



Santee Cooper 2019 Year-End Review

Santee Cooper encountered many challenges in 2019, and we made progress in some key areas. Concerning leadership, the Board of Directors named a new Acting Chairman and hired a new President and CEO and new Deputy CEO. Additional changes in the executive staff last year and early this year have produced a smaller, more diverse group of senior managers – each with significant experience with Santee Cooper.

This new leadership team led the development of a 2019 Business Forecast built on a leaner, greener power supply, reduced debt, reduced emissions, more advanced technology and stable customer prices. The Business Forecast served as the base case for the S.C. Department of Administration as that agency, at the direction of the legislature, solicited and evaluated bids to purchase and manage Santee Cooper. Santee Cooper improved on its Business Forecast in developing its own Reform Plan, submitted through that DOA-administered Act 95 process in November.

Santee Cooper's Reform Plan includes additional changes in our power supply that will produce savings to help pay down the V.C. Summer debt, help hold prices stable for seven more years and significantly limit any price increases beyond that. The Reform Plan also proposed several measures to increase transparency and improve governance.

Earlier this year, the legislature rejected Santee Cooper's Reform Plan as a comprehensive blueprint and began developing its own proposals for our governance and transparency. Santee Cooper believes the state's leadership still expects the utility to execute its plans for transforming generation, holding prices stable and paying down debt – and remains committed to those plans – should that be the state's decision for our future.

Santee Cooper appreciates the opportunity to develop a plan that addresses the nuclear debt related to V.C. Summer Units 2 and 3 without increasing customer rates. V.C. Summer represents a major leadership failure, and one we intend to address not only through the financial stewardship laid out in the Reform Plan (and in the recent settlement of the Cook litigation), but also through improved governance and increased transparency that meets legislative approval, if that is the outcome.

Looking at 2019, Santee Cooper remained the low-cost provider among large electric utilities in South Carolina, with one of the best reliability records in the country and increasing customer satisfaction among its retail customers (as measured through an annual independent survey.) Our dedicated workforce deserves all of the credit for these accomplishments.



The safety of employees is a daily priority and focus, and in 2019 Santee Cooper's recordable-incident rate was just 0.89, the second lowest ever with 15 recordable incidents during the year. Nationally, the American Public Power Association recognized Santee Cooper with a first place for safe operating practices in the large-utility category, the second consecutive year the utility has received that recognition.

As has been the case for each of the past several years, Santee Cooper spent part of the fall restoring power after a hurricane passed through. Hurricane Dorian blew into Santee Cooper's service territory on Sept. 3, and less than 48 hours after it exited Sept. 5, crews had restored power to all customers who could receive it. The hurricane interrupted service to 51,000 residential and commercial customers.

ACT 95 PROCESS

Santee Cooper has cooperated fully with the Act 95 Process and commends the DOA for completing a monumental task in a very compressed timeframe. Santee Cooper's efforts to provide information to the DOA for uploading into the data room and for answering bidder questions was undertaken simultaneously with development of our own Reform Plan. The workstreams involved some 300 employees, 300 requests from DOA experts and consultants, uploading more than 30,000 documents into the data room, answering over 2,500 questions, holding five management presentations and 10 site visits for bidders, completing 50 due diligence schedules and finalizing our own nearly 500-page Reform Plan for an on-time submission.

PAYMENT TO THE STATE

Santee Cooper has never and does not now receive any state appropriations, and continues to make an annual payment to the state. In 2019, that payment to the state was \$17.5 million. In accordance with statutory provisions, the payment reflects 1% of the projected electric and water revenues in Santee Cooper's 2019 operating budget and is paid through revenues collected from electric and water customers.

FINANCIAL HEALTH

Santee Cooper is financially sound and able to meet all of our obligations while maintaining competitive rates.

Last year, the utility completed two key financial transactions in the Business Forecast. Santee Cooper paid off \$360 million in long-term debt in October, paying certain bonds issued in 2009 through 2013, 2015 and 2016, along with certain MiniBonds. In November, Santee Cooper



executed a \$163 million bond sale to refund existing debt, with projected debt service savings of \$40 million over the next 16 years.

Santee Cooper's long-term debt is rated in the A category by the major credit rating agencies. An A-category rating is assigned when agencies believe there is a strong capacity to meet financial commitments. All three rating agencies have maintained a negative outlook for that debt. System debt totaled about \$6.9 billion in 2019, down from over \$8 billion two years ago. Some \$3.6 billion of that is related to the nuclear project. Debt-to-capitalization will continue to improve, from 76% in 2019 to a projected 68% in 2026.

We continue to look for efficiencies to reduce our costs, and our projections show Santee Cooper's financial metrics, including debt outstanding, will improve in the coming years.

SYSTEM COSTS

Santee Cooper's 2019 operating revenue was \$1.7 billion, down \$83.9 million (5%) primarily due to lower fuel rate revenues. Lower energy sales (2%) and demand usage (1%), resulting from milder weather than prior year, also contributed to the decrease. Energy sales for 2019 totaled approximately 23.2 million megawatt hours (MWhs) as compared to approximately 23.7 million MWhs for 2018.

Combined operating expenses for 2019 totaled \$1.3 billion, down \$80.2 million (6%) as compared to 2018. The main drivers were lower net fuel and purchased power expense, which decreased \$124.0 million. This was due to lower kilowatt-hour (kWh) sales and lower commodity prices in the current year. Somewhat offsetting these decreases were higher other generation costs of \$25.7 million from materials, accrual of landfill closure and post-closure costs, among other expenses.

GENERATION

Santee Cooper announced plans to close the Winyah coal-fired generating station in stages, with final closure in 2027, and to add 1,500 MWs of solar, 200 MW of battery storage and additional natural gas generation to maintain system reliability. These new generating sources are cheaper and will yield significant savings overall.

Meanwhile, Santee Cooper remains focused on efficient operation of existing plants, conservation and efficiency programs, and renewable energy projects that make sense for the state and utility customers.



Santee Cooper continues to look for ways to lower costs through economic dispatch between existing coal, natural gas, nuclear and lower-cost purchased power, with additional generation coming from hydro and renewable resources. Through effective use of natural gas-fueled Rainey Generating Station and economic purchases of off-system natural gas, Santee Cooper has reduced the use of coal-fired generation from 78% in 2009 to 38% last year, with natural gas and purchased power representing about 48% of energy supplied last year.

Santee Cooper contracted for 150 MW of solar power in 2019, and those projects are in development. We also opened the Jamison Solar Farm near Orangeburg, a smaller project built in partnership with Tri-County Electric Cooperative, and the Runway Solar Farm, another smaller project located at the Myrtle Beach Airport. Customer-generated solar power also increased and achieved participation goals for Santee Cooper's rooftop and community solar programs.

CUSTOMER TRENDS

At the end of 2019, Santee Cooper was serving 189,177 retail customers in Berkeley, Georgetown and Horry counties, an increase of more than 4,000 customers compared to 2018. Some 24% of revenue from electric sales in 2019 came from the retail customers; wholesale accounted for 63%, and industrial, 13%.

Santee Cooper's overall average residential customer satisfaction rating remained strong in 2019 at 93%, better than 2018 and higher than the national average. We also received excellent satisfaction ratings from our commercial customers and municipal customers, at 97% and 100% respectively. Other satisfaction ratings were 89% (industrial customers) and 17% (electric cooperatives).

VALUE TO THE STATE

Santee Cooper remains active in economic development, working in partnership with other economic development entities at the local, regional and state levels to benefit all of South Carolina. Alongside the S.C. Department of Commerce, the state's electric cooperatives, local governments and other entities, Santee Cooper supported efforts resulting in 25 industrial announcements with more than \$381 million capital investment and 1,583 new jobs in 2019. DHL Supply Chain in Dorchester County, Muffin Mam Inc. in Laurens County, Spectrum Quarts in Dillon County, A&R Logistics in Berkeley County, and DIRT Environmental Solutions in the city of Rock Hill were among these announcements.

Our largest industrial commerce park to date, Berkeley County's Camp Hall, moved forward with construction beginning on the Village Center, progress in installing sewer and water lines,



and establishment of pollinator pathways along the park's nature trails. Some additional highlights:

- On May 1, Santee Cooper announced the sale to Exeter Property Group of a 77-acre tract of land. Exeter is constructing three buildings totaling approximately 945,000 square feet of ready-to-lease industrial space for bulk warehouse and distribution.
- Volvo Cars is expanding its Camp Hall plant, which will add up to 2,500 more workers to produce a second car.
- In August, the Surface Transportation Board authorized Palmetto Railways to construct and operate a 28-mile line connecting to Camp Hall. The line will provide rail service for Volvo Cars and other potential shippers in the area. It also helps prepare Camp Hall for future development.
- The South Carolina Departments of Commerce and Transportation held a ribbon-cutting ceremony on Aug. 29 for the new Interstate 26 and Volvo Car Drive interchange at exit 189. The interchange provides direct access to Volvo's plant and the rest of Camp Hall.

Camp Hall electric needs are served by Berkeley Electric Cooperative, Edisto Electric Cooperative and Santee Cooper.

Santee Cooper operates two water treatment plants, one on Lake Moultrie and the other on Lake Marion. Combined, the two growing systems serve close to 200,000 people in Goose Creek, Moncks Corner, Summerville, Santee and the counties of Berkeley, Calhoun and Orangeburg. Through expansion, Lake Marion will serve additional areas in Berkeley, Calhoun, Dorchester and Orangeburg counties.

The Santee Cooper Regional Water System on Lake Moultrie achieved a record 34.38 million gallons of clean water delivered to customers on May 28. The Lake Moultrie plant also received a 20-year award from the American Water Works Association's Partnership for Safe Water Award for producing water that has consistently exceeded regulatory standards over the last two decades.

Work continues on the Dorchester Reach expansion for the Lake Marion Regional Water System. Expected to be completed in 2020, the 10.7-mile expansion from Harleyville to Ridgeville will bring reliable drinking water to an underserved portion of South Carolina.

Excellent transmission and distribution system reliability also helps Santee Cooper fulfill its mission to the state. Overall, Santee Cooper maintained 5,152 miles of transmission lines and 91 transmission substations across the state, and 2,994 miles of distribution lines and 58 distribution substations. Operationally, Santee Cooper continued to achieve excellent system reliability results, including transmission and distribution reliability rates exceeding 99.99% each. That equated to approximately 19 minutes of power outages for the year for the average distribution



customer, and 21 minutes of power outages for the average transmission delivery point. When compared to the most recent U.S. Energy Information Administration reliability data ranking 534 investor-owned utilities and electric cooperatives nationally, Santee Cooper ranks #4.

Santee Cooper saw an environmental milestone in May, as the last load of coal ash from the former Grainger Generation Station was hauled from the Conway site. The utility continues to remove any remaining ash from the dikes around the pond and an underlying foot of soil from Pond 2. Also at Grainger, work on restoring wetlands is ongoing, with more than 60,000 bald cypress and oak saplings planted at the plant's former cooling pond.

Ash excavation at Grainger is just part of our beneficial use program, which allows recycling of coal combustion products in EPA-approved uses. Santee Cooper recycled 1,607,052 tons of coal combustion products in 2019, the most of any year to date.

Santee Cooper achieved its workforce diversity goals in 2019, ranking No. 1 among state agencies with 1,000 or more employees and No. 2 among all agencies ranked by the S.C. Human Affairs Commission.

LEGISLATION AND LITIGATION

Our 2019 Annual Report, which is enclosed with this summary, includes more detail about significant legislative activities and legal matters. Please note related content in Note 7 beginning on p. 62, Note 10 beginning on p. 68, and Notes 16 and 17 on p. 92.

SUMMARY

Santee Cooper was built with a mission to improve the lives of all South Carolinians. Even as Santee Cooper is going through a period of marked uncertainty, we are poised for transformation and that mission remains strong and true for Board members, management and employees.