

CHAIRMAN AND CEO LETTER

For a couple of years, Santee Cooper has forecast an era of uncertainty and challenge for the energy industry, and 2011 has proven us right. That turbulent tomorrow is here. The year brought historic doubt about the economy, regulatory challenges and more. The good news is, we began preparing for these challenges some time ago, and we are as ready as we can be.

Financially, Santee Cooper remains on solid footing and continues to maintain strong credit ratings. Refunding bond sales in 2011 generated solid demand and allowed us to restructure more than \$440.7 million in debt, saving \$33.2 million over the life of the bonds we refunded. We continue to stress savings and cost controls that benefit our customers, and have cut or deferred \$1.8 billion from our capital budget from 2010 through 2012. Our debt-to-equity ratio in 2011 was 73/27.

Even with our cost controls, Santee Cooper is not sacrificing reliability of power to our customers: Our reliability results were excellent, with 99.99 percent reliability for distribution, 99.99 percent for transmission and 89.63 percent for generation availability.

Our retail customer growth remains sluggish as the state continues to suffer lingering effects of the Great Recession. We ended the year with 164,647 residential and commercial customers, up less than 1 percent from 2010. Energy sales decreased 2 percent.

Electric utilities must plan for the long term, of course, and we are preparing for when the economy picks up steam. As 2011 ended, the Nuclear Regulatory Commission was in final review of our application with SCE&G for a license to build and operate two new nuclear units at V.C. Summer Nuclear Station. The first of those new units is scheduled to come online in about five years. Expanding our nuclear generation is a critical part of Santee Cooper's need to diversify our generating portfolio to better manage fuel costs and meet new

and expected emissions regulations, and it will also guarantee our continued ability to deliver low-cost and reliable electricity for all of South Carolina's tomorrows.

We completed a substantial upgrade to our transmission system in Georgetown and Horry Counties, installing double-circuit 115-kV lines and double-circuit 12-kV lines along the right of way beside U.S. Highway 17 from Pawleys Island to Garden City Beach. The upgrades increase reliability for our customers and increase the system's capacity there, so that we can continue to serve that growing population base.



Santee Cooper made strategic organizational moves to better align ourselves for upcoming challenges. Key among these are new officer-level positions focused on the V.C. Summer expansion, fuel acquisition and supply, and customer service.

Regulatory issues took center stage in 2011. The Environmental Protection Agency approved a final Cross State Air Pollution Rule earlier last year, and it has been stayed pending a challenge in federal court. EPA also approved its Mercury Air Toxic Standards (MATS) in December. We are still analyzing this lengthy and complex rule to determine what we must do to comply. Santee Cooper has an excellent

environmental record and has led South Carolina in voluntarily installing environment control technology on most of our generation. That technology captures 93 percent of emissions targeted by the MATS rule, or just shy of the MATS target of 95 percent. MATS will require significant overhauls, potentially costing hundreds of millions of dollars, for negligible improvements.

As a continued demonstration of our environmental stewardship, Santee Cooper continued to grow our energy-efficiency program, Reduce The Use. In 2011, we announced new business rebates for customized improvements for commercial customers. Business Custom rebates let Santee Cooper work one-on-one with commercial customers and identify energy-saving solutions tailored to their specific needs.

On the renewable energy front, Santee Cooper celebrated a key milestone in 2011: the 10th birthday of our Green Power program, the first and still only program of its kind in the state. During those 10 years, Santee Cooper generated approximately 580,000 megawatt-hours of Green Power and sold 163,559 MWhs of that to customers. Santee Cooper increased our Green Power generation by bringing online the Berkeley Green Power Generating Station and the Grand Strand Solar Station. We also dedicated our 20th Green Power Solar School, this one at Myrtle Beach Middle School.

Santee Cooper strives to provide exceptional customer service, and we added features in 2011 that allow customers even more flexibility in doing business with us. We launched a mobile website in January, making it easy for customers to access important information via smart phones and other portable devices. In September, we added the Storm Center, which lets customers see near real-time information about outages on our system and repair efforts, and also lets them report outages via smart phones or other Internet connections. And as 2011 closed, we wrapped up a successful pilot of “live chat” instant message technology, which lets customers converse with our customer service representatives via a link on our website. Live chat is now fully operational and has proven a popular customer service addition.

It is crucial that Santee Cooper be ready for whatever tomorrow brings. We also want to prepare our customers. Energy Matters is a new feature at www.santeecooper.com with up-to-date information about regulatory activity, our

new nuclear power project, and other timely issues. We are encouraging our customers to get plugged in by visiting this page.

Santee Cooper is prepared today for a successful tomorrow, for our customers, our employees and our state.



O.L. Thompson III
Chairman
Board of Directors



Lonnie N. Carter
President and Chief Executive Officer