

Letter from the President and CEO

There has been a fair amount of press lately looking at the cost of electricity in general, and in particular comparing nuclear and natural gas.

Santee Cooper uses both fuel sources, and we have good experience with the cost benefits of each. Moreover, we are a 45 percent owner in the two new units under construction at V.C. Summer Nuclear Station.



Expanding our nuclear capacity was the right decision when we committed to it back in 2008, and it remains the right decision for Santee Cooper today. Quite simply, we need to diversify our generation. We are heavy in coal-fired generation, and our ability to expand our natural gas generation is hampered by geography: There are no large gas pipelines in the eastern part of the state, where most of our customers are.


It does cost more to build a nuclear station than other base load generation. On the flip side — and this is very important — nuclear features low and stable fuel costs, low operating expenses and a high capacity factor — all of which balance out the capital expense. Although natural gas prices are low now, they are historically very volatile. We are taking advantage of the current low prices by running our existing natural gas station full-tilt and purchasing additional capacity when it is cost-effective, while we expand nuclear.

Additionally, nuclear generation emits no greenhouse gases, and that will be a critical distinction if the EPA or Congress approve initiatives underway to limit or tax carbon emissions. Nuclear power is the only source of base load generation that emits no greenhouse gases.

Our nuclear partner, South Carolina Electric and Gas Co., has an excellent record operating our existing joint unit safely and efficiently. Our construction project remains within budget.

Generation planning is a long-term process that looks out over decades. With today's market fluctuations and regulatory uncertainties, it would be extremely short-sighted for Santee Cooper to forego the long-term cost competitiveness of nuclear power in favor of any fossil fuel source.

Our responsibility to customers is to deliver low-cost and reliable electricity. Increasingly, that will require a diverse generating portfolio, so that we can respond to market conditions as they fluctuate over time — and they will.



santee cooper®
Post Office Box 2946101
Moncks Corner, SC 29461-2901
www.santeecooper.com
843-761-8000

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For the Benefit of All

Quarterly Financial Report
for period ended June 30, 2013

Executive Summary

Second Quarter 2013 Compared to 2012

The financial results for the second quarter of 2013 showed a decrease of \$19 million compared to the same period last year.

Operating Revenue decreased \$7 million when compared to the same period in 2012 primarily due to reduced energy sales. This was partially balanced by higher demand revenues. This quarter, kWh sales were down 3% overall with decreases spread across all customer classes.

Operating Expense for the second quarter of 2013 was up \$4 million due to a combination of factors. Decreases in fuel and purchased power due to the drop in kWh sales were offset by increased V. C. Summer nuclear transactions and higher costs for benefits, contract services and insurance affecting administrative and general. Depreciation expense showed an increase of \$2 million resulting from the unitization of prior years' assets. The other categories netted a small increase.

Other Income was higher in the second quarter of last year as a result of coal car sales in June 2012. This year's quarter saw a positive change in the Fair Value of Investments.

Interest Charges were lower by \$4 million compared to last year due to the impact of the 2012 bond issues.

The \$11 million change in Costs to be Recovered from Future Revenue expense was a result of the 2012 and 2013 bond activity.

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

	<i>This Year</i>	<i>Last Year</i>
	<i>Current Quarter</i>	
Total MWh Sales	6,238,694	6,443,776
Number of Degree Days	717	705
	<i>For Month Ended June</i>	
Distribution Reliability % (YTD)	99.9929	99.9979
Number of Retail Customers	167,807	166,049

Quarterly Statement of Reinvested Earnings

Millions of Dollars (Unaudited)

	<i>Current Quarter</i>		<i>12 Months to Date</i>	
	<i>April 1 - Jun 30</i>		<i>Jul 1 - Jun 30</i>	
	<i>This Year</i>	<i>Last Year</i>	<i>This Year</i>	<i>Last Year</i>
Operating Revenue	\$430.9	\$437.4	\$1,898.7	\$1,849.6
O&M Expense	328.8	327.2	1,392.0	1,320.2
Depreciation & Sums in Lieu of Taxes	50.1	48.2	197.7	191.1
Operating Expense	378.9	375.4	1,589.7	1,511.3
Operating Income	\$52.0	\$62.0	\$309.0	\$338.3
<i>Add:</i>				
Other Income	2.3	4.9	9.6	13.3
Net Increase (Decrease) in Fair Value of Investments	(0.5)	(1.5)	(2.1)	(3.8)
<i>Subtract:</i>				
Interest Charges	52.5	56.2	226.3	220.8
Costs To Be Recovered From Future Revenue	6.1	(5.0)	0.8	(10.2)
Reinvested Earnings	(\$4.8)	\$14.2	\$89.4	\$137.2

Balance Sheet

As of June 2013 and 2012

Millions of Dollars (Unaudited)

<i>Assets</i>	<i>This Year</i>	<i>Last Year</i>
Utility Plant - Net	\$5,740.0	\$5,344.1
Long Lived Assets - ARO - Net	439.2	(13.6)
Investment in Associated Co.	6.8	8.7
Restricted Funds	525.2	898.0
General Improvement Funds	3.9	3.9
Cash & Securities	223.8	230.2
Other Current Assets	1,280.2	1,302.4
Costs To Be Recovered From Future Revenue	208.0	208.9
Regulatory Asset	383.7	177.2
Other Deferred Debits	513.4	471.8
Total Assets	\$9,324.2	\$8,631.6
<i>Liabilities</i>		
Long Term Debt - Net	\$4,785.0	\$5,441.1
Short Term Debt	481.7	299.4
Other Current Liabilities	924.6	484.8
ARO Liability	1,013.3	355.4
Other Liabilities	119.4	120.8
Accumulated Reinvested Earnings and Capital Contributions	2,000.2	1,930.1
Total Liabilities and Capital	\$9,324.2	\$8,631.6

Quarterly Headlines

Santee Cooper, Central extend agreement through 2058

Santee Cooper and its largest customer, Central Electric Power Cooperative, on May 20 signed an amendment to their purchase-power agreement that extends its terms. Extending the contract has the potential to save billions of dollars for the homes and businesses ultimately served by Central and Santee Cooper, and it gives stability and certainty to the credit agencies as they rate Santee Cooper's bonds going forward. The amendment also creates more collaborative planning for Central and Santee Cooper.

Through Central, their wholesale electricity aggregator, South Carolina's 20 independent retail electric cooperatives agreed to the extension of the Power Systems Coordination and Integration Agreement — a complex document that governs how Central and Santee Cooper work together. The boards of both organizations approved the agreement in separate votes. With this amendment, the contract between the two entities cannot be terminated prior to 2058.

Lord new board chairman, Finn reappointed

The state Senate on June 6 confirmed W. Leighton Lord III as chairman of the Santee Cooper Board of Directors. Chairman Lord is a Columbia partner with Nexsen Pruet law firm who has represented the 2nd Congressional District on the board since 2009. He serves on the Legal Affairs, Human Resources, Property and Central/Santee Cooper Executive committees, and this year was serving as Property committee chairman. He is assuming the chairmanship from O.L. Thompson III, who became chairman in 2005.

The Senate also confirmed the reappointment of William A. Finn to represent the 1st Congressional District. Director Finn, a Charleston resident and chairman of AstenJohnsen Inc., joined the board in 2006. He serves as the board's first vice chairman and chairs the Human Resources committee. Finn is also a member of the Central/Santee Cooper Executive, Audit and Executive Corporate Planning committees.

Carter honored by APPA

Santee Cooper President and CEO Lonnie Carter in June was awarded the American Public Power Association's Alex Radin Distinguished Service Award at the association's national conference in Nashville, Tenn. It is the highest award granted by APPA and is bestowed in recognition of exceptional leadership and dedication to public power.

Carter was chairman of the APPA board from 2010-2011. He has spent his entire career at Santee Cooper, where he joined the utility as an analyst in 1982. Carter has been CEO of Santee Cooper since 2004.

As measured by energy generated, Santee Cooper is the largest public power utility in the nation. It is the third largest in megawatt-hour sales.

Spring Mini-Bond sales generated over \$23 million

Santee Cooper's 2013 Spring Mini-Bond sale was held in April and totaled \$23,254,800.

The April offering included:

- 2013 Series M1 Capital Appreciation Bonds: Minimum purchase is \$200 and interest is paid on the Mini-Bonds' maturity date: Jan. 1, 2022; Jan. 1, 2027; or Jan. 1, 2032.
- 2013 Series M1 Current Interest Bearing Bonds: Minimum purchase is \$500; interest is paid semiannually on the Mini-Bonds' maturity date of Jan. 1 2018, 2023, 2028 or 2033.

Cover photo by Jim Huff