# Letter from the President and CEO

Since our founding in 1934, Santee Cooper's mission has included a significant focus on stimulating economic development throughout South Carolina. Part of our commitment to keeping electric rates low is so that those rates will help attract and retain industry and jobs to our state.

In continuing our leadership role in these areas, Santee Cooper recently has taken a number of steps that complement important work that others in our state are doing to create jobs, grow industry and foster stronger supporting relationships.

In February, we joined officials with the state's electric cooperatives and announced a new, lower electric rate designed specifically to attract significant capital investment and jobs to the state. By partnering with the cooperatives, we can offer this rate to industry that could relocate in any of the state's 46 counties, making this a far-reaching and important opportunity. The economic development rate offers significant discounts to qualifying industry over the first four years of operation. In return, companies must commit to an eight-year presence and meet certain workforce and capital investment requirements.

In June, Santee Cooper's board of directors approved another major initiative: the Economic Development Revolving Loan Program, which creates a pool of $25 million that can be loaned to draw industries to the three counties we serve directly — Berkeley, Georgetown and Horry — as well as our municipal customers.

The Revolving Loan Program offers loans to local governments and nonprofit economic development organizations of $500,000 to $5 million and can be used for land acquisition, infrastructure improvements or buildings.

Throughout our history, Santee Cooper has been a leader in initiatives that attracted and retained major industries, names that include Nucor and Showa Denko. We have helped develop office and industrial parks, and we've partnered with the state's electric cooperatives to maximize our efforts.

Why? Industry creates high-paying jobs for our neighbors, and South Carolina's industries are generous participants in community needs. They elevate our entire state by being here. Santee Cooper remains committed to growing our state's economy with these new and innovative programs and initiatives, for the betterment of all.

Lonnie N. Carter

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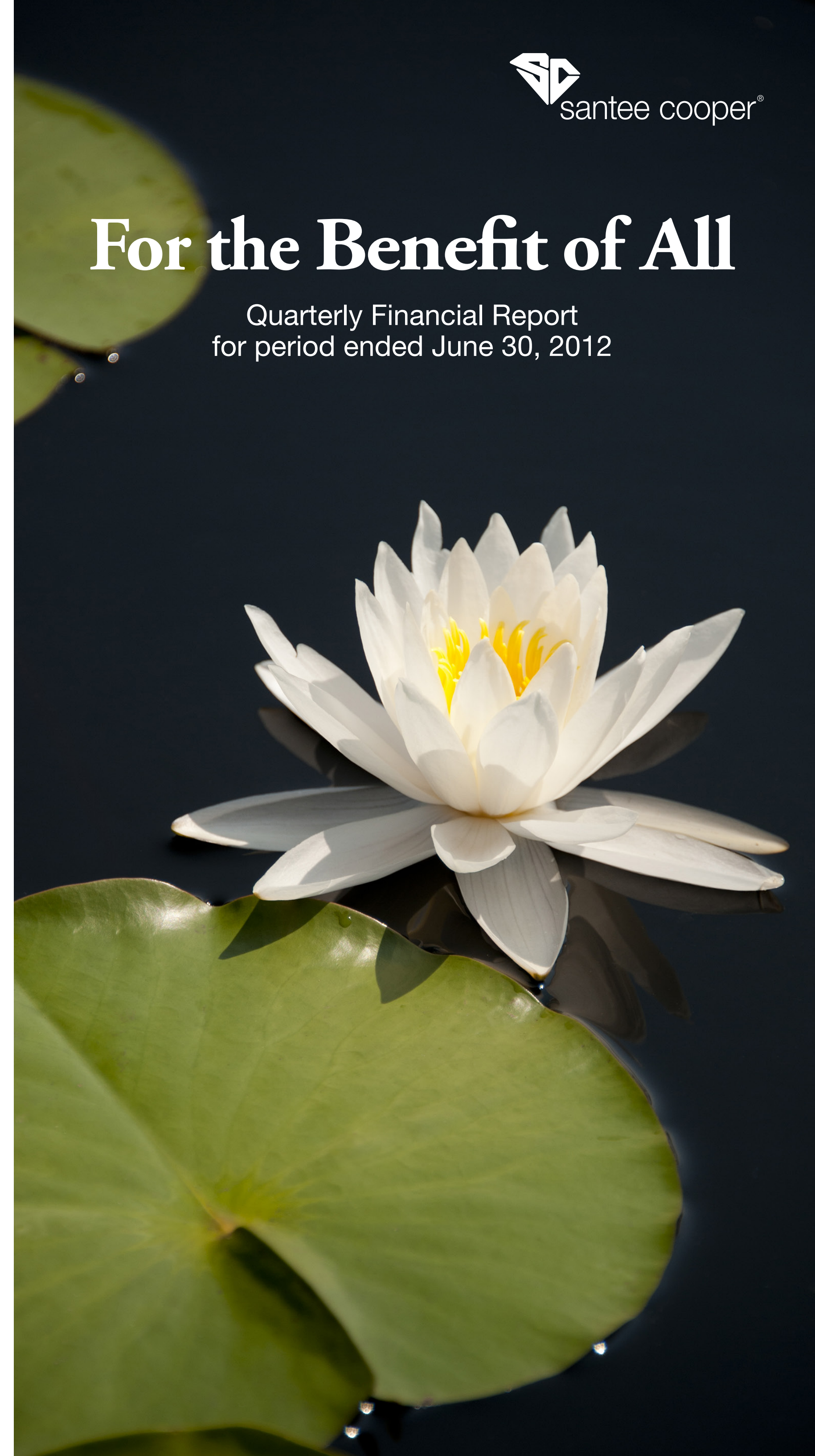

santee cooper®

# For the Benefit of All

Quarterly Financial Report
for period ended June 30, 2012

# Executive Summary

## Second Quarter 2012 Compared to 2011

The financial results for the second quarter of 2012 showed a decrease of nearly $6 million compared to the same period last year.

Operating Revenue decreased $35 million when compared to the same period in 2011, in large part due to milder weather. This is reflected in the degree days, which were 16% lower than last year. Energy sales (MWh) were lower in all customer classes except Industrial, with a 4% net decrease overall.

Operating Expense for the second quarter of 2012 was down compared to last year primarily due to generation related expenses. These included lower fuel costs associated with the reduction in sales and a shift to more natural gas generation. The remaining expense categories netted a slight decrease.

Other Income increased when compared to the second quarter of last year due to a 2012 gain on coal car sales. The Fair Value of Investments decreased $1.4 million compared with 2011 due to lower interest rates and investment premium amortization.

Interest Charges were up by $10 million compared to last year with interest on long term debt associated with future nuclear construction being the biggest contributor. The portion of V.C. Summer units 2 & 3 construction interest that equates to the ownership percentage expected to be sold is shown on the Balance Sheet.

There was a $7 million change in Costs to be Recovered from Future Revenue expense. The variance was due to updated debt schedules.

Overall, Reinvested Earnings for the second quarter showed a decrease when compared to the same period last year as a result of these factors.

## Key Statistical Highlights

| | This Year | Last Year |
|---|---|---|
| **Current Quarter** | | |
| Total MWh Sales | 6,443,776 | 6,742,805 |
| Number of Degree Days | 705 | 841 |
| **For Month Ended June** | | |
| Distribution Reliability % (YTD) | 99.9974 | 99.9962 |
| Number of Retail Customers | 166,049 | 164,618 |

## Quarterly Statement of Reinvested Earnings

*Millions of Dollars (Unaudited)*

| | Current Quarter Apr 1 - Jun 30 | | 12 Months to Date Jul 1 - Jun 30 | |
|---|---|---|---|---|
| | This Year | Last Year | This Year | Last Year |
| Operating Revenue | $437.4 | $472.1 | $1,849.6 | $1,932.7 |
| O&M Expense | 327.2 | 359.1 | 1,320.2 | 1,378.1 |
| Depreciation & Sums in Lieu of Taxes | 48.2 | 47.3 | 191.1 | 188.6 |
| Operating Expense | 375.4 | 406.4 | 1,511.3 | 1,566.7 |
| Operating Income | $62.0 | $65.7 | $338.3 | $366.0 |
| *Add:* | | | | |
| Other Income | 4.9 | 3.0 | 13.3 | 8.3 |
| Net Increase (Decrease) in Fair Value of Investments | (1.5) | (0.1) | (3.8) | (3.2) |
| *Subtract:* | | | | |
| Interest Charges | 56.2 | 46.6 | 220.8 | 234.7 |
| Costs To Be Recovered From Future Revenue | (5.0) | 2.1 | (10.2) | 19.4 |
| Reinvested Earnings | $14.2 | $19.9 | $137.2 | $117.0 |

## Balance Sheet

*As of June 2012 and 2011*

*Millions of Dollars (Unaudited)*

| Assets | This Year | Last Year |
|---|---|---|
| Utility Plant - Net | $5,344.1 | $5,011.3 |
| Long Lived Assets - ARO - Net | (13.6) | (14.0) |
| Investment in Associated Co. | 8.7 | 11.1 |
| Restricted Funds | 898.0 | 722.7 |
| General Improvement Funds | 3.9 | 4.1 |
| Cash & Securities | 230.2 | 220.1 |
| Other Current Assets | 1,302.4 | 1,217.7 |
| Costs To Be Recovered From Future Revenue | 208.9 | 198.7 |
| Regulatory Asset | 177.2 | 181.9 |
| Other Deferred Debits | 471.8 | 415.2 |
| Total Assets | $8,631.6 | $7,968.8 |
| *Liabilities* | | |
| Long Term Debt - Net | $5,441.1 | $4,991.1 |
| Short Term Debt | 501.1 | 395.4 |
| Other Current Liabilities | 283.1 | 301.5 |
| ARO Liability | 355.4 | 339.9 |
| Other Liabilities | 120.8 | 128.8 |
| Accumulated Reinvested Earnings and Capital Contributions | 1,930.1 | 1,812.1 |
| Total Liabilities and Capital | $8,631.6 | $7,968.8 |

# Quarterly Headlines

**Rate adjustment proposed**

Santee Cooper management has proposed a rate adjustment that would increase rates for customers an average of 3.5 percent each year for two years.

As proposed, the first adjustment would take effect Dec 1., 2012, and the second on Dec. 1, 2013. The adjustments will help Santee Cooper meet increased costs associated with new generation, primarily the ongoing V.C. Summer Nuclear Station expansion, and to comply with new environmental regulations.

Santee Cooper's base rates have not increased since November 2009. The proposed rate adjustment would affect residential, commercial, industrial, municipal and lighting customers.

The Santee Cooper Board of Directors put the recommendation out for public review, which included a series of public meetings and a timeline for submitting written comments. Comments were accepted through July 23, and the board will take final public comments at its Aug. 20 meeting in Myrtle Beach. More information is available at www.santeecooper.com/rates.

**Santee Cooper Board approves 2012 bond sale**

The Santee Cooper Board of Directors approved the sale of $574,990,000 in revenue obligation bonds in a special board meeting held April 5. The all-in true interest rate is 4.289 percent.

The bonds mature from 2013 through 2043.

Specifically, the sale includes 2012 Tax-Exempt Series D notes totaling $312,160,000 and 2012 Taxable Series E notes totaling $262,830,000. Proceeds will be used primarily to finance Santee Cooper's share of construction costs for two new nuclear power units at V.C. Summer Nuclear Station.

The issue drew ratings of AA- from Fitch Ratings and Standard & Poor's, and an Aa3 from Moody's Investment Service. Lead bank on the transaction was Barclays Capital, with Goldman Sachs & Co. and Morgan Stanley serving as senior managers. Other banks involved include BofA Merrill Lynch, Citigroup and J.P. Morgan.

**Spring 2012 Mini-Bond sale generates $21.1 million**

Santee Cooper concluded its spring 2012 Mini-Bond offering with sales of $21,137,800.

The sale was held in April and included:

- 2012 Series M1 Capital Appreciation Bonds: Minimum purchase is $200 and interest is paid on the Mini-Bonds' maturity date: Jan. 1, 2021; Jan. 1, 2026; or Jan. 1, 2031.
- 2012 Series M1 Current Interest Bearing Bonds: Minimum purchase is $500; interest is paid semiannually on the Mini-Bonds' maturity date of Jan. 1 2017, 2022, 2027 or 2032.

The maximum combined purchase was $50,000 per individual.

Santee Cooper will offer another Mini-Bond sale in October.

**APPA awards Santee Cooper reliability designation**

Santee Cooper has earned Reliable Public Power Provider (RP3) recognition from the American Public Power Association for providing consumers with the highest degree of reliable and safe electric service.

The RP3 designation recognizes public power utilities that demonstrate proficiency in four key disciplines: reliability, safety, workforce development, and system improvement. Criteria within the categories are based on sound business practices and represent a utility-wide commitment to safe and reliable delivery of electricity.

*Cover photo by Jim Huff*