

CHAIRMAN AND CEO LETTER



With a continued, steady focus on financial stability, economic development and customer service, the decisions and progress Santee Cooper made in 2014 are lighting the path toward a robust, successful future.

Santee Cooper continues to be financially stable and financially strategic. In June and October, we completed sales of a total \$1.38 billion in revenue obligation bonds, which will be used primarily to help finance Santee Cooper's share of costs to build two new nuclear power units at V.C. Summer Nuclear Station and to restructure or refund a portion of existing debt. Through strategic debt restructuring, we realized annual savings of \$79 million.

Operationally, we continued to achieve excellent system reliability results including a distribution reliability rate of 99.9966 percent, a transmission reliability rate of 99.9986 percent, and a generation availability factor of 90.02 percent. Our debt-to-equity ratio for 2014 was 75/25. Santee Cooper also began providing power to Piedmont Municipal Power Association and to Alabama Municipal Electric Agency.

Excellent customer service for our more than 171,500 retail customers remains a priority for Santee Cooper. We worked tirelessly to bring power back to more than 45,000 customers less than four days after the February 12 arrival of Winter Storm Pax, which made the largest impact on our system since Hurricane Hugo in 1989.

Continuing efforts to help our customers save energy, Santee Cooper introduced several new Reduce The Use initiatives. In the spring, we began offering free, online home energy checkups with EnergyEarth, making it easier for customers to learn where they can save energy in their homes. In October, Santee Cooper gave away 30,000 LED bulbs to residential customers to

promote the benefits of the highly efficient bulbs. Our Reduce The Use residential and commercial programs create savings for customers that will last for years.

We partnered with York, Palmetto and Aiken electric cooperatives to install and dedicate three more Green Power Solar Schools, bringing our total to 26 Green Power Solar Schools statewide. Each Solar School is equipped with a 2-kilowatt solar array and a specialized curriculum, allowing students to study the opportunities and challenges of solar energy. Green Power Solar Schools are just one way Santee Cooper fulfills its commitment to reinvest Green Power funds back into renewable resources across South Carolina.

Santee Cooper also is studying solar on a larger scale with the 3-megawatt Colleton Solar Farm, which was dedicated in January in partnership with the state's electric cooperatives and TIG Sun Energy. Santee Cooper purchases electricity from the solar farm, which TIG built and operates and which increases the renewable generation available to our customers. We continue to analyze its generation data to learn how to better integrate utility-scale solar power into a complex power system.

We advanced economic opportunity last year in several ways, such as awarding \$25.0 million in loans to projects throughout the state. New manufacturing announcements last year included tenants in Dillon, Marion and Orangeburg counties announcing hundreds of new jobs at plants under construction in late 2014.

In April, the Santee Cooper Board of Directors also approved two site readiness grant programs, totaling \$42.5 million, designed to recruit industry and create jobs across South Carolina.

Specifically, the South Carolina Power Team Site Readiness Fund will award grants totaling up to \$6.0 million a year for high-value projects in areas served by the state's electric cooperatives. The new \$2.5-million-a-year Santee Cooper Municipal Site Readiness Fund will offer grants for high-value projects in municipalities served as wholesale customers by Santee Cooper. Both funds are available for five years.

The board also approved in April a new economic development rate to help attract eligible new or expanded large industry by offering savings on their initial electric bills. The rate is designed to provide the most benefit over the crucial start-up years. To qualify, industries must meet a required 2 MW of new electric load and make a \$500,000-per-MW capital investment or hire at least 50 new employees.

One of our most significant accomplishments is being played out on the environmental front, specifically in our ash ponds. In March, we expanded our decades-long practice of recycling ash and gypsum by beginning a concentrated effort to remove the coal ash stored in seven ponds at Jefferies, Winyah and Grainger generating stations for beneficial use. Utilizing both longstanding and new technologies and processes, the ash will be used by the concrete and cement industries, a practice that is supported by the U. S. Environmental Protection Agency. In 2014, Santee Cooper removed more than 229,000 tons of fly ash and 319,000 tons of pond ash from its generating stations.

Unfortunately, the EPA proposed a carbon dioxide emissions rule in 2014 that has the potential to significantly increase South Carolina customers' bills primarily because it gives the state no credit for emissions reductions we would gain from new nuclear

power units under construction. Santee Cooper educated customers about the proposed rule. We asked customers to share concerns with EPA, and Santee Cooper forwarded more than 36,000 postcards from customers to EPA. The common thread: Give South Carolina proper credit for emissions reductions we are already working on, especially new nuclear power units.

With partners South Carolina Electric & Gas, construction is continuing on those two new nuclear units at V.C. Summer Nuclear Station. When complete, the units will bring 2,200 MW of reliable, emissions-free electricity to the state's grid. Nuclear power is the only baseload resource that is emissions-free.

As we plan for the future, Santee Cooper will remain innovative and forward-thinking in order to continue providing low-cost, reliable, environmentally responsible power and water to our customers and to fulfill our mission of improving the quality of life for the people of South Carolina.



W. Leighton Lord III

Chairman



Lonnie N. Carter

President and CEO