Management's Discussion and Analysis

Overview of the Financial Statements

In June 1999 the Governmental Accounting Standards Board issued Statement No. 34, "Basic Financial Statements – Management's Discussion and Analysis - for State and Local Governments" (GASB 34). The objective of this Statement is to enhance the understandability and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. This Statement was effective for the Authority beginning in fiscal year 2001.

By definition within this Statement, Santee Cooper is deemed a proprietary or enterprise fund, in which a government entity operates like a business. GASB 34 requires the following components in a governmental entity's annual report.

Management's Discussion and Analysis

The purpose is to provide an objective and easily readable analysis of the Authority's financial activities based on currently known facts, decisions, or conditions.

Statement of Net Assets

Assets and liabilities of proprietary funds should be presented to distinguish between current and long-term assets and liabilities.

Statement of Revenues, Expenses and Changes in Net Assets

This statement provides the operating results of the Authority broken into the various categories of operating revenues and expenses, non-operating revenues and expenses, as well as revenues from capital contributions.

Statement of Cash Flows

Sources and uses of cash are classified using the direct method as resulting from operating, non-capital financing, capital and related financing or investing activities.

Notes to the Financial Statements

The notes are used to explain some of the information in the financial statements and provide more detailed data.

Financial Condition Overview *

Santee Cooper's Balance Sheet as of December 31, 2005 and 2004 is summarized as follows:

	2005	2004	Difference
		(Thousands)	
ASSETS			
Plant – net	$ 3,528,628	$ 3,165,259	$ 363,369
Current assets	676,366	577,034	99,332
Other noncurrent assets	458,644	661,601	(202,957)
Deferred debits	319,564	282,238	37,326
Total assets	$ 4,983,202	$ 4,686,132	$ 297,070
LIABILITIES & NET ASSETS			
Long-term debt - net	$ 2,518,991	$ 2,600,744	$ (81,753)
Current liabilities	694,944	540,576	154,368
Other noncurrent liabilities	432,697	343,633	89,064
Net assets	1,336,570	1,201,179	135,391
Total liabilities and net assets	$ 4,983,202	$ 4,686,132	$ 297,070

Comparing Santee Cooper's assets as of December 31, 2005 and 2004, the major changes were:

Net plant increased by $363.4 million. Additions minus retirements to utility plant were only $75.2 million in 2005 with no single plant asset driving the activity. This figure is significantly lower than in recent years. The change in accumulated depreciation of $132.2 million is consistent with prior years. The increase in construction work in progress was $420.2 million related primarily to Cross 3 and Cross 4 construction.

Current assets increased $99.3 million due to increases in current cash and investments, accounts receivable, inventories, and prepaid and other assets.

Other noncurrent assets decreased $202.9 million primarily due to a decrease in restricted cash and investments.

Deferred debits increased $37.3 million due to an increase in the Costs to be Recovered.

From 2004 to 2005, the major changes in liabilities were:

Long-term debt decreased $81.8 million due to the net affect of bond refinancing, principal repayments and new money issues.

Current liabilities increased $154.4 million due to increases in commercial paper notes outstanding, accounts payables, and other current liabilities. These were partially offset by decreases in the current portion of long-term debt and accrued interest.

Other noncurrent liabilities increased $89.1 million due to increases in the construction fund and asset retirement obligation liabilities.

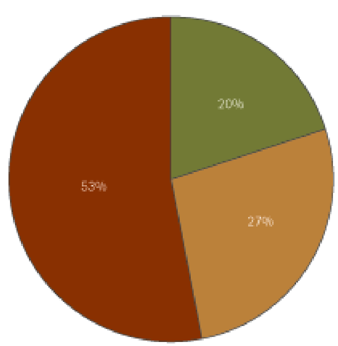
Net assets increased $135.4 million primarily due to the increase in investment in capital assets net of related debt.

* The numbers presented in the Financial Condition Overview are the result of the combined balance sheet data for electric and water operations. However, since electric operations historically accounts for about 99% of the operations, the explanations provided are focused on electric operations.

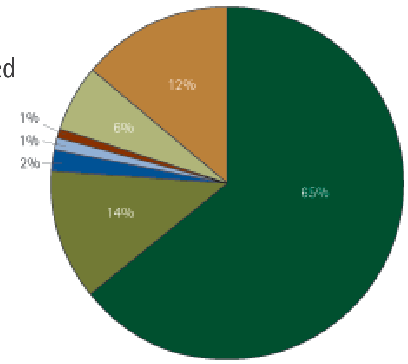
Results of Operations *

	2005	2004	Difference
		(Thousands)	
Operating revenues	$ 1,350,080	$ 1,151,009	$ 199,071
Operating expenses	1,102,360	909,665	192,695
Operating income	$ 247,720	$ 241,344	$ 6,376
Interest charges	(166,596)	(163,864)	(2,732)
Costs to be recovered from future revenue	34,374	10,373	24,001
Other income	32,315	15,021	17,294
Transfers out	(12,422)	(24,175)	11,753
Change in net assets	135,391	78,699	56,692
Ending net assets	$ 1,336,570	$ 1,201,179	$ 135,391

Operating Revenues – Operating revenues for 2005 increased $199.1 million or 17% over the prior year. The rise in fuel related revenue was a key contributing factor due to higher market prices industry wide. Energy sales for Santee Cooper were over 25 million megawatt-hours for the year. This was an increase of 3% which represents higher sales in all customer categories. For the second consecutive year, the retail class experienced a 4% customer growth. The revenue continues to maintain a stable distribution across its customer base.



Operating Expenses – Operating expenses for 2005 reflected a net increase of $192.7 million or 21% compared to 2004. Coal, natural gas and oil prices have risen dramatically over the past two years. Santee Cooper strives to mitigate these costs with a combination of long-term and short-term contracts, a gas risk hedging program and burning a variety of solid fuels (petcoke, coal, and synfuel). Fuel and purchased power accounted for the majority of this expense variance, rising by $178.4 million or 34% when compared to 2004. Santee Cooper continues to burn synfuel, a processed coal that is cheaper and results in savings to our customers. In 2005, this provided an estimated savings to our customers of approximately $20.0 million which is reflected in the fuel expense and revenue reported. Other generation operating and maintenance costs also increased by approximately $6.6 million in 2005 due to additional costs of operating environmental equipment and station outages. Depreciation expense showed an increase over last year of $4.9 million.



Interest Charges – Interest charges for 2005 were $2.7 million or 2% higher than 2004 as a result of the 2004 and 2005 bond transactions and additional expense due to increased commercial paper activity and higher interest rates offset by higher debt related expenses.

Costs to be Recovered From Future Revenue – Costs to be recovered from future revenues reduced expenses by $24.0 million when compared to last year due to lower principal payments and an increase in the depreciation component.

Other Income – Other income increased $17.3 million or 115%. In 2004 certain lands were declared surplus property so they could be sold to reimburse Santee Cooper for the non-recurring special contribution to the State. These land sales in 2005 generated gains of $10.9 million. Interest income and the change in fair value increased by $4.6 million due to higher interest rates and favorable market conditions for the types of investments held by Santee Cooper.

Transfers out – Transfers out represents the dollars paid by Santee Cooper to the State of South Carolina. The expense for 2004 was $11.8 million higher than 2005 due to the non-recurring special contribution in the amount of $13.0 million which was paid in 2004 by authorization of Santee Cooper's Board of Directors.

* The numbers presented in the Results of Operations are the result of the Combined Statement of Revenue, Expenses and Changes in Net Assets data for electric and water operations. However, since electric operations historically accounts for about 99% of the operations, the explanations provided are focused on electric operations.

Competition - The electric utility industry in the United States is continuing to change as a result of legislative, regulatory and competitive factors. An early factor in the evolution of the electric industry was the Energy Policy Act of 1992 (EPACT 1992), which allowed independent power producers to access a utility's transmission network and sell electric power to other utilities. Since the enactment of the Energy Policy Act, there have been various regulatory and legislative initiatives, at both the federal and state levels, to promote wholesale and retail competition in the electric industry. These initiatives have been met with varying degrees of success and failure. Most recently, on August 8, 2005, President Bush signed into law the Energy Policy Act of 2005 (EPACT 2005). EPACT 2005 reflects a further refinement in federal energy policy, but unlike EPACT 1992 does not represent a fundamental change from the immediate past.

The Authority has developed and is implementing a long-term strategic plan to position the Authority to compete effectively in the changing competitive environment. Consistent with the plan, the Authority is implementing initiatives to achieve more financial flexibility, reduce operating, maintenance and capital costs, increase revenue, retain customers, and strengthen employee performance and accountability. While the Authority is taking these and other actions to prepare for a deregulated market, the Authority cannot predict what effects increased competition will have on the operations and financial condition of the Authority.

Capital Improvement Program

The purpose of the capital improvement program is to continue to satisfy the electric power and energy needs of its customers with economical and reliable service. The Authority's capital improvement program for years 2006 through 2008 is estimated to be $1.4 billion to be expended as follows:

Capital Improvement Expenditures

	(Thousands)
Cross 3 & Cross 4 Generating Units	$ 724,000
Environmental Compliance	157,000
General Improvements to the System	510,000
Total	$ 1,391,000

The cost of the capital improvement program will be provided from revenues of the Authority, additional Revenue Obligations, Commercial Paper Notes and other short-term obligations, as determined by the Authority.

Currently under construction are Cross Unit 3 and Cross Unit 4 which are scheduled to be commercial in January 2007 and 2009, respectively. Each of these units will be a 580 MW (net) pulverized coal-fired unit which will be located at the existing Cross Generating Station.

New generation was added in 2005 consisting of a 5 MW landfill generating unit in Lee County. Additional landfill generating units are planned for the first and second quarters of 2006 at the Richland County and Anderson County sites. By mid-2006, total generation from this Green Power source is expected to be 18 MW. This would further diversify Santee Cooper's fuel mix and reinforce the commitment to the environment for the State of South Carolina.

Debt Service Coverage

At December 31, debt service coverage (not including commercial paper) was 2.01 compared to 1.81 for the prior year. Bond ratings assigned by the various agencies have not changed compared to prior year and are as follows:

	Priority Bonds	Revenue Bonds	Revenue Obligations	Commercial Paper
Fitch Ratings	AAA	AA	AA	F1+
Moody's Investors Service, Inc	Aa2	Aa2	Aa2	P-1
Standard & Poor's Rating Services	AAA	AA-	AA-	A1+

Bond Market Transactions during 2005

Par Amount	Type	Date Closed	Purpose	Comments
$ 125,295,000	Revenue Obligations: 2005 Refunding Series A	10/04/2005	Refund the following: 1995 Refunding Series A (partial) 1995 Refunding Series B (partial) 1996 Refunding Series A (partial)	Gross savings of $20.1 million over the life of the bonds.
$ 278,005,000	Revenue Obligations: 2005 Refunding Series B	10/04/2005	Refund the following: 1995 Refunding Series A 1995 Refunding Series B 1996 Refunding Series A 1996 Refunding Series B	Gross savings of $58.3 million over the life of the bonds.
$ 78,150,000	Revenue Obligations: 2005 Refunding Series C	02/24/2005	Refund 1993 Refunding Series C Bonds	Gross savings of $14.6 million over the life of the bonds.
$ 10,924,500	Revenue Obligations: 2005 Series M-Current Interest Bearing Bonds (CIBS)	11/16/2005	To finance a portion of the Authority's ongoing transmission system construction and improvements.	Tax-exempt mini-bonds.
$ 4,442,000	Revenue Obligations: 2005 Series M-Capital Appreciation Bonds (CABS)	11/16/2005	To finance a portion of the Authority's ongoing transmission system construction and improvements.	Tax-exempt mini-bonds.

Bond Market Transactions during 2006 (Known to date)

Par Amount	Type	Date Closed	Purpose	Comments
$ 470,765,000	Revenue Obligations: 2006 Series A	02/01/2006	To finance a portion of the tax-exempt construction for Cross Unit No. 3, Cross Unit No. 4, SIP Call and New Source Review environmental requirements , and ongoing transmission system construction and improvements.	Tax-exempt bonds. All-in true interest cost of 4.58 percent.
$ 129,115,000	Revenue Obligations: 2006 Series B	02/01/2006	To finance a portion of the taxable construction for Cross Unit No. 3, Cross Unit No. 4, SIP Call and New Source Review environmental requirements, and ongoing transmission system construction and improvements.	Taxable bonds. All-in true interest cost of 5.18 percent.