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Fitch Rates Santee Cooper's (SC) $418MM Rev Obligations, Series D,E,&F 'AA'; Outlook Stable

Ratings
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Fitch Ratings-New York-16 October 2009: Fitch Ratings assigns an 'AA' rating to South Carolina Public Service Authority's (Santee Cooper, or the Authority) $418.555 million revenue obligations series 2009, consisting of:

--$39.42 million tax-exempt refunding series D;
--$279.135 million tax exempt series E;
--$100 million taxable series F.

Fitch also affirms its 'AA' rating on Santee Cooper's approximately $4.25 billion of outstanding long-term-debt, and its 'F1+' rating on the commercial paper (CP) program ($126 million currently outstanding). The Rating Outlook is Stable.

The bonds are expected to price the week of Oct. 19, 2009 and proceeds will be used as follows:

--Series D - To refinance a portion of outstanding Series 1999A bonds (due in 2011, 2012, and 2013);
--Series E - To fund extraordinary working capital expenses and fund a portion of the capital improvement program;
--Series F - To fund a portion of the capital improvement program.

The 'AA' rating reflects the Authority's reliable and low-cost power supply, serving a significant portion of the state's population. The rating also takes into account Santee Cooper's strong financial position, due in part to its timely cost-recovery mechanisms in the rate structure and sufficient liquidity; reliable operating performance of its diverse generating fleet; and rates that are competitive with neighboring utilities.

The rating also takes into account the Authority's large capital improvement plan that includes the expansion of the Summer Nuclear facility, adding 990 megawatts (MWs) of capacity, at an estimated cost of $5 billion. Santee Cooper is among a number of municipal utilities that will be participating in large nuclear projects that are expected to begin construction over the next few years. Fitch will monitor the impact on these utilities as it pertains to the size and scope of the nuclear projects in which they participate (largely as it relates to an issuer's debt burden).

Historically, Santee Cooper has experienced steady growth in demand and gigawatt-hour (GWh) sales. However, 2008 saw a 1% increase is revenue and a 4% decline in GWh sales. Santee Cooper's sales for 2009 as of Sept. 30 show a 15% decline in revenue and 12% decline in sales. At year end, revenue is expected to show an approximate 10%-15% decline with no further decline in sales. According to management, the industrial customer segment appears to be stabilizing.

Approximately 54% of revenues in 2008 were generated from wholesales sales to Central Electric Cooperative (Central). In September 2009, the Authority and Central entered into an agreement which, among other things, would permit Central to purchase the electric power and energy requirements necessary to serve the upstate load from a supplier other than the Authority. Subject to regulatory approval to be obtained by Central and the new supplier, the upstate load would transition to the new supplier over a seven-year period beginning in 2013, and by 2019 would amount to approximately 1,000 MWs. The agreement also provides that neither party will exercise any right to terminate the Central Agreement effective on or before Dec. 31, 2030 and that the parties agree to negotiate in good faith terms and conditions by which the rights of the Authority and Central to terminate the Central Agreement will be deferred beyond 2030.

Given the changing terms of the Central relationship, in combination with the slower growth in sales due to the economic slowdown, Santee Cooper will continue to adjust its capital resource plans to satisfy changing resource requirements. For example, the construction of the 600 MW Pee Dee coal-fired unit has been suspended; however, Santee Cooper is moving forward with the Summer nuclear plant expansion. To date, it is estimated that $270 million has been spent on the nuclear project. Santee Cooper has also applied for a loan under the Dept. of the Energy (DOE) Loan Program and the application is currently under review.

Favorably, Santee Cooper does not have any variable-rate debt (other than its $500 million CP program). This has allowed the Authority to navigate through the current financial markets without the added complexities associated with counterparty risk, swap termination costs or access to liquidity providers. Santee Cooper's CP program has a capacity of $500 million with $126 million currently outstanding. This CP program is supported by internal liquidity of approximately $243 million and a $450 million line of credit provided by Dexia Credit Local (rated 'A+/F1+', Stable Outlook, by Fitch) and BNP Paribas ('AA/F1+', Negative Outlook) that expires in October 2010. Fitch views the self-liquidity, in combination with the $450 million line of credit, as sufficient to support the 'F1+' rating.

The Stable Outlook assumes that the new agreement with Central will be approved by all parties and allow Santee Cooper to increase its future capacity requirements at a more modest pace. Additionally, the uncertainty associated with the contract renewal notification by 2013 will be removed, providing Santee Cooper with greater clarity of its system load and resource needs going forward. Fitch will continue to monitor financial performance, especially as it relates to revenues generated from Central and the 1,000 MW load loss associated with the contract change. As is the case with all utilities with fossil fuel generation, there are likely to be increased costs associated with yet to be developed environmental requirements. Fitch will monitor the financial impact of this regulation on Santee Cooper.

Santee Cooper sells electricity to wholesale and retail customers throughout South Carolina. In 2008, sales to Central Electric Cooperative accounted for 54% of electric revenues and, when combined with the other wholesale customers, accounted for 58% of the total. Large industrial is the next largest customer segment, with sales accounting for 28% of electric revenues. Santee Cooper serves, directly or indirectly, one-third of the state's population, or 722,000 customers. In addition to electric sales, Santee Cooper also owns a regional water system, with a treatment plant with capacity of 36 million gallons per day (MGD). The system sells water at wholesale, and the system is self-supporting, as required by state law.

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