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Fitch Ratings - New York - 31 Oct 2022: Fitch Ratings h assigneds consisting of:

--$37,645,000 2022 tax-exempt refunding series C;

--$137,355,000 2022 taxable refunding series D;

--$390,000,000 2022 tax-exempt improvement series E

--$60,000,000 2022 taxable improvement series F.

In addition, Fitch has afĖrmed the following Santee

The Rating Outlook has been revised to Negative from Stable.

The 2022 series C, D, E & F bonds are expected to price the week of Nov. 7, 2022. Proceeds from the bonds will be used primarily to refinance existing debt and finance the costs of capital improvements to the system.

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The 'A-' rating reflects the authority's financial profile and leverage ratio, measured as net adjusted debt to adjusted funds available for debt service (FADS), which rose above 11x in 2021 as expected, and remains elevated for the current rating. Santee Cooper made steady progress in reducing its debt burden and leverage from 2017 through 2020, but weaker than expected operating performance in 2021 reversed the improving trend. The revision of the Outlook to Negative from Stable reflects uncertainties related to accumulating costs that the authority is currently unable to recover following its agreement to lock rates through

Fuel Supply Issues and Deferred Cost

The authority began experiencing a reduction in contracted coal supplies during 2021 as a result of production and transportation challenges caused by the pandemic, and a fire at and resulting closure of the coal mine operated by the authority's largest supplier. Since then, the authority has had to rely on higher cost natural gas and purchased power to meet the needs of its customers, triggering operating costs that are much higher than budgeted figures and cannot be recovered as a result of the rate lock. The board of directors recently authorized the authority to create a regulatory asset and begin deferring costs related to its fuel supply issues and other exceptions that it expects to recover after the rate lock. The authority deferred a total of $251 million as of Sept. 30, 2022, but continuing cost pressures are expected to result in up to $550 million of deferred costs through 2024. The amounts deferred will be financed through a combination of commercial paper issuance and draws under the authority's revolving credit agreements.

The Cook Settlement authorizes the authority to defer certain just and reasonable costs incurred during the rate lock, but Central, among others, has challenged the exceptions noted in the 2021 annual compliance report. A September 2022 court ruling denied a motion to have the current exceptions reviewed at this time. A ruling on the applicability of the exceptions, as well as the request for an independent auditor, is expected to be made closer to the rate lock's expiration date.

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Statewide Wholesale and Retail Electric Provider

Sante] thor®lecectors rthe aavMasment eedi cts the strong contractuar the retail business line. The operating cost burden reflects a diverse mix of generation resources with energy supplied predominately by coal-fired resources. Costs are expected to rise going forward, but should remain in line with the assessment. Capital requirements for current and new generation are lower than historical levels and appear very manageable.

Leverage Remains Elevated

Santee Cooper's leverage ratio exceeded 11x in 2021, as expected, reflecting higher debt balances and weak-[illegible]ing highe

as well as agreements for capacity and energy with Piedmont Municipal Power Agency and Alabama Municipal Electric Authority.

The authority also provides direct service to over 200,000 retail customers throughout the Berkeley, Georgetown and Horry Counties of South Carolina, and an additional 27 large industrial customers located throughout the state. These customer classes provide roughly 21% and 16% of Santee Cooper's total ele] f to the vast majority of the authority's customers, suspending the rate adjustment mechanisms in place and locking rates at levels accepted by the authority.

The authority began deferring higher fuel and purchased power costs that exceed amounts recoverable under the current rate lock in 2021, and expects to begin recovering these costs along with its then-current operating costs in 2025. While future operating costs are expected to be recovered in full and in a timely manner, the authority is likely to recover deferred costs over a multi-year period.

Purchaser credit quality is midrange, largely based on the credit quality of the authority's dominant purchaser, Central, as assessed by Fitch using publicly available information.

Fitch's asse[illegible]

distributions to the state totaling $22 million. The current challenges related to coal deliveries have pushed operating costs higher, but even excluding the de

The authority's capital planning continues to evolve following the decision to halt nuclear construction in 2017. Whereas spending approximated $3.39 billion over 2015-2019 and included substantial investment in the Summer project, Santee Cooper's current five-year plan contemplates total spending of roughly $1.6 billion through 2025 and will focus on general improvements, environmental compliance and transmission.

The majority of planned expenditures are expected to be funded with internal funds and modest amounts of additional debt.

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Santee Cooper's leverage ratio rose in 2021 after trending downward from 2016 to 2020. Debt balances rose steadily beginning in 2008 when construction of the Summer nuclear project began, but have declined since peaking in 2016 at $8.7 billion to reach roughly $7.2 billion at YE 2021. Similarly, the authority's leverage ratio trended down from a peak of 13.2x to 10.7x over the same period. Scheduled amortization and the use of funds from the authority's settlement with Westinghouse and its parent Toshiba to defease debt, together with improved FA pr

Fitch Base Case and Stress Case Scenario Analysis

Fitch's base scenario analysis indicates that the authority's leverage ratio will increase to over 12.0x in 2024, even after factoring planned cost deferrals. Leverage is then expected to improve to 10.1x in 2025 when the authority's rate lock expires and deferred costs begin to be recovered, before trending even lower. Liquidity through the scenario analysis is also expected to remain adequate and neutral to the rating. Fitch's base case assumptions are informed by Santee Cooper's own financial forecast and include a modest increase in energy sales (2023-2026), the deferral of $550 million of operating costs in 2022 and 2023, an 17% increase in electric revenue in 2025 upon expiration of the rate lock, the recovery of deferred costs beginning in 2025 and capital spending of roughly $325 million per annum through 2026.

Fitch has also considered an alternative stress wherein the authority is unable to recover its deferred costs. In this stress scenario, leverage is expected to remain above 10.0x for an extended period of time, even after excluding any required non-cash write-offs. To the extent that the authority is unable to offset the effect of these losses and forgone collections, the financial profile assessment would likely be lowered and the rating downgraded.

Santee Cooper's debt profile is neutral to the rating. Nearly all of the authority's approximately $7.0 billion of outstanding revenue obligations are fixed rate and scheduled amortization is manageable through final maturity. At Sept. 30, 2022, variable-rate debt was limited to 6% of total debt, or approximately $392 million including outstanding CP ($119 million), borrowings under revolving credit agreements ($129 million) and a single series of variable-rate revenue obligations ($143 million). The authority's $300 million CP program is supported by an irrevocable direct-pay LOCs with Barclays Bank PLC, and additional borrowing capacity is available through separate revolving credit agreements with each of Bank of America, TD Bank, N.A., Wells Fargo and J.P Morgan Chase bank, N.A totaling $700 million. The agreements expire at various dates in 2024 through 2026.

Total debt as calculated by Fitch further includes capitalized fixed charges related to purchased power ($729 million in 2021) and unfunded pension obligations as adjusted pursuant to Fitch's methodology ($382 million). Santee Cooper is a participant in the South Carolina Retirement System and contributes to the state's pension plan on behalf of its roughly 1,700 employees. Annual contributions are minimal, equal to less than 1% of total revenue.

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No asymmetric additional risk considerations were factored in the rating.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed bym o

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Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteri

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