

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns A3 to South Carolina Public Service Authority's Revenue Bonds, 2024 Series A, B and C bonds; Outlook is stable

15 Jul 2024

Up to approximately \$1.3 billion of bonds affected

New York, July 15, 2024 -- Moody's Ratings (Moody's) has assigned A3 to South Carolina Public Service Authority's (Santee Cooper) new bond issuances consisting of up to \$372 million of Revenue Obligations, 2024 Tax-Exempt Improvement Series A, up to \$870 million of Revenue Obligations, 2024 Tax-Exempt Refunding Series B, and up to \$73 million of Revenue Obligations, 2024 Taxable Improvement Series C. The outlook is stable.

RATINGS RATIONALE

Santee Cooper's A3 rating considers the utility's broad service area directly or indirectly serving approximately 2 million people in South Carolina, ownership by the state of South Carolina (Aaa stable), and competitive rates. Additional credit strengths include a long term, all requirements contract with Central Electric Power Cooperative Inc. (Central) maturing at the end of 2058, some generation diversity, and strong adjusted liquidity on hand supported by a total of \$1.1 billion of committed bank lines and bank letter of credit backed commercial paper (CP) program. As of May 31, 2024, Santee Cooper had \$466 million of combined availability under its bank lines and CP program.

Also considered in the rating are the issuer's high leverage with its debt ratio around 136% owing to the termination of the Summer nuclear project, limited financial flexibility due to its rate freeze through 2024, counterparty concentration with Central, carbon transition risk due to coal plant ownership, and uncertainty surrounding the utility's future resource mix. The utility's rate freeze represents its most significant credit weakness and the current rating reflects the utility's anticipated return to significantly improved financial stability starting in 2025.

For 2023, Santee Cooper's financial metrics improved with DSCR of 1.17x and 226

adjusted liquidity on hand compared to DSCR of 0.44x and adjusted liquidity on hand of 206 days in 2022. Lower fuel and purchased power costs in 2023 compared to 2022 were the main contributors to the utility's improved financial performance since Santee Cooper's rate freeze prevented the utility from passing through unexpected higher costs in 2022. 2023's lower costs also contributed to lower deferred rate freeze exceptions (Cook Exceptions) totaling around \$267 million in 2023 compared to around \$359 million in 2022. At year-end 2023, regulatory assets tied to the Cook Exceptions totaled \$625 million. Our understanding is that Santee Cooper will seek to recover these costs after the rate freeze expires and Central has already indicated its opposition to treat some of these costs as a rate freeze exception. Separately, we understand that Central filed in July 2024 a notice of arbitration disputing an estimated \$445 million of cumulative future cost recovery tied to the terminated Summer nuclear plant. These disputes with Central highlight both the risk of customer concentration and the risk of dispute with its customers that adds to some uncertainty on future cost recovery.

For the current year, we expect Santee Cooper should achieve DSCR from 1.20x to 1.30x range and adjusted liquidity of around 200 days depending on demand growth and further moderating of operating costs in 2024. Starting in 2025, we expect Santee Cooper will have greater financial stability and should achieve DSCR at around 1.30x. Supporting the utility's steady financial performance starting in 2025 are the expiration of the rate freeze, commencement of full pass through of fuel and purchased power costs, and a proposed base rate increase averaging 4.9%. The proposed base rate increase is expected to be approved in December 2024 and implemented in April 2025. The return of the utility's full rate setting ability and its willingness to implement rate changes to maintain financial health remain key credit considerations especially as the utility confronts a large, multi-billion dollar capital spending program through at least 2029. Specific capital programs during this period include capital spending to meet stricter environmental rules finalized by the US Environmental Protection Agency in April 2024, to meet expected strong load growth including data centers, to decarbonize its power generation portfolio, and to improve reliability by investing in its transmission and distribution system.

RATING OUTLOOK

The stable outlook further reflects our expectation that the utility will have DSCR in the 1.20x to 1.30x range for 2024 and will implement needed rate increases in 2025 that ensures DSCR of at least 1.30x.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

The utility's rating could be upgraded if Santee Cooper demonstrates strong rate setting and conservative financial management post rate freeze that leads to DSCR above 1.50x on a sustained basis and maintenance of strong adjusted liquidity above 200 days.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

Santee Cooper's rating could be downgraded if the utility does not implement rate changes that lead to DSCR of at least 1.20x or if unexpectedly high fuel and purchased power costs substantially increases the utility's debt burden or reduces adjusted liquidity below 150 days. The utility's rating could also be downgraded if political influence weighs on Santee Cooper's operations, if new major disputes arise with Central, particularly as it relates to the rate freeze, or if the borrower is not able to renew its bank lines at beneficial terms.

LEGAL SECURITY

Santee Cooper's bonds benefit from a pledge of the electric and water system's gross revenues and a sum sufficient rate covenant. There is no debt service reserve account or additional bonds test.

USE OF PROCEEDS

After paying for transaction costs, net proceeds from the Series A and C bonds will be used to fund capital spending while net proceeds from Series B bonds will be used to refund some or all of the utility's 2013 and 2014 bonds.

PROFILE

South Carolina Public Service Authority (Santee Cooper) was created by the South Carolina State Legislature in 1934 and provides both retail and wholesale electric service directly or indirectly to approximately two million people in all 46 counties of the state. Santee Cooper also has a water system serving over 200,000 people. The utility also operates an integrated transmission system which includes lines owned by the issuer as well as those owned by Central Electric Power Cooperative Inc, Santee Cooper's largest wholesale customer.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at <https://ratings.moodys.com/rmc-documents/398041>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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