are facing legal challenges that could delay, alter or prevent their implementation. If the EPA standards withstand the legal challenges, the potential mandate to close or repower the Cross units could dictate higher costs for the authority and its customers.

The authority is also addressing new regulations set forth in the EPA's finalized Lead and Copper Rule Improvements (LCRI), along with specific testing requirements for per-and polyfluoroalkyl (PFAS) contaminants. The authority's capital improvement plan includes $80 million through 2027 for compliance with PFAS regulations. Regarding LCRI, the authority is evaluating the potential impacts from this rule but believes that they are unlikely to be significant.

Revenue Defensibility

Revenue Source Characteristics

Santee Cooper's revenue source characteristics are very strong, rooted in strong contractual underpinnings that support revenue collections from both retail and wholesale customers. Wholesale revenues account for roughly 61% of Santee Cooper's electric revenue and are largely derived from an all-requirements coordination agreement with Central. Under the agreement, Santee Cooper provides approximately 75% of the total power and energy requirements of Central and its member cooperatives. This agreement cannot be terminated until 2058. Earlier revisions to the agreement allowed Central to transition roughly 900 MW of load from Santee Cooper to Duke Energy Carolinas, but no further load transitions are anticipated.

Nearly all of Santee Cooper's remaining wholesale revenues come from long-term contracts that terminate after 2027. These include all-requirements contracts with the cities of Georgetown, Bamberg, Waynesville and Seneca, as well as agreements for capacity and energy with Piedmont Municipal Power Agency (A-/Negative) and Dominion Energy South Carolina, Inc. (A-/Stable).

The authority directly serves over 212,000 retail customers in Berkeley, Georgetown and Horry Counties of South Carolina, as well as 27 large industrial customers located throughout the state. These customer classes provide roughly 22% and 17% of Santee Cooper's total electric revenue, respectively. The agency has the exclusive right under state law to provide retail electric service to its assigned service territory and to serve the existing industrial customers outside its assigned territory.

Demand throughout the areas served by the authority has been supported by very strong customer growth and regional demographics for income and unemployment that are consistent with, or narrowly below, national averages. Going forward, demand growth is expected to accelerate given the planned expansion of existing loads, as well as the addition of new large customers. All of the authority's large industrial customers are supplied under contract, including Nucor Corporation (4.7% of revenue) and Century Aluminum (6.9%). Although contract durations are relatively short, Nucor and Century have been customers of the authority since 1996 and 1977, respectively.

Santee Cooper's water operations account for less than 1% of total revenue.

Rate Flexibility

Legislation grants Santee Cooper’s board the autonomous power to set electric rates. Moreover, the authority's revenue obligation resolution mandates that rates be set to generate revenue sufficient meet all obligations, including principal and interest on debt. These factors, together with the competitiveness of its rates suggest very strong rate flexibility. However, this flexibility remains constrained pending implementation of approved rate increases, the resumption of timely cost recovery adjustments during 2025 and approval of the pending settlement related to the recovery of deferred costs.

Purchaser Credit Quality

Purchaser credit quality is strong, largely based on the credit quality of the authority's dominant purchaser, Central. The Central rating reflects the cooperative's leverage ratio, measured as net adjusted debt to adjusted FADS, of roughly 8.0x and weaker liquidity as evidenced by cash on hand of roughly twelve days at year end 2023. Central's credit quality is supported by revenue derived pursuant to a very strong contractual framework that includes all-requirements wholesale power contracts with each of its 20 members, and legal authority to set rates to members.

Central's members, provide electric service to approximately 900,000 customers throughout South Carolina. The areas served by Central's largest members generally exhibit strong demand characteristics including customer growth rates above 1.5% per annum, unemployment metrics consistent with the national average and income metrics that are weaker than the national average. Additionally, Central's operating risk profile and cost burden are low, reflecting the cost, terms and characteristics of its power supply arrangement with Santee Cooper.

Although the wholesale purchaser cities of Georgetown, Bamberg, Seneca, SC, and Waynesville, NC are not rated by Fitch, the credit quality of purchasers Piedmont Municipal Power Agency and Dominion Energy South Carolina further support overall revenue defensibility.

Operating Risk

Operating Cost Burden

Santee Cooper's operating cost burden is assessed as very low, factoring its role as both a wholesale and retail supplier. While the authority's Fitch-calculated cost of power of 5.9 cents kWh over the past five years suggests a cost burden assessment of 'a' for wholesale systems, it aligns with the 'aa' assessment for retail systems. The relative stability of the cost burden reflects the efficient operation of the authority's generating resources, and factors annual payments in lieu of taxes and distributions to the state totaling $22 million. The prevailing rate lock has also kept the authority's cost burden lower, but even excluding deferred costs, the burden remained below 6.4 cents/kWh in 2023. The operating cost burden for 2024 is expected to be slightly higher but should continue to support the current assessment.

Operating Cost Flexibility

The authority's operating cost flexibility is neutral to the rating and driven by a power supply portfolio that is well diversified in terms of fuel sources and unit capacity. Winter peak capability, which includes a mix of owned (5,388 MW) and purchased resources (463 MW), remains sufficient to meet peak demand, which has ranged between 5,342 MW and 4,467 MW since 2019. Peak demand in 2023 was 4,940 MW.

Coal-fired generation dominates the agency's portfolio of resources, accounting for nearly 59% of existing capacity, and 42% of energy supply. Natural gas-fired and nuclear generation account for about 21% and 9% of energy needs. Going forward, the diversity of the authority's portfolio is expected to improve and its reliance on coal-fired capacity should decline. Santee Cooper's latest resource plan calls for the retirement of roughly 1,150 MW of capacity at the Winyah generating station by the end 2030, and the development of roughly 1,500 MW of new solar capacity, along with potentially 1,500 MW of new natural gas-fired capacity.

Environmental Considerations and Clean Energy Transition

The authority is not subject to a renewable portfolio standard or clean energy target, but has executed several contracts for solar capacity in recent years. Agreements totalling roughly 280 MW are currently operational, with an additional 200 MW expected online by during 2025. The authority expects to add upwards of 300 MW of additional solar capacity each year from 2026 through 2032.

Capital Planning and Management

Despite historical challenges related to the Summer nuclear project, Santee Cooper's capital planning and management is assessed as strong, factoring in the authority's age of plant (17 years) and continued reinvestment in its system. The capex to deprecation ratio has fallen to just 90% over the past five years, reflecting much lower capex spending since cancellation of the Summer expansion. However, expenditures over the next five years should be well above depreciation.

Santee Cooper's 2024 Integrated Resource Plan for capital improvements reflects a significant increase over the Authority's 2023 plan. It addresses required environmental compliance needs, as well as incremental generating capacity and transmission needs to meet an increasing load forecast. Whereas spending totaled $1.6 billion over 2020-2024, the current five-year plan contemplates total spending of roughly $5.9 billion through 2029, including transmission spending of $1.7 billion to address load growth and improve reliability, and potentially $2.2 billion for upgrades and new generating resources.

Planned expenditures are expected to be funded with internal funds and upwards of $4.3 billion of additional debt through 2029.

Financial Profile

Financial Performance and Fitch Analytical Stress Test (FAST) Analysis

Santee Cooper's leverage ratio improved to 10.4x in 2023, after hovering around 12.0x in 2021 and 2022. Lower purchased power and operating expenses increased operating income to $421 million from $279 million and FADS to $734 million from $581 million. Debt balances remained relatively unchanged at $7.8 billion in 2023, but are notably higher than in 2021 ($7.2 billion) largely due to borrowings to fund the authority's unrecovered and deferred operating costs. Coverage ratios also improved in 2023 as a result of higher FADS. Coverage of full obligations rose to 1.7x from 1.3x, and debt service coverage improved to 1.9x from 1.4x.

Liquidity remains neutral to the rating. Cash balances have remained consistently strong ranging between 122 and 180 days over the past five years. As of December 31, 2023, unrestricted cash balances and reserves totaled approximately $415 million. The authority recently increased short-term borrowing capacity under its revolving credit agreements and commercial paper (CP) program to $1.2 billion from $1.1 billion, which should further support liquidity in the near term.

Fitch Scenario Analysis

Fitch's base case scenario analysis indicates that the authority's leverage ratio will trend toward 10.0x beginning in 2025. Although leverage is expected to spike to over 12.0x in 2024, rate increases and the timely recovery of operating costs following the rating lock expiration should lead to much higher operating income and FADS beginning in 2025. Higher capital spending of roughly $1.1 billion per annum and significant new debt issuance will likely prevent leverage from trending meaningfully below 10.0x before 2028, but ratios should stabilize. Liquidity through the scenario analysis is also expected to remain adequate and neutral to the rating. Fitch's base case assumptions are informed by Santee Cooper's own financial forecast and include growth related energy sales of around 5% per annum, a 17% increase in electric revenue in 2025, higher capital spending as planned through 2028 and the recovery of deferred costs pursuant to the terms of the pending settlement agreement.

Fitch's stress or rating case scenario analysis considers a meaningful decline in sales followed by a recovery, and similarly indicates that the authority's leverage ratio will trend toward 10.0x, albeit at a slower rate. Fitch's rating case scenario also factors modestly higher rate increases that offset a prospective decline in sales and preserve the authority's stated financial objectives related to debt service coverage and cash on hand.

Debt Profile

Santee Cooper's debt profile is neutral to the rating. Nearly all of the authority's approximately $7.1 billion of outstanding revenue obligations are fixed rate, and scheduled amortization is manageable through final maturity of 2056. As of December 31, 2023, variable-rate debt was limited to 10% of total borrowings, or approximately $713 million including outstanding CP ($183 million), borrowings under revolving credit agreements ($404 million) and a single series of variable-rate revenue obligations ($124 million). The authority increased its CP program to $400 million in late 2024, as well as the supporting irrevocable direct-pay LOCs with Barclays Bank plc (A+/Stable). Additional borrowing capacity is available through separate revolving credit agreements with each of Bank of America, TD Bank, N.A. (AA-/Negative), Wells Fargo Bank, N.A. (AA-/Stable) and JPMorgan Chase Bank, N.A. (AA/Stable) totaling $800 million. The agreements expire at various dates in 2026 and 2028.

Total debt at year end 2023 as calculated by Fitch further includes capitalized fixed charges related to purchased power ($304 million in 2023) and unfunded pension obligations as adjusted pursuant to Fitch's methodology ($388 million).

Asymmetric Additive Risk Considerations

No asymmetric additional risk considerations were factored in the rating.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Financial Summary

($000; audited fiscal years ended Dec. 31)	2019	2020	2021	2022	2023
Net Adjusted Debt to Adjusted FADS (x)	10.60	10.70	11.90	12.20	10.41
Net Adjusted Debt Calculation					
Total Short Term Debt	232,617	197,351	124,043	118,246	184,757
Total Current Maturities of Long Term Debt	89,285	104,575	107,791	39,525	56,585
Total Long—Term Debt	6,901,130	6,857,277	6,961,591	7,573,550	7,605,551
Total Debt	7,223,032	7,159,203	7,193,425	7,731,321	7,846,893
+Capitalized Fixed Charge — Purchased Power & Gas	462,358	411,151	729,418	1,035,804	304,063
+Total Pension Obligation (GASB Fitch—Adj. NPL + FASB PBO)	430,680	446,205	382,181	392,745	387,963
-Total Unrestricted Cash	481,379	441,993	603,112	462,851	415,092
-Restricted Funds for Debt Service	70,624	67,803	72,748	88,515	80,482
Net Adjusted Debt	7,564,066	7,506,763	7,629,163	8,608,504	8,043,346
Adjusted FADS for Leverage Calculation					
Total Operating Revenue	1,722,676	1,627,427	1,765,785	1,949,050	1,850,603
Total Operating Expenses	1,319,872	1,263,683	1,496,286	1,670,010	1,429,528
Operating Income	402,804	363,744	269,499	279,040	421,075
Adjustment for Subsidy Revenue	7,640	7,652	7,703	7,669	7,669
Depreciation	197,613	244,992	259,075	269,073	272,161
+Interest Income	7,922	3,216	2,075	6,751	16,939
Amortization	26,244	20,245	16,445	18,619	16,134
Funds Available for Debt Service	642,223	639,849	554,797	581,152	733,978
Adjustment for Purchased Power and Gas	57,795	51,394	91,177	129,476	38,008
-Total Transfers/Distributions	17,496	17,479	17,135	17,675	18,961
+Pension Expense	30,800	27,800	12,400	12,400	19,400
Adjusted FADS for Leverage	713,322	701,564	641,239	705,353	772,425
Coverage of Full Obligations (x)	1.45	1.45	1.23	1.29	1.73
Funds Available for Debt Service	642,223	639,849	554,797	581,152	733,978
Adjustment for Purchased Power and Gas	57,795	51,394	91,177	129,476	38,008
-Total Transfers/Distributions	17,496	17,479	17,135	17,675	18,961
Adjusted FADS for Coverage	682,522	673,764	628,839	692,953	753,025
Full Obligations Calculation					
Cash Interest Paid	348,597	322,535	316,771	297,916	357,214
Prior Year Current Maturities	63,450	89,285	104,575	107,791	39,525
Total Annual Debt Service	412,047	411,820	421,346	405,707	396,739
Adjustment for Purchased Power and Gas	57,795	51,394	91,177	129,476	38,008
Total Fixed Obligations	469,842	463,214	512,523	535,183	434,747
Liquidity Cushion (Days)	332	360	377	297	281
Unrestricted Cash (Days)	160	162	180	122	133
Liquidity Calculation					
+Total Unrestricted Cash	481,379	441,993	603,112	462,851	415,092
+Total Borrowing Capacity	650,000	850,000	800,000	1,000,000	1,050,000
-Amounts Unavailable	135,300	307,351	143,032	337,746	587,223
Total Liquidity	996,079	984,642	1,260,080	1,125,105	877,869
Cash Operating Expense Calculation					
Total Operating Expense	1,319,872	1,263,683	1,496,286	1,670,010	1,429,528
-Depreciation and Amortization	223,857	265,237	275,520	287,692	288,295
Cash Operating Expenses	1,096,015	998,446	1,220,766	1,382,318	1,141,233

Sources: Fitch Ratings, Fitch Solutions, South Carolina Public Service Authority (Santee Cooper) (SC)

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