South Carolina Public Service Authority; Retail Electric

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applicability of the exceptions to the rate freeze, severely limiting Santee Cooper's ability to pass on to ratepayers the unbudgeted costs; and

- Because there is the possibility of further financial stress despite power costs being largely hedged for the remainder of 2023 and for 2024, and an inability to recover these costs until the rate freeze expires.

The 'A-' rating further reflects our opinion of the following:

- A deep and diverse service area and customer base spans much of South Carolina. Santee Cooper serves about 1 million end-use customers--approximately 20% directly and 80% indirectly--through its sales to Central Electric Power Cooperative (Central). Central accounts for 55% of the authority's revenue.
- Rates are competitive, and the authority's relative market position has improved while operating under the rate freeze. However, we anticipate sizable base and fuel rate increases in 2025 (and smaller annual rate increases thereafter); moreover, as the authority pursues recovery of the Cook exceptions, additional rate increases will likely be imposed over a currently undetermined period.
- On an accrual basis, fixed cost coverage (FCC) averaged 1.28x during fiscal years 2019-2021, but FCC was just 0.5x on a cash basis in fiscal 2022, as Santee Cooper was unable to recover the Cook settlement exceptions due to the rate freeze. Management projects financial results that we calculate would produce improving cash-basis FCC--1.1x and 1.2x, respectively, in fiscal years 2023 and 2024--prior to the authority regaining its rate-setting autonomy and recovering Cook exceptions over a to-be-determined period.
- Liquidity is solid. The authority had $956 million (net of collateral) cash, available cash, and investments plus undrawn capacity on credit lines at fiscal year-end 2022, covering about 249 days of operating expenses. Although this is projected to decline to about $750 million by fiscal year-end 2024, we expect that it would remain supportive of the current rating.
- In the wake of the stranded investment in the cancelled nuclear project, Santee Cooper's power supply plans, as outlined in its 2023 integrated resource plan (IRP), are designed to maintain system reliability while transitioning its coal-dependent power supply to a cleaner, more efficient, more flexible, and more diverse resource portfolio. We generally view these plans as credit supportive, but we also believe that there is a degree of execution risk in pursuing them, and we view them as a key to Santee Cooper's effort to control costs.
- Santee Cooper is a moderately leveraged utility, with debt measuring 77% of total capitalization. We expect this ratio will remain at about this level through 2028, despite the planned issuance of $2.4 billion in additional debt to fund the authority's $3.5 billion capital plan over fiscal years 2024-2028, in support of the IRP.

Environmental, social, and governance

We believe Santee Cooper faces environmental risks that are moderately credit negative. The authority's effort to reduce its carbon footprint was complicated by the cancellation of the V.C. Summer nuclear units 2 and 3 (VCS2&3) project, and the utility faces exposure to regulation of fossil fuel emissions. Coal-fired generation in 2022 was relatively low (37% of energy) by historical standards, due to disrupted coal deliveries that contributed to greater reliance on power purchases and the higher dispatch of the authority's gas units. Management expects coal-fired generation will increase to 65% of energy in 2025. We also note that the authority faces several hundred million dollars in coal ash pond closure costs at its Cross and Winyah stations.

The authority's IRP anticipates the retirement of its 1,150 megawatt Winyah coal plant, and the addition of a substantial amount of gas-fired generation (both combined and simple cycle), solar, and battery storage. The authority projects that its natural gas units will account for 38% of its energy needs by 2040, followed by sustainable resources (28%), and coal (23%). Therefore, we anticipate that Santee Cooper will be able to lower carbon intensity over the next decade. Although the authority is also exposed to risk of hurricanes, its broad service area mitigates this risk.

In our view, social risks are credit negative. We anticipate significant rate increases once the rate freeze expires and believe that this will result in higher rates and a weaker market position relative to that of peers. Following obtain legislative approval as a precondition to accessing capital markets.

Upside scenario

Given the authority's limited financial flexibility while operating under the rate freeze, and uncertainty related to the potential challenge to the Cook settlement exceptions, we do not anticipate raising the rating or revising the outlook to stable during the next two years.

Credit Opinion

Our previous rating action

In July 2022, we lowered our rating on Santee Cooper's debt to 'A-' from 'A' and maintained our negative outlook, which had been revised from stable earlier in the year. The July 2022 rating action (and subsequent affirmation in September 2022) reflected our expectation of weakened coverage metrics in fiscal 2022, stemming from the authority's inability to pass through to wholesale and retail customers the vast majority of hundreds of millions of dollars in unbudgeted fuel and purchased power costs. The inability to recover these costs was due to an ongoing rate freeze (through Jan. 15, 2025), imposed under terms of the 2020 Cook litigation settlement.

The unbudgeted fuel and power costs stemmed from a fire at the authority's largest and lowest-cost coal supplier, cutting Santee Cooper's coal deliveries from that supplier in half, prompting the authority to dispatch its higher-cost gas units (at a time when gas prices were rising) and rely on more expensive power purchases to conserve its coal pile. Santee Cooper subsequently contracted with alternate coal suppliers, but at substantially higher prices. The bulk of the authority's budgeted gas needs were hedged, but the shift in dispatch and higher energy demand drove up day-ahead and real-time power purchases, which were not hedged.

Cook settlement exceptions

Under the terms of the Cook settlement, Santee Cooper can defer to rates charged in years after the rate freeze period just and reasonable costs and expenses incurred during the rate freeze period directly resulting from certain

Based on management's forecast, we anticipate a moderately large base plus fuel rate increase when the rate freeze expires in 2025. However, we also anticipate that Santee Cooper will begin recovering the Cook exceptions, but we

Ratings Detail (As Of November 10, 2023) (cont.)		
South Carolina Pub Svc Auth retail elec		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (AGM)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (AGM)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (AGM)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (AGM)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (AGM)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (AGM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (AGM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
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South Carolina Pub Svc Auth retail elec (AGM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (AGM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (AMBAC)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (ASSURED GTY)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed

Ratings Detail (As Of November 10, 2023) (cont.)		
South Carolina Pub Svc Auth retail elec (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
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South Carolina Pub Svc Auth retail elec (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed

Ratings Detail (As Of November 10, 2023) (cont.)		
South Carolina Pub Svc Auth retail elec (BHAC) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (MBIA) (National)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (National)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (National)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail elec (National)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
South Carolina Pub Svc Auth retail Elec (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed

Many issues are enhanced by bond insurance.