

2005 Executive Report

Introduction

There is no doubt 2005 will be remembered historically as a year of dynamic change for Santee Cooper.

Meeting the challenges presented by landmark federal and state legislation, rising fuel costs and new environmental control requirements gave Santee Cooper and its employees a renewed purpose.

Santee Cooper emerged 2005 with a renewed sense of focus as to our reason for existence and our value to the state. We weathered the challenges and surfaced stronger, more confident of our strategy and of our value to our customers and the people of South Carolina.

Operationally and financially, we had a commendable year. Santee Cooper's marks for reliability, availability and low-cost power remain better than the national averages. Our generation availability was 92.2 percent, our transmission reliability was 99.999 percent and our distribution reliability was 99.996 percent. Our overall customer satisfaction rating was just as impressive at 95.5 percent. Our financial health remained strong.

Why does Santee Cooper continue to receive these high marks? We attribute it to our employees. While managing rising fuel costs in addition to planning for and building new generation, the more than 1,700 employees at Santee Cooper once again proved to be our most valuable resource. They stayed focused on the utility's mission with dedication and hard work, keeping Santee Cooper at the top of the electric utility industry.

Increasing Fuel Costs Offer Challenges

The largest single customer issue facing electric utilities around the world is rising fuel costs. It's no different for Santee Cooper. Fuel costs are high because of soaring demand and lower supplies than needed.

Spot market prices for coal and gas prices have risen more than 100 percent and 300 percent, respectively, since 2002. Santee Cooper has faced rising fuel costs for several years now, and it's an issue expected to continue through 2006.

Natural gas and oil prices continued increasing for the first eight months of the year largely because of limited supplies. Then, in August, Hurricane Katrina administered a devastating blow to the Gulf Coast and its natural gas and oil production facilities, resulting in further decreases in supply and higher prices.

The electric power sector's demand for coal continues to rise in response to higher oil and natural gas prices as utilities revert to lower cost coal operation. Other issues such as transportation, competition, permitting, a reduction in mining output and coal company bankruptcies have all

contributed to the supply problems, heightened volatility and increased coal costs.

Santee Cooper's new base-load units at Cross Generating Station will become operational in 2007 and 2009, respectively. Cross Units 3 and 4, a \$1.4 billion investment, will add a total of 1,200 megawatts to Santee Cooper's system and will help reduce the company's usage of natural gas and purchased power.

Generation Planning Diversifies Power Sources

Santee Cooper has a responsibility to ensure the power needs of this state are met. Even with the construction of the two new Cross units, state growth indicators show Santee Cooper needing additional base-load generation in the near future. The company is actively planning for that additional energy demand.

Santee Cooper currently has about 10 percent of its energy supply generated at the V.C. Summer Nuclear Station in Jenkinsville, S.C. As part of the utility's long-term generation resource planning, preliminary analysis has begun to evaluate adding more nuclear power to Santee Cooper's generation mix of hydro, coal, oil and gas.

Nuclear is now a more attractive fuel source in large part because of the passage of the 2005 Energy Policy Act that adds incentives for constructing and operating nuclear power stations. Santee Cooper is investigating this source of power, as well as other sources.

Santee Cooper is also entering the next phase of our renewable energy program, Green Power, with the addition of solar, wind and biomass. We continue to research, analyze and use these fuel sources to protect and improve the environment while providing a more diversified fuel mix.

Financial Planning Provides Stability

As the nation's second largest public power utility based on generation and the third largest based on sales, Santee Cooper is one of the highest rated municipal electric utilities in the United States.

Santee Cooper has a long history of strong financial planning and, as a result, has maintained its AA ratings from Fitch Ratings and Moody's Investors Service and its AA- rating from Standard & Poor's.

However, as a result of board changes, both Fitch Ratings and Standard & Poor's changed Santee Cooper's outlook from "stable" to "negative."

In August of 2005, following the passage of S.C. Act 137, Standard & Poor's returned Santee Cooper's credit outlook from "negative" back to "stable." S&P said that Santee Cooper "has a strong business position in a fast-growing market and a sound financial profile."

In November, Fitch Ratings also increased the utility's outlook back to "stable." According to Fitch, the positive support for Santee Cooper's 'AA' rating is a result of an experienced and forward-thinking management team, a reliable, low-cost power supply and a strong financial profile.

Moody's Investors Service, our other major rating agency, maintained its high outlook for Santee Cooper throughout the year.

Steps were taken in 2005 to hold down operating and maintenance costs and to manage debt, thereby preserving our financial health.

In January, more than \$278 million worth of refunding bonds were sold. The net present-value savings are \$29.6 million, which equates to a 9.35 percent savings of the refunded bonds. Those significant savings will be realized from now until 2023.

Then, in February, more than \$78 million worth of refunding bonds, 2005 Refunding Series C bonds, were sold. The result was net present value savings of approximately \$6 million.

Once again, in the fall of 2005, Santee Cooper offered mini-bonds to South Carolinians. The primary objective of the mini-bond sale was to provide an opportunity for South Carolinians to purchase Santee Cooper bonds while generating funds for capital improvement projects. Mini-bonds are small denomination bonds (\$200 and \$500), which are made available to Santee Cooper customers, our wholesale customers and all residents of South Carolina. In October, the board approved the sale of \$15.5 million worth of tax-free mini-bonds.

State-owned Utility Moves Forward to Improve Quality of Life

A strong, healthy Santee Cooper is good for South Carolina, giving the state a stable utility that improves the quality of life to its citizens by providing reliable, low-cost power and water.

This year, Santee Cooper's mission to be the state's leading resource for improving the quality of life for the people of South Carolina was reaffirmed.

It's an exciting time for the electric utility industry and Santee Cooper.

With a strong financial outlook, high customer service satisfaction ratings and plans in place to meet growing demand, Santee Cooper is moving forward with a renewed purpose.



O.L. Thompson III
Chairman
Board of Directors



Lonnie N. Carter
President and Chief Executive Officer

2005 Business Section

Re-energizing Economic Development Efforts Help Improve State's Quality of Life

Re-energizing Santee Cooper's economic development efforts means searching for innovative ways to increase the utility's value to the state of South Carolina.

Santee Cooper works in partnership with many economic development groups searching globally for companies who may be interested in moving their operations to the Palmetto State. An example of how the partnerships advance Santee Cooper's mission of improving the quality of life for South Carolinians was a major economic development announcement made in April.

American Gypsum Co., a Texas-based business that is the nation's fifth largest producer of gypsum wallboard, announced the construction of a \$125 million plant in Georgetown County, creating 100 direct and 200 indirect jobs. The plant plans to produce approximately 750 million square feet of wallboard annually.

The company will use between 550,000 to 660,000 tons of gypsum each year, a byproduct of using scrubbing technology to reduce sulfur dioxide emissions. The gypsum will come from Santee Cooper's Cross and Winyah generating stations.

Also, the wallboard manufacturer will use 120,000 pounds of excess steam each hour from Winyah Station to dry the wallboard.

By using Santee Cooper's synthetic gypsum and excess steam in wallboard production, Santee Cooper and American Gypsum are converting waste that would otherwise be landfilled into a valuable building product.

Another example of increased value to the state is the Lake Marion Regional Water System. Groundbreaking ceremonies for the treatment plant attracted federal, state, local and Santee Cooper officials.

The \$100 million system, with a \$25.4 million water plant, can provide up to 8 million gallons of water per day, vastly improving the quality of life for area citizens, many of whom currently rely on well-water for their daily use.

Construction of the water treatment plant moves forward with a completion date of August 2006.

The collaborative effort put forth to provide a potable water supply for Calhoun, Clarendon, Dorchester, Orangeburg and Sumter counties should facilitate progress for future economic development efforts in this area.

Santee Cooper and Palmetto Economic Development Corporation work together to recruit industry to South Carolina. PEDC coordinates the joint economic development efforts of Santee Cooper and the state's 20 electric cooperatives. In 2005, Santee Cooper and PEDC's economic development efforts resulted in announced projects with \$385.5 million of new investment to the state with 3,187 new jobs and 36,300 megawatts of new electrical load.

Santee Cooper's board has worked hand-in-hand with Central Electric Power Cooperative's board to refocus the joint strategic economic development efforts. This partnership has recharged Santee Cooper's economic development efforts, an expression of Santee Cooper's renewed purpose to the state.

One result of that yearlong collaborative planning process came in September when the two boards approved a package of economic development enhancements.

Additional or new funding for several categories of the Santee Cooper Economic Development Investment Fund will assist with these specific goals:

- Increase funds from \$50,000 to \$100,000 for the purposes of enhancing infrastructure projects, such as roads and sewer systems. Funds would be a 50/50 match with the cooperatives.
- Add new funding for site certifications. These are estimated to average \$50,000 per site. There are currently 28 counties that do not have site certifications. These are important because they convey that permits have been established, someone is in control of the property and the site is prepared for development.
- Add new funding for local economic development training, especially in rural areas.
- Add new funding for community-based strategic economic development planning to benefit regional counties who are working toward the same goal.

Santee Cooper continues to work closely with the S.C. Department of Commerce to ensure coordination and strategic alignment on economic development endeavors.

In December 2005 Santee Cooper's board approved an Economic Development Large Load Retention clause which provides rate incentives to its large industrial customers. This clause was designed to alleviate

the impact of rising fuel costs on its large industrial customers while encouraging economic development through the retention and expansion of existing industries. The clause terminates in 2007, when fuel costs are projected to moderate and Cross Unit 3 begins commercial operations.

The rate incentive is available for customers who meet certain eligibility and customer requirements, including minimum contract periods and a commitment to maintain existing employment levels. In aggregate, the clause is expected to cost approximately \$39 million.

At the same December meeting, a resolution was passed authorizing the development of a method to offer similar incentives, which would achieve the same load retention and economic development objectives as the Economic Development Large Load Retention clause, to Central Electric Power Cooperative Inc.

Alternative Energy Adds New Dimension to Fuel Mix

Santee Cooper continually looks for ways to diversify its fuel mix through alternative sources while at the same time reducing fuel costs and protecting the environment.

The state-owned utility's concern for the environment is in Santee Cooper's mission statement and stays in the forefront of daily business.

In 2005, the company completed a \$280 million project to install state-of-the-art environmental control technology on six units at Santee Cooper in order to help protect the environment for future generations.

On Cross Station Units 1 and 2 as well as Winyah Station Units 1, 2, 3 and 4, selective catalytic reduction equipment was installed to reduce up to 90 percent of nitrogen oxide emitted from the coal-fired generating units.

Renewable energy resources help to reduce emissions, lower dependence on foreign fuel sources and enrich the economy. In September 2001, Santee Cooper was proud to be the first utility in South Carolina to generate green power, electricity generated by renewable resources like methane gas from decomposing garbage. These resources are replenished naturally and minimize harm to the environment.

Santee Cooper's Green Power is offered to residential customers in blocks of 100 kilowatt-hours each. Because it costs more to produce green power than by conventional means, a \$3 premium is charged on a customer's monthly electric bill. Commercial customers are offered green power in blocks of 200-kWh each for a \$6 premium. The Green Power program is completely voluntary.

Since September 2001, over 3,312 residential and commercial customers across the state have purchased over 12,400 100-kWh blocks of this renewable energy.

In 2005, four more electric cooperatives signed on to sell Green Power. They were Edisto, Pee Dee, Coastal and Blue Ridge electric cooperatives. At the end of the year, 16 of the state's 20 electric cooperatives, or 80 percent, now provide green power to their member-owners. In addition to the four listed above, Aiken, Berkeley, Fairfield, Horry, Laurens, Lynches River, Marlboro, Mid-Carolina, Palmetto, Santee, Tri-County and York electric cooperatives also sell green power. The cooperatives' participation in Santee Cooper's Green Power Program shows their commitment to the protection of the state's environment and enhances Santee Cooper's relationship with the cooperatives.

Santee Cooper remains committed to green power as evidenced by the April dedication of the utility's second landfill facility, a 5.4-MW station at Allied Waste's 210-acre Lee County Landfill. The \$8.5 million station entered commercial operation in February.

Santee Cooper again partnered with Allied Waste in the Midlands region of South Carolina to construct Santee Cooper's third green power station. The \$8 million project at Richland County Landfill will add 5.5 MWs to Santee Cooper's system and should be operational in March 2006.

The fourth green power facility at the Anderson Regional Landfill near Belton in Anderson County is an \$8 million investment in renewable energy. Power should begin flowing from this station in June 2006, adding 5.5 MWs to the system.

With all four green power facilities, Santee Cooper's total green power output will equal 19.7 MWs.

Santee Cooper furthered its commitment to green power by announcing its next phase, which includes solar, wind and biomass projects. This makes Santee Cooper the only utility in the state to explore a full wealth of renewable resources.

This year, Santee Cooper, along with the South Carolina Energy Office and the U.S. Department of Energy, funded a study to explore additional renewable sources of energy for the state. The initial study was the first comprehensive wind energy mapping study ever done in the state and will help determine the merit of wind as a renewable source of energy in South Carolina. The utility is planning several small wind projects in the next few years.

Fifteen years ago, Santee Cooper saw the need to find new uses for used motor oil and searched for a solution. The answer came as a source of fuel. Santee Cooper's Give Oil for Energy Recovery, or GOFER, program was born. Since its inception, this program has collected over 18 million

gallons of used oil, which prevented the oil from being poured on the ground and contaminating water sources.

In 2005, 2.1 million gallons of oil collected from the GOFER program generated 21.8 million kilowatt hours of electricity, saving the utility almost \$1.8 million.

Santee Cooper is also planning to implement a variety of solar projects across the state, which will better diversify its fuel mix and use existing renewable resources.

By investigating and analyzing, then selecting, using and monitoring renewable energy sources, Santee Cooper emerges with renewed purpose to provide reliable, low-cost power while fulfilling its duty to protect the environment.

Customer Growth Means Utility Construction

As the primary source of power for almost 2 million South Carolinians, Santee Cooper must be prepared for the growth on its system in order to provide customers reliable, low-cost power.

South Carolina's population increases about 3 percent to 4 percent each year. Folks moving to the state come from all segments. They range from seniors seeking a moderate climate for their retirement years to young individuals in search of a great location for their families. They're all looking for the same thing: a good quality of life. That's exactly what can be found in South Carolina.

The utility's direct service area includes parts of Berkeley, Georgetown and Horry counties. The Grand Strand area of Horry County is the fastest growing part of the utility's service area, with customer growth rising rapidly. Recent statistics show projects in design or under construction include 74 subdivisions with 5,613 lots and 34 multifamily complexes with a total of 2,902 units.

With more customers signing up for Santee Cooper power, more electricity is needed in order for Santee Cooper to provide the reliable, low-cost power they expect.

Generating capacity from Santee Cooper's generating stations totals 4,500 megawatts. The 2005 peak was 5,371 megawatts recorded on January 19. The utility's all-time peak of 5,373 MWs was set Jan. 24, 2003.

Ongoing construction for two new generating stations at Cross Generating Station will help Santee Cooper fulfill its responsibility for

meeting the growing power needs of South Carolina.

These two units are a \$1.4 billion investment in the utility and the state that has, at peak construction, employed 1,700 people through contractors and subcontractors. This is the largest capital expenditure in the utility's history.

The commercial operation date for the 600-MW Unit 3 is January 2007. Cross Unit 4, a similar companion unit, will be commercially operational in January 2009.

Unit 3 is almost 70 percent complete, while Unit 4 is nearly 15 percent complete, putting construction for both units on schedule.

In August of this year, the final two municipalities signed electric utility franchise agreements with Santee Cooper, rounding out new agreements with nine towns and cities, a process that began in 2001. These agreements give Santee Cooper the right to serve electricity in the town or city.

Just over half of the municipalities negotiated converting the overhead power lines to underground as part of the agreement. In Myrtle Beach, North Myrtle Beach, Conway, Moncks Corner and Loris, the successes of the underground projects can be seen with the reduction of visual clutter in the streetscapes. To date, Santee Cooper has converted 43,000 feet of main feeder and has in design or in construction an additional 25,000 feet of conversion projects. In total, 45.8 percent of the 2,440 miles of distribution lines in the Santee Cooper system are now underground. Also, there are 51 distribution substations with 214 circuits in the system.

In October, Santee Cooper announced plans to invest \$135 million into the construction of 200 miles of high-voltage, transmission lines over the next three years to keep pace with growth. Of that investment, about \$50 million will be used to connect two new power turbines at Cross Station to the utility's power grid.

Additions and upgrades such as these help Santee Cooper generate, transmit and deliver some of the most reliable power in the United States, renewing the utility's purpose of providing excellent customer service.

In 2005, the generation availability was 92.2 percent, the transmission reliability was 99.999 percent and the distribution reliability rate was 99.996 percent.

Santee Cooper continued to experience record growth in 2005 with total retail customers approaching the 150,000th mark with the actual number of 148,988 receiving Santee Cooper power. With 5,907 new customers connecting this year, this represents the second fastest growth rate since 1990. Gigawatt-hour sales increased 3.5 percent over the previous year.

In the electric cooperative service areas, their customer base grew to 665,000 member-owners. Kilowatt-hour sales to these cooperatives grew by 2.3 percent, which resulted in 50.24 percent of Santee Cooper's electric revenue for 2005.

Sales to industrial customers also grew during the year. With 32 industrial customers accounting for 9.65 percent of Santee Cooper's 2005 electric revenues, the utility understands the role these customers play in the state's economy.

This state-owned electric and water utility hasn't lost the traditional, hard-working and honest values developed over the years. Santee Cooper's customers value these attributes, as shown in the results of the annual customer satisfaction surveys. The residential customer satisfaction survey reported a rating of 98.3 percent, which was well above the national average of 90.6 percent.

Santee Cooper received an impressive 100 percent satisfaction rating from its industrial customers, due in large part to the effort Santee Cooper puts forth in cultivating and maintaining mutually beneficial relationships with them.

The commercial satisfaction rating stands at 97.1 percent with the wholesale customers awarding an 86.4 percent satisfaction rating. The utility's overall average stands at 95.5 percent for 2005.

All of these notably high customer satisfaction ratings in various classes are evidence of the great customer service provided by Santee Cooper's employees across the state.

Santee Cooper Explores Next Generation Options

Santee Cooper is committed to investing in its future energy needs so as to improve the current quality of life; to continue the delivery of reliable, low-cost power; and to meet the state's growing energy demands.

The pace of the state-owned utility's growth is staggering. Even with the addition of the two units at Cross Station, Santee Cooper will be short 672 megawatts in 2015 to meet the projected power needs of its customers due to the explosive growth.

The permitting process and construction of a new facility averages eight to 10 years. Therefore, Santee Cooper is planning for its next base load generation now in order to meet customers's future power needs. Utilities are being encouraged to pursue nuclear power in the sweeping federal energy bill signed into law in August.

The Energy Policy Act of 2005 offers a wide range of measures aimed at expanding and diversifying the country's fuel supplies, including bolstering nuclear energy research and development. The \$4.6 billion earmarked for nuclear power provides incentives for building new reactors, including loan guarantees, production tax credits and risk protection. Included is authorization for cost-overrun support of up to \$2 billion total for up to six new nuclear power plants.

Expanding nuclear-power capabilities in South Carolina can help decrease America's dependence on expensive foreign oil. It can also reduce emissions of so-called "greenhouse gases."

Therefore, serious consideration must be given to a source of power that is clean and efficient, can help diversify the fuel mix and could aid the utility in providing reliable, low-cost power.

In August 2005, Santee Cooper, in partnership with SCE&G, announced plans to study building a new nuclear power plant. As the utilities analyze the next generation of energy for their customers, nuclear has emerged as a viable option. An announcement is expected in the first half of 2006.

Continuing to work jointly with SCE&G makes sound business sense, given the ongoing positive experience between Santee Cooper and SCE&G at the V.C. Summer Nuclear Station near Jenkinsville, S.C. Under the current joint ownership agreement, Santee Cooper receives one-third of the capacity generated at V.C. Summer and SCE&G receives two-thirds. V.C. Summer Station began generating uranium-fueled electricity in 1983.

Santee Cooper's fuel mix includes 10 percent coming from nuclear power. In South Carolina, nuclear power provides 54.5 percent of the state's electricity using seven reactors at four plants.

Not only is Santee Cooper planning for the next generation resources, the utility is actively promoting conservation to lessen the need for additional megawatts.

Educating customers of the benefits of conservation is the purpose of several Santee Cooper programs, such as Good Cents New Homes, Manufactured Homes, Loans, Improved Homes and Contractors. Savvy customers know energy conservation programs such as these can help lower their energy costs.

As residential customers look for ways to conserve, so do the utility's commercial customers.

Coastal Carolina University in Conway, S.C., a Santee Cooper Green Power Institution and Champion of the Environment, is doing its part to conserve electricity.

The university is partnering with Santee Cooper to implement the latest energy-efficient technology at its newly renovated Coastal Science Center. The enhanced facility was unveiled Oct. 26 on Campus Sustainable Day, an event encouraging universities nationwide to recognize the role higher education can play in the sustainability of natural resources.

State-of-the-art technologies, such as air-to-air energy recovery units and occupancy sensors, were the result of the collaborative effort which will result in estimated annual energy savings of approximately \$76,400.

Santee Cooper works hard to be a good corporate citizen, giving back to the communities. Working with Coastal Carolina University to conserve natural resources and engage in environmentally friendly projects is just another opportunity to support the community with renewed purpose.