

## Letter from the President and CEO

At the American Public Power Association's National Conference in June, APPA President and CEO Sue Kelly spoke about issues that keep utility leaders up at night. Chief among them are cybersecurity, new regulations, distributed generation like rooftop solar power, and workforce planning.



These are all critical issues for every utility, including Santee Cooper. As I think about initiatives we have in place for each of these areas, I am confident that Santee Cooper is preparing in a way that minimizes costs to customers where we can and protects utility employees and assets as well.

- In terms of cybersecurity, the Santee Cooper Board of Directors recently approved a new executive officer position, chief information officer, and named Dom Maddalone to fill it. Dom possesses 24 years of national and global IT executive experience, and he has the experience necessary to effectively shape strategic direction and protection of our IT resources and cybersecurity matters.
- Regulations come with a price tag. Santee Cooper strives to anticipate and plan for regulations, which generally means we can achieve compliance for a lesser financial impact. The Clean Power Plan is no exception. Although the CPP is currently caught in the court system, Santee Cooper has been preparing for carbon restrictions for years and we are better positioned than many utilities when those restrictions do take force.
- Distributed generation primarily means rooftop solar and other behind-the-meter (customer-owned) power right now. Santee Cooper recently rolled out new rooftop and community solar incentives that help our customers make the initial investment, but in a way that is fair to all customers including those who aren't interested in solar power. Visit [www.santecoopersolar.com](http://www.santecoopersolar.com) to learn more.
- Workforce planning is essential in today's energy industry. Santee Cooper is in the middle of a stretch of years where nearly a third of our workforce is eligible to retire. We have launched new programs to strengthen our leadership ranks, partner with technical colleges to create apprenticeship programs to train the next generation of skilled workers in our plants, and begin a continuous improvement movement to address workforce and workplace efficiency.

Ms. Kelly is right to identify some of the major issues facing utilities today. You have my word that Santee Cooper is focused on each of these as we continue working to be a leading resource for improving the lives of all South Carolinians.



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# For the Benefit of All

Quarterly Financial Report  
for period ended June 30, 2016



 Printed on recycled paper.

## Executive Summary

### Second Quarter 2016 Compared to 2015

The financial results for the second quarter of 2016 showed an increase of nearly \$25 million compared to the same period last year.

Operating Revenue decreased \$22 million when compared to the same period in 2015. The primary drivers for this were lower kWh sales and demand usage between the years, combined with lower fuel rate revenues. This quarter, kWh sales were down 13% from last year, due to activity primarily in the Industrial and Wholesale categories. Degree days were up slightly (3%) from the same quarter last year.

Operating Expense for the second quarter of 2016 was down \$42 million. The main contributor was lower fuel and purchased power costs due to lower kWh sales, along with a reversal of prior accrued sales promotion expense. Smaller variances were spread among the remaining cost categories.

Other Income increased \$8 million compared with the second quarter of last year from the prior years catch-up entry to amortize the remaining balance of the Pee Dee assets. The Fair Value of Investments increased \$1 million.

Interest Charges were lower by \$3 million compared to last year due to the impact of the 2015 and 2016 bond activity.

The \$7 million change in Costs to be Recovered from Future Revenue expense was a result of the implementation of a modified CTBR methodology in 2015.

Overall, Reinvested Earnings for the second quarter showed an increase when compared to the same period last year as a result of these factors.

### Key Statistical Highlights

|                                  | <b>This Year</b>                 | <b>Last Year</b> |
|----------------------------------|----------------------------------|------------------|
|                                  | <b>Current Quarter</b>           |                  |
| Total MWh Sales                  | 5,606,447                        | 6,427,539        |
| Number of Degree Days            | 885                              | 860              |
|                                  | <b>For Month Ended June 2016</b> |                  |
| Distribution Reliability % (YTD) | 99.9958                          | 99.9966          |
| Number of Retail Customers       | 175,644                          | 173,116          |

## Quarterly Statement of Reinvested Earnings

Millions of Dollars (Unaudited)

|   | <b>Current Quarter</b> |                  | <b>12 Months to Date</b> |                  |
|---|------------------------|------------------|--------------------------|------------------|
|   | <b>Apr 1 - Jun 30</b>  |                  | <b>Jul 1 - Jun 30</b>    |                  |
|   | <b>This Year</b>       | <b>Last Year</b> | <b>This Year</b>         | <b>Last Year</b> |
| Operating Revenue                                       | \$411.6                | \$433.2          | \$1,750.6                | \$1,918.7        |
| O&M Expense   | 287.5                  | 329.6            | 1,214.2                  | 1,376.5          |
| Depreciation & Sums<br>in Lieu of Taxes                 | 45.4                   | 45.2             | 181.7                    | 180.5            |
| Operating Expense                                       | 332.9                  | 374.8            | 1,395.9                  | 1,557.0          |
| Operating Income  | \$78.7                 | \$58.4           | \$354.7                  | \$361.7          |
| <i>Add:</i>   |                        |                  |                          |                  |
| Other Income  | (7.6)                  | (15.8)           | (30.1)                   | 4.4              |
| Net Increase (Decrease) in<br>Fair Value of Investments | 0.3                    | (0.6)            | (1.2)                    | (1.2)            |
| <i>Subtract:</i>  |                        |                  |                          |                  |
| Interest Charges  | 67.8                   | 70.6             | 275.7                    | 281.4            |
| Costs To Be Recovered                                   | 1.5                    | (5.9)            | 22.0                     | (50.7)           |
| Reinvested Earnings                                     | \$2.1                  | (\$22.7)         | \$25.7                   | \$134.2          |

### Balance Sheet

As of June 2016 and 2015

Millions of Dollars (Unaudited)

| <b>Assets</b>  | <b>This Year</b> | <b>Last Year</b> |
|--|------------------|------------------|
| Utility Plant - Net  | \$7,665.2        | \$6,902.5        |
| Long Lived Assets - ARO - Net                                | 327.7            | 364.9            |
| Investment in Associated Co.                                 | 6.6              | 7.8              |
| Unrestricted Funds - Non-Current                             | 0.0              | 0.0              |
| Restricted Funds - Non-Current                               | 133.2            | 122.9            |
| Unrestricted Funds   | 611.5            | 749.3            |
| Restricted Funds   | 946.9            | 1,320.0          |
| Other Current Assets   | 1,068.8          | 1,014.0          |
| Costs To Be Recovered  | 237.7            | 259.7            |
| Regulatory Asset   | 492.5            | 480.9            |
| Other Deferred Debits  | 324.7            | 268.3            |
| Total Assets   | \$11,814.8       | \$11,490.3       |
| <b>Liabilities</b>   |                  |                  |
| Long Term Debt - Net   | \$7,174.3        | \$7,006.3        |
| Short Term Debt  | 653.7            | 498.3            |
| Current Portion of L-T Debt                                  | 137.0            | 216.2            |
| Other Current Liabilities                                    | 421.6            | 392.3            |
| ARO Liability  | 1,045.9          | 1,052.0          |
| Other Liabilities  | 432.6            | 128.8            |
| Accumulated Reinvested Earnings<br>and Capital Contributions | 1,949.7          | 2,196.4          |
| Total Liabilities and Capital                                | \$11,814.8       | \$11,490.3       |

## Quarterly Headlines

### Nuclear Fixed Price Option

Santee Cooper's Board of Directors has given authorization to proceed with securing an option that substantially fixes the costs to complete two new units at V.C. Summer Nuclear Station. This will give greater cost and schedule certainty to customers of Santee Cooper and South Carolina Electric & Gas Company (SCE&G), joint owners of the new nuclear project.

This option will increase Santee Cooper's budget by about 20 percent but provides cost certainty that could save customers hundreds of millions of dollars. This would be Santee Cooper's first project budget increase since the original budget was approved in April 2012.

The Santee Cooper board also approved the sale of \$831 million in revenue obligation bonds, primarily to finance the ongoing nuclear construction project. A portion of the proceeds will be used to refinance existing utility debt.

The issue drew ratings of AA- from Standard & Poor's, A1 from Moody's and A+ from Fitch. All three agencies reaffirmed existing ratings and a stable outlook for long-term debt.

### Santee Cooper Launches New Solar Programs

On April 1, 2016, Santee Cooper launched the state's first community solar project along with rebates for its community and rooftop solar programs which are designed to help customers invest in solar power and cut their electric bills over the life of the program.

Solar Share, our community solar project will offer Santee Cooper customers the opportunity to purchase the output from a share of the Colleton Solar Farm. This expands the benefits of solar power ownership to all Santee Cooper customers, even those not qualified for rooftop installations.

For customer who wish to install solar panels on their roof, Santee Cooper's Solar Home and Solar Business programs offer rebates and other incentives designed to help recover the cost of installation.

### The Santee Cooper Board Approves New Officers

Dom Maddalone has been named senior vice president of information systems and chief information officer, and Rahul Dembla has been named vice president of planning and pricing.

Maddalone previously was vice president of IT infrastructure and chief technology officer for Probuild, located in Denver, Colorado.

Dembla previously served as director of public finance for public power and utilities with Barclays Capital in New York City.

Cover photo by Jim Huff