

## **FINANCIAL PLANNING AND REQUIREMENTS REPORT**

### **I. PURPOSE OF THE REPORT**

The purpose of this report is to supplement the information contained in the May 1, 2026 Request to Adopt Retail Rate Adjustment Process and Recommendation to Adjust 2027 and 2028 Rates and the 2026 Electric System Cost of Service and Rate Design Study being provided to the Santee Cooper Board of Directors (the “Board”) in support of the recommended rate adjustment by providing an overview of Santee Cooper’s (“Santee Cooper” or “Authority”) financial planning and revenue requirements. The Authority’s financial health, which is reflected by high credit ratings, is important in that it allows the Authority to continue to partner with the State in future economic development activities and gives the Authority the ability to obtain the most favorable financing for its capital program. Such favorable financing drives its ability to provide its customers with reliable, low-cost power, and translates into customer savings in the long term.

Unlike the ratemaking methodology utilized by investor-owned utilities in South Carolina, Santee Cooper utilizes a forward-looking methodology in its ratemaking based on its projected revenue requirements. These projected revenue requirements include Fuel expenses, non-fuel operations and maintenance (“NFOM”) expenses, debt service, payments to the State of South Carolina (“PTS”), sums in lieu of taxes (“SIL”), Capital Improvement Fund (“CIF”) requirements, and a working capital charge. This report describes the process Santee Cooper used to determine these projected revenue requirements.

The general assumptions and considerations underlying the components used in developing the Authority’s Gross Revenue Requirements are also described in this report.

### **II. SUMMARY OF THE REPORT**

This report discusses the Authority’s financial plan for the electric system and demonstrates that cost of service to customers is expected to exceed expected revenues under existing rates beginning in 2027.

The Authority’s financial plan is based on the following: (i) three-years of budgeted NFOM projections with calculated escalations and adjustments thereafter, (ii) 10-year capital projections, and (iii) fuel cost projections. These projections are primarily impacted by:

- Ongoing load growth in the Authority’s and Central’s territories, which requires investments to ensure the Authority’s ability to serve these new customers in a timely and reliable manner; and
- A capital spending initiative aimed at strategically investing in the system (e.g., capital projects for existing units, transmission upgrades, and distribution projects) to improve resilience and provide highly reliable service to customers over time.

- The need to increase the CIF requirement in order to maintain financial health.

In addition to responding to these items, the revenue under recovery is caused by inflationary and other cost pressures, as well as to collect debt service and CIF that support the capital program and the associated impacts of rising costs on working capital, SIL, and PTS.

## **DISCUSSION**

### **A. BUDGETING PROCESS**

The Board has the authority to approve and adopt the annual one-year forward-looking NFOM and capital budgets for the Electric and Water Systems. During this annual budget process, the Authority develops both the budget for approval and an additional two years of expected revenue requirements using a detailed corporate budget for NFOM expenditures and a ten-year capital plan. These additional two years of revenue requirements are considered “Planning Years”. Along with this annual budget process, the Board also approves and authorizes the one-year projected PTS, as well as directs and authorizes Authority management to pursue the most cost-effective and efficient means for financing portions of the next-year’s capital plan. The Authority’s financial plan is developed using inputs from the budget and Planning Years to project revenue requirements into the future.

The most recent financial plan (the “2026 Budget”) was adopted in December 2025 and includes the projected revenue requirements for Calendar Year 2027 (“CY2027”) and Calendar Year 2028 (“CY2028”) NFOM and capital expenditures, which are described below.

#### **1. 2027 Planning Year**

As previously stated, the Planning Year 2027 was also formulated during the 2026 Budget process. These projected costs are being used as a source for the Study.

#### **CY2027 NFOM**

The electric system NFOM projection for the Planning Year 2027 is expected to be \$633 million. The Calendar Year 2027 (“CY2027”) NFOM amounts include the following expenditures by function:

<b>CY2027 NFOM</b>	
<b>Function/FERC</b>	<b>Planned Amount (\$Millions)</b>
Generation	\$342
Administrative & General	\$149
Transmission	\$90
Distribution	\$24
Customer Accounting	\$25
Sales Expenses	\$3
<b>Total NFOM Budget</b>	<b>\$633</b>

### 2027 Capital

The electric system capital projection for the Planning Year 2027 is expected to be nearly \$1.1 billion. The CY2027 capital plan included the following expenditures:

<b>CY2027 Capital</b>	
<b>Function/FERC</b>	<b>Planned Amount (\$Millions)</b>
Generation <sup>[1]</sup>	\$617
Transmission	\$364
Distribution	\$63
Customer & Corporate Services	\$52
<b>Total Capital Budget</b>	<b>\$1,096</b>

### **2. 2028 Planning Year**

As previously stated, the Planning Year 2028 was also formulated during the 2026 Budget process. These projected costs are being used as a source for the Study.

### CY2028 NFOM

The electric system NFOM projection for the Planning Year 2028 is expected to be \$660 million. The Calendar Year 2028 ("CY2028") NFOM amounts include the following expenditures by function:

<b>CY2028 NFOM</b>	
<b>Function/FERC</b>	<b>Planned Amount (\$Millions)</b>
Generation	\$354
Administrative & General	\$154
Transmission	\$94
Distribution	\$28
Customer Accounting	\$26
Sales Expenses	\$3
<b>Total NFOM Budget</b>	<b>\$660</b>

### 2028 Capital

The electric system capital budget for the Planning Year 2028 is approximately \$1.13 billion. The CY2028 capital plan includes the following expenditures:

<b>CY2028 Capital</b>	
<b>Function/FERC</b>	<b>Planned Amount (\$Millions)</b>
Generation <sup>[1]</sup>	\$639
Transmission	\$389
Distribution	\$58
Customer & Corporate Services	\$46
<b>Total Capital Budget</b>	<b>\$1,132</b>

## B. GROSS REVENUE REQUIREMENTS

Pursuant to S.C. Code Ann. § 58-31-30, *et seq.*, the Authority's Enabling Act, the Authority has, among other things, the power to sell electric power and to:

fix, alter, charge, and collect tolls and other charges for the use of their facilities of, or for the services rendered by, or for any commodities furnished by, the Public Service Authority at rates to be determined by it, these rates to be at least sufficient to provide for payment of all expenses of the Public Service Authority, the conservation, maintenance, and operation of its facilities and properties, the payment of principal and interest on its notes, bonds, and other evidences of indebtedness or obligation, and to fulfill the terms and provisions of any agreements made with the purchasers or holders of any such notes, bonds, or other evidences of indebtedness or obligation.

S.C. Code Ann. § 58-31-30(A)(13).

Furthermore, the Authority's Rate Covenant in Section 8.2 of its Master Revenue Obligation Resolution ("Master Resolution") provides that to maintain the ability to service current and future debt obligations, Santee Cooper must "establish, maintain and collect rents, tolls, rates and other charges for power and energy and all other services . . ." As such, the Authority is authorized to revise and alter rates and charges to sufficiently recover the annual Gross Revenue Requirements.

### 1. Assumptions for Gross Revenue Requirements

Key assumptions used in developing the projected Gross Revenue Requirements are as follows:

- **Demand and Energy Requirements** – Demand and energy requirements are based on Load Forecast 25-02 ("LF25-02").
- **Integrated Resource Plan** - The IRP is based on future system expectations and has been created to fulfill projected demand and energy requirements as stipulated by LF25-01. The 2026 Budget financial plan incorporates the 2025 IRP.
- **Capital** – Specific capital costs are discussed herein.
- **Financing Considerations** – Existing cost of capital and financings are discussed herein.
- **Non-Fuel Operations & Maintenance Expenses** – NFOM expenses are based on the 2026 Budget.
- **Fuel & Purchased Power Costs** - Electric system fuel and energy costs are based on an economic dispatch of the Authority's generating resources, including purchased power, completed using information available through October 2025. The dispatch reflects Santee Cooper's existing and projected coal contracts,

purchased power contracts, and scheduled maintenance. Fuel burned is estimated by using average heat rate curves. Santee Cooper's customer rates include a true-up mechanism through the fuel adjustment to ensure customers are charged actual fuel and purchased power fuel costs. Fuel and purchased power fuel costs are reflected in the Gross Revenue Requirements and are recovered on an actual basis through the fuel adjustment. Purchased power capacity and NFOM costs are not recovered through the fuel adjustment and thus are not trued up to reflect actual costs; consequently, such capacity and NFOM costs are included in the base rates.

## **2. Other General Assumptions/Considerations**

- All applicable Federal and State environmental laws will continue to be implemented, applied and enforced.
- There will be no material change in the taxation of fuel used to produce electricity.
- There will be no material change on the taxation of governmentally owned or municipally financed electric generation, transmission, and distribution systems.
- There will be no material change in the level of Federal, State, or local regulation of governmentally owned electric systems.
- There will be no material change in the Authority's existing ability to import or export power over the statewide transmission grid.
- The existing form of governance and policies established by the Authority will continue throughout the study period.
- The Authority will continue to be the exclusive owner and operator of the Electric System, including its generation, transmission, distribution, and customer care facilities.

## **3. Components of Gross Revenue Requirements**

As noted above, the Gross Revenue Requirements consist of annualized costs and other charges that are reasonably recovered through rates from some or all of the Authority's customers for service during a calendar year. The annual Gross Revenue Requirements include the following components:

- Operations and Maintenance Expense ("O&M"), which can be subdivided into NFOM, as discussed above, and fuel and purchased power,
- debt service and capital leases,
- PTS,
- SIL,

- CIF Requirements (CIFR); and
- working capital charge.

The assumptions used to determine Gross Revenue Requirements utilize and rely on a multitude of recent, available, and pertinent information. The projected revenue requirement determination process is a culmination of research, analyses, and forecasts from the subject-matter experts and external consultants where applicable; and the process takes into consideration expectations of future fuel prices, regulatory requirements, current resource plans, and interest rate market assumptions, among others.

The projected amounts for these components of the Gross Revenue Requirements were formulated and finalized during Santee Cooper’s annual budgeting process. Table 1 below provides the projected Gross Revenue Requirements calculations.

**Table 1 - Electric System Gross Revenue Requirements**

<b><u>(\$Millions)</u></b>	<b><u>2027</u></b>		<b><u>2028</u></b>	
Fuel/Purchase Power	1,394	46%	1,377	42%
Non-Fuel O&M	633	21%	660	20%
Debt Service and capital leases	679	22%	840	26%
CIFR, <sup>[1]</sup> Payment to State, Sums in Lieu & Working Capital	356	12%	377	12%
<b>Total Revenue Requirements</b>	<b>3,063</b>	<b>100%</b>	<b>3,254</b>	<b>100%</b>

<sup>[1]</sup> Capital Improvement Fund requirement is based on 10% of revenues.

**a. Operations & Maintenance Expenses**

O&M expenses are expenses incurred in the normal course of business and for purposes of administering, generating, providing, and supplying reliable electric power and services to customers. Santee Cooper budgets these expenses by function, as set forth in Table 2 below. For the 2027 Test Year total O&M expenses are projected to be approximately \$2 billion.

**Table 2 – Electric System O&M Expenses**

<b>(Millions)</b>	<b>2027</b>	<b>2028</b>
Fuel (Burned)	\$845	\$924
Purchased Power	\$549	\$452
Other	\$342	\$354
<b>Total Production</b>	<b>\$1,736</b>	<b>\$1,730</b>
Transmission	\$90	\$94
Distribution	\$24	\$28
Customer Accounts	\$25	\$26
Customer Service & Information	\$9	\$9
Sales Promotion	\$3	\$3
Administrative & General	\$149	\$154
<b>Total Other</b>	<b>\$300</b>	<b>\$315</b>
<b>Total O&amp;M</b>	<b>\$2,036</b>	<b>\$2,045</b>

**b. Debt Service**

The debt service component of the Gross Revenue Requirements, identified in Table 1 above, includes annual principal payments and interest expense on existing debt as of December 31, 2024, issued under the Authority’s Master Resolution, as well as projected future Master Resolution debt issuances. Debt service also includes interest and certain principal payments to be paid from revenues on projected debt issued under commercial paper and revolving credit agreements and purchased power tolling agreements that are considered capital leases. Santee Cooper’s future capital plans (described herein) are relevant for the determination of the new debt service requirements, through the corresponding capital financing/funding plan. As described herein, the Authority strategically funds portions of its capital investments through the issuance of debt. The projections reflect planned Revenue Obligation bond issuances throughout the Planning Years. All projected future Revenue Obligation bond issuances described are subject to Joint Bond Review Committee approval.

**c. PTS, SIL, CIF Requirements and Working Capital**

**Table 3 – Breakdown of PTS, SIL, CIF Requirements and Working Capital from 2027--2028**

<b><u>(\$Millions)</u></b>	<b><u>2027</u></b>		<b><u>2028</u></b>	
CIFR	\$304	85%	\$323	86%
Payment to State	\$31	9%	\$32	9%
Sums in Lieu	\$8	2%	\$8	2%
Working Capital	\$14	4%	\$13	3%
<b>CIFR, PTS, SIL &amp; Working Capital</b>	<b>\$356</b>	<b>100%</b>	<b>\$377</b>	<b>100%</b>

**PTS and SIL:** As a public utility, the Authority does not pay taxes to the state of South Carolina or local authorities, but instead makes payments in lieu of taxes, which must be recovered through rates. These payments are described as follows:

- **PTS:** The Authority remits a payment to the State of South Carolina of 1% of all projected operating revenue collected from the sales of Electric and Water services.
- **SIL:** Includes kWh Sales Taxes, Generation Taxes, Land Rental Taxes, and any other Additional Sums in Lieu of Taxes remitted to governments and governmental agencies.
- **Franchise Taxes:** Franchise taxes are collected on behalf of local authorities on annual retail/distribution sales. Franchise taxes are not included as a revenue requirement.

**CIF Requirements:** The Authority's Bond Covenants in the Master Revenue Obligation Resolution includes a minimum CIF Requirement, which is defined as:

[A]n amount which, together with the amounts deposited in the Capital Improvement Fund in the two immediately preceding Fiscal Years, will be at least equal to eight per cent (8%) of the Revenues required by this Resolution to be paid into the Revenue Fund in the three immediately preceding Fiscal Years."

Section 5.3 of the Master Resolution.

In order to have funds to make such described CIF transfers the Authority's Gross Revenue Requirements include a contribution to CIF requirements. To maintain Santee Cooper's financial health and metrics, customer rates have historically reflected a capital improvement fund requirement greater than the 8% minimum to meet such financial objectives. Santee Cooper's proposed rates include increasing the CIF Requirement from 9% to 10% of the annual revenue requirements for the 2027 and 2028 Test Years.

**Working Capital Charge:** Due to the lag between when costs are incurred versus revenues collected, Santee Cooper's Gross Revenue Requirements include an annual allowance for Working Capital to ensure that sufficient funds are available to pay expenditures for day-to-day operations and maintenance of the electric system. The annual Working Capital allowance is based on total Working Capital to cover 45 days (one-eighth of 365 days) of O&M expenses less Purchased Power, nuclear fuel, and lease payments. The annual Gross Revenue Requirement reflects a portion of the year-over-year change in the total Working Capital need. Therefore, such charges included for the annual allowance for Working Capital are calculated as one-eighth of the total annual difference in O&M (less purchased power, nuclear fuel, and lease payments) from the current year to the previous year. If such working capital calculation for the given Test Year yields a negative adjustment, the Working Capital requirement is excluded from the Gross Revenue Requirements.

**d. Deferred Costs**

Portions of the debt service, CIF, PTS, and SIL included in the Gross Revenue Requirements above include the recovery of deferred costs from the Cook Settlement (“Cook Charge”). The Cook Charge is collected from retail customers via the Deferred Cost Recovery Adjustment Rider (DCR-25). The total projected Cook Charge for 2027 is \$87 million and for 2028 is \$84 million.

**IV. CONCLUSION**

The Authority’s financial plan indicates significant load growth on the Authority’s system and throughout the Southeast, requiring investments to maintain reliable service over time and increases operating costs. These needs, plus ongoing increases due to inflation and other costs, indicate that the Authority’s current rates will not provide sufficient revenues for it to meet its Gross Revenue Requirements beginning in 2027 and requires a revision to retail rates.