SOUTH CAROLINA ELECTRIC & GAS COMPANY

POST OFFICE BOX 764

COLUMBIA, SOUTH CAROLINA 29218

E. H. CREWS, JR.
VICE-PRESIDENT AND GROUP EXECUTIVE
ENGINEERING AND CONSTRUCTION

September 24, 1979

Mr. Harold R. Denton, Director
Office of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Subject: Virgil C. Summer Nuclear Station
Docket No. 50-395

Dear Mr. Denton:

South Carolina Electric & Gas Company, acting for itself and as agent for South Carolina Public Service Authority, hereby submits five (5) copies of our response to your request for additional information on financial qualifications for the Virgil C. Summer Nuclear Station, Unit 1.

Very truly yours,

E. H. Crews, Jr.

RC:EHCJr:md

CC: Messrs. H. T. Babb
G. H. Fischer
W. C. Mescher
W. S. Murphy
W. A. Williams, Jr.
T. B. Conner, Jr.
NPCF/Dixon
File

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SOUTH CAROLINA ELECTRIC & GAS COMPANY
RESPONSE TO REQUEST FOR
INFORMATION ON FINANCIAL QUALIFICATIONS

1.a. Indicate the estimated annual cost by year to operate the subject facility for the first five full years of commercial operation. The types of costs included in the estimates should be indicated and include (but not necessarily be limited to) operation and maintenance expense (with fuel costs shown separately), depreciation, taxes and a reasonable return on investment. Indicate the projected plant capacity for the unit each year.

RESPONSE

See following pages.

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING UNIT: VIRGIL C. SUMMER NUCLEAR STATION, UNIT 1 FOR THE CALENDAR YEAR 1981

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 83 %)	$ 39,309
Other operating expenses	5,735
Maintenance expenses	4,624
Total nuclear power generation	49,668
Transmission expenses	175
Administrative and general expenses	
Property and liability insurance	2,561
Other A & G expenses	4,412
Total A & G expenses	6,973
TOTAL O & M EXPENSES	56,816
Depreciation expense	26,260
Taxes other than income taxes	
Property taxes	2,616
Other	3,569
Total taxes other than income taxes	6,185
Income taxes - Federal	15,584
Income taxes - other	2,163
Deferred income taxes - net	6,402
Investment tax credit adjustments - net	(1,559)
Return (rate of return: 8.38 %)	62,244
TOTAL ANNUAL COST OF OPERATION	$ 174,095

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: VIRGIL C. SUMMER NUCLEAR STATION, UNIT 1
FOR THE CALENDAR YEAR 1982

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 77 %)	$ 31,281
Other operating expenses	6,290
Maintenance expenses	4,994
Total nuclear power generation	42,565
Transmission expenses	193
Administrative and general expenses	
Property and liability insurance	2,618
Other A & G expenses	4,663
Total A & G expenses	7,281
TOTAL O & M EXPENSES	50,039
Depreciation expense	26,260
Taxes other than income taxes	
Property taxes	2,524
Other	3,468
Total taxes other than income taxes	5,992
Income taxes - Federal	15,170
Income taxes - other	2,170
Deferred income taxes - net	5,447
Investment tax credit adjustments - net	(1,093)
Return (rate of return: 8.38 %)	60,045
TOTAL ANNUAL COST OF OPERATION	$ 164,030

1065 320

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: VIRGIL C. SUMMER NUCLEAR STATION, UNIT 1
FOR THE CALENDAR YEAR 1983

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 77%)	$ 30,930
Other operating expenses	6,890
Maintenance expenses	5,393
Total nuclear power generation	43,213
Transmission expenses	236
Administrative and general expenses	
Property and liability insurance	2,625
Other A & G expenses	5,360
Total A & G expenses	7,985
TOTAL O & M EXPENSES	51,434
Depreciation expense	26,260
Taxes other than income taxes	
Property taxes	2,431
Other	3,430
Total taxes other than income taxes	5,861
Income taxes - Federal	14,356
Income taxes - other	2,065
Deferred income taxes - net	5,409
Investment tax credit adjustments - net	(1,147)
Return (rate of return: 8.38%)	57,845
TOTAL ANNUAL COST OF OPERATION	$ 162,083

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING UNIT: VIRGIL C. SUMMER NUCLEAR STATION, UNIT 1 FOR THE CALENDAR YEAR 1984

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 71 %)	$ 29,981
Other operating expenses	7,537
Maintenance expenses	5,825
Total nuclear power generation	43,343
Transmission expenses	233
Administrative and general expenses	
Property and liability insurance	2,661
Other A & G expenses	6,133
Total A & G expenses	8,794
TOTAL O & M EXPENSES	52,370
Depreciation expense	26,260
Taxes other than income taxes	
Property taxes	2,339
Other	3,392
Total taxes other than income taxes	5,731
Income taxes - Federal	12,977
Income taxes - other	1,879
Deferred income taxes - net	6,045
Investment tax credit adjustments - net	(1,246)
Return (rate of return: 8.38%)	55,645
TOTAL ANNUAL COST OF OPERATION	$ 159,661

1065 322

ATTACHMENT FOR ITEM NO. 1.a.

ESTIMATED ANNUAL COST OF OPERATING NUCLEAR GENERATING
UNIT: VIRGIL C. SUMMER NUCLEAR STATION, UNIT 1
FOR THE CALENDAR YEAR 1985

(thousands of dollars)

Operation and maintenance expenses	
Nuclear power generation	
Nuclear fuel expense (plant factor 77 %)	$ 31,731
Other operating expenses	8,236
Maintenance expenses	6,291
Total nuclear power generation	46,258
Transmission expenses	286
Administrative and general expenses	
Property and liability insurance	2,725
Other A & G expenses	7,014
Total A & G expenses	9,739
TOTAL O & M EXPENSES	56,283
Depreciation expense	26,260
Taxes other than income taxes	
Property taxes	2,247
Other	3,375
Total taxes other than income taxes	5,622
Income taxes - Federal	14,270
Income taxes - other	2,063
Deferred income taxes - net	3,638
Investment tax credit adjustments - net	(1,074)
Return (rate of return: 8.38 %)	53,446
TOTAL ANNUAL COST OF OPERATION	$ 160,508

1065 323

1.b. Indicate the unit price per KWH experienced by each applicant on system wide sales of electric power to all customers for the most recent 12-month period.

RESPONSE: SOUTH CAROLINA ELECTRIC & GAS COMPANY

Unit price per KWH sold 12-months ended July 31, 1979 - 3.34¢

RESPONSE: SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

Kwh sales to general business customers for the year ended June 30, 1979 totaled 5,952,789,884. These sales produced revenues of $134,295,792 or 22.56 mills per Kwh sold.

1065 324

2. Indicate the estimated costs of permanently shutting down the facility, a listing of what is included in such costs, the assumptions made in estimating the costs, the type of shut-down contemplated, and the expected source(s) of funds to cover these costs.

3. Provide an estimate of the annual cost to maintain the shut-down facility in a safe condition. Indicate what is included in the estimate, assumptions made in estimating costs, and the expected source(s) of funds to cover these costs.

RESPONSE

Financial qualifications of shut-down and decommissioning of the V. C. Summer Nuclear Station.

The financial qualifications of the Applicants, South Carolina Electric & Gas Company and South Carolina Public Service Authority, as set forth in the Applicants' Annual Reports, attached as part of Sections 5(a) and 6(a) of the "Request for Information on Financial Qualifications", signifies the companies' ability to be financially capable of decommissioning the V. C. Summer Nuclear Plant.

Although the V. C. Summer Nuclear Plant is not yet in service, the Applicants recognize their obligation of decommissioning the facility at the end of its useful life. At present, no specific plan of action for decommissioning the plant has been developed.

As indicated in the Environmental Report for the V. C. Summer Nuclear Station, the ultimate plans for decommissioning will depend on regulations and requirements in effect at the time of decommissioning. Present action taken in decommissioning plants range from removal of radioactive material, sealing the plant, and establishing an exclusion boundary to complete dismantling, with the site being reclaimed in a way to make it amenable to other land uses. Depending on which plan of action is taken, decommissioning costs range from $1 million plus an annual maintenance charge of $100,000 for the lower level of decommissioning to $70 million for complete dismantling.

Applicants recognize there are many studies addressing the broad area of decommissioning. Some of these are NUREG-0436, Revision, December 1978, entitled "Plan for Re-evaluation of NRC Policy on Decommissioning of Nuclear Facilities," and NUREG-0130 entitled "Technology Safety and Cost of Decommissioning a Referenced Pressurized Water Reactor Power Station." However, the assumptions underlying the cost estimates set forth in the Atomic Industrial Forum's National

Environmental Studies Project, entitled "An Engineering Evaluation of Nuclear Powered Decommissioning Alternatives" are we believe reasonable for the type and size unit at Summer Station.

It is the Applicants present plans to evaluate and conduct cost studies into the plant's decommissioning plans at the time that the facility goes into commercial operation. At such time, the Applicants will employ the services of experts in depreciation and decommissioning fields to formulate a complete depreciation and decommissioning plan for the V. C. Summer Nuclear Plant. In respect to South Carolina Electric & Gas Company, approval of the South Carolina Public Service Commission (PSC), which has jurisdiction over rates and service of the Company, will be required; and it is the Company's plans to amortize such decommissioning costs over the life of the facility by adjusting the provision for depreciation for such costs. South Carolina Public Service Authority, a state entity not subject to PSC jurisdiction but subject to the laws of the State of South Carolina, will adjust and collect their proportionate share of decommissioning costs over the life of the facility.

Current NRC regulations require a proposed decommissioning plan to be submitted for review and approval prior to initiation of decommissioning activity. The Applicants will comply with prevailing decommissioning rules and regulations and the necessary funds for decommissioning will be handled through the regular operations and normal financing programs of the Applicants.

4. Provide copy of joint participation agreement setting forth the procedure by which the applicants will share operating expenses and, if necessary, decommissioning costs.

RESPONSE

Agreement follows.

CONFORMED COPY

SOUTH CAROLINA ELECTRIC & GAS COMPANY

AND

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

JOINT OWNERSHIP AGREEMENT

for

Virgil C. Summer Nuclear Station

Unit # 1

October 18, 1973

Index

1065 329

Index

(Continued)

Exhibits

AGREEMENT

This Agreement, entered into this Eighteenth day of October, 1973, by and between the South Carolina Electric & Gas Company, (hereinafter referred to as "Company"), and the South Carolina Public Service Authority, (hereinafter referred to as "Authority"), (hereinafter referred to collectively as the "Parties"):

RECITALS

This Agreement is entered into by Authority pursuant to and under the authority of Section 59-17, Code of Laws of South Carolina, 1962, as amended.

Company has acquired a site in the vicinity of Parr Shoals, South Carolina for and intends to proceed with all steps, actions and activities (including purchasing and procurement), incident to and required for the design, engineering, construction and subsequent operation by Company of a nuclear steam-electric generating unit having a nameplate rating of approximately 900 MW and presently expected to be placed in commercial operation during the second quarter of calendar year 1978, to be known as the Virgil C. Summer Nuclear Station Unit #1 (hereinafter defined as the "Project") at said site; and

Company has entered into certain contracts for planning, engineering and construction of the Project and has received a construction permit therefor from the Atomic Energy Commission; and

Authority has determined that one-third of Project Output will be required on or about the expected Date of Commercial Operation of the Project to serve its growing power and energy requirements; and

Company has determined that the disposition of one-third of the Project Output to Authority is desirable.

Company and Authority have determined that it is in their best interests and in the best interests of the State of South Carolina for them to own the Project as tenants in common and for Company to proceed with Project licensing, design, construction, operation and maintenance for itself and as agent for Authority pursuant to this Agreement.

NOW, THEREFORE, the Parties mutually agree as follows:

1. DEFINITIONS

1.01 "AEC" means the United States Atomic Energy Commission or such successor agencies as shall have jurisdiction for licensing or regulating nuclear power generating plants.

1.02 "Costs of Construction" means all costs allocable to the acquisition, design, engineering, licensing and construction of the Project and making it ready for operation, excluding the cost of Fuel and interest during construction. Credits relating to such costs, including insurance proceeds, shall be applied to Costs of Construction when received.

1.03 "Costs of Operation" means all costs allocable to the operation and maintenance of the Project, Fuel and rights relating thereto, elective capital additions made pursuant to

Section 20, and, subsequent to the Date of Commercial Operation, repairs and renewals and replacements necessary to assure design capability, betterments, modifications and additions in keeping with Prudent Utility Practice and when in the reasonable judgment of Company necessary to obtain the approval of or to comply with the requirements of governmental agencies having jurisdiction. Credits relating to such costs, including insurance proceeds, shall be applied to Costs of Operation when received.

1.04 "Construction Disbursing Account" means the separate account established by Authority for the purpose of paying Authority's Ownership Share of Costs of Construction.

1.05 "Date of Commercial Operation" means the date fixed by Company and agreed to by Authority as the point in time when the Generating Plant is ready to be operated on a commercial basis at an output authorized by any governmental agency having jurisdiction and as determined by Company to be in accordance with Prudent Utility Practice and pursuant to schedules submitted by the Parties.

1.06 "Fuel" means nuclear fuel and rights relating thereto.

1.07 "Generating Plant" means the nuclear steam supply system, the turbine-generator Unit #1 and related structures and facilities, including the cooling facilities, Project Substation, including facilities for switching and transformation, safeguard transmission line with associated switching facilities and transformers required specifically for the backup of the generating

unit, together with additions and betterments thereto and replacements thereof, and appropriate equipment, spare parts and initial operating supplies, but excluding Fuel.

1.08 "Labor Costs" means all payroll, related employee benefit costs and employee expenses of all employees of the Parties chargeable to the Project.

1.09 "Matter" means any subject, or any aspect thereof, arising out of or relating to the interpretation or performance of this Agreement, including any proposal that may be made by either of the Parties.

1.10 "Minimum Capability" means the minimum generation at which the Generating Plant may be operated as determined by Company, but not less than the minimum generation permitted by the manufacturer's recommendations, if any, or by the terms of the AEC operating license, whichever is higher.

1.11 "Output" means that net capacity and energy from the Generating Plant which at any time can be made available at the high voltage terminals of the Project Substation after station use and losses.

1.12 "Ownership Share" of a Party means the fractional share specified in Paragraph 2.01 hereof, or as the same may be adjusted pursuant to Sections 18 and 19.

1.13 "Plant Real Property" means the real property acquired or to be acquired by Company as a site for and necessary and useful for the construction, operation and maintenance of the Project. A description of the Plant Real Property and

statement of the estimated cost thereof is attached as Exhibit I and made a part hereof.

1.14 "Plant Real Property Adjustment" means the amount determined by the Parties as that portion of the costs of Plant Real Property and property acquired by Company for Project 1894, allocable between the Project and Project 1894, taking into consideration the joint use of all such property, or portions of it, for the Project and Project 1894.

1.15 "Project" means the (a) Generating Plant, (b) Plant Real Property, (c) Fuel, (d) all licenses, permits, rights and approvals necessary or convenient for construction, operation, maintenance and decommissioning of the Project, (e) roads, railroad spurs, docks, parking lots, fencing and similar facilities, and (f) all things acquired by the Parties for use in construction, operation, maintenance and repair of the Project. A description of the Project and a statement of the estimated cost thereof is attached as Exhibit II and made a part hereof.

1.16 "Project Consultant" means an individual or firm of national reputation and recognized expertise in the field or subject referred to it, the appointment of which is mutually agreed to by the Parties, retained for the purpose of resolving differences referred to it. A different Project Consultant may be retained for each Matter referred.

1.17 "Project Architect-Engineer" means Gilbert Associates, Inc., of Reading, Pennsylvania, retained

by Company for the design and engineering of the Project under the direction of Company.

1.18 "Project Substation" means line and switching facilities connecting Unit #1 to the V. C. Summer 230 KV substation, line and switching facilities for connecting the startup and emergency transformer for Unit #1 to the 230 KV substation, 230 KV buses, insulators, structures and foundations, bus tie switching facilities, 230 KV bus potential and current transformers including interconnection metering equipment, relays and meters and control devices for these bus facilities installed and made operational with Unit #1. Transmission line and switching facilities required for connecting Company's and Authority's respective transmission systems to the V. C. Summer 230 KV substation are excluded.

1.19 "Project 1894" means those works and facilities, including property and property rights, constituting FPC Project 1894 as now licensed by the FPC, together with such proposed pumped storage works and facilities acquired or constructed by Company pursuant to any amendment or amendments to such license, or pursuant to any new license granted by the FPC.

1.20 "Prudent Utility Practice" at a particular time means any of the practices, methods and acts, which, in the exercise of reasonable judgment in the light of the facts (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the decision

was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice includes due regard for manufacturer's warranties and shall apply not only to functional parts of the Project, but also to appropriate structures, landscaping, painting, signs, lighting, other facilities and public relations programs reasonably designed to promote public enjoyment, understanding and acceptance of the Project. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts. In evaluating whether any Matter conforms to Prudent Utility Practice, the Parties and the Project Consultant shall take into account the fact that the Authority is an Agency of the State of South Carolina with prescribed statutory powers, duties and responsibilities.

1.21 "Uniform System of Accounts" means the Federal Power Commission Uniform System of Accounts prescribed for Class A Public Utilities and Licensees in effect on January 1, 1970, as the same may be amended from time to time.

2. OWNERSHIP, RIGHTS AND OBLIGATIONS

2.01 The Parties shall have title to the Project as tenants in common and shall, as co-tenants with an undivided interest therein and, subject to the terms of this Agreement, own the Project, have the related rights and obligations, including payment therefor, and be entitled to the Output as follows:

Party	Ownership Share
Company	66-2/3%
Authority	33-1/3%

2.02 Subject to Paragraphs 2.07 and 5.01, the Parties shall promptly and with all due diligence, acting jointly or individually as may be appropriate, take all necessary actions and seek all regulatory approvals, licenses and permits necessary to carry out their obligations under this Agreement.

2.03 Company shall within a reasonable time and upon receipt of any required regulatory approvals and from time to time, execute and deliver deeds, bills of sale and such other documents as may be necessary in addition to this Agreement to vest ownership in the Parties as set forth in Paragraph 2.01 above.

2.04 (a) The duties, obligations and liabilities of the Parties are intended to be several and not joint or collective, and neither Party shall be jointly or severally liable for the acts, omissions or obligations of the other Party, except that Authority shall be severally liable, in proportion to its Ownership Share of the Project, for the acts, omissions, or obligations performed, omitted or incurred by Company while acting as the agent of Authority under the terms of this Agreement.

(b) No provision of this Agreement shall be construed to create an association, joint venture, partnership, or impose a partnership duty, obligation or liability, on or with regard to any of the Parties. Neither Party shall have a

right or power to bind any other Party without its written consent, except as expressly provided in this Agreement. Each Party shall severally bear its Ownership Share of all obligations, including the supply of energy for station use when not generated by the Project, and shall severally bear its Ownership Share of liabilities relating to the Project as they arise.

2.05 Until such time as the Project, or any part thereof, as originally constructed, reconstructed or added to, is no longer used or useful for the generation of electric power and energy, or until the end of the period permitted by applicable law, whichever occurs first, the Parties waive the right to partition, whether by partition in kind or sale and division of the proceeds thereof, and agree that during said time they will not resort to any action at law or equity to partition and further that for said time they waive the benefit of all laws that may now or hereafter authorize partition of the properties comprising the Project.

2.06 Each Party and its designees shall have the right to go upon and into the Project at any time subject to the rules and regulations of governmental regulatory bodies having jurisdiction thereof, insurance and industrial security requirements and the necessity of efficient and safe construction and operation of the Project.

2.07 In order to provide unified management of the Project, Authority authorizes and designates Company, and

Company agrees to so act, as its agent to design, construct, operate and maintain the Project under the terms of this Agreement, and the Parties agree that Company shall have sole possession and control of the Project for the Parties subject to the provisions of Paragraph 2.06, and shall have sole authority for the licensing, decommissioning, design, construction, operation and maintenance of the Project in accordance with Prudent Utility Practice and in such manner as is required in the reasonable judgment of Company to obtain the approval of or comply with the requirements of regulatory agencies having jurisdiction. The Parties agree that such relationship shall not be changed except by the written consent of both Parties.

2.08 (a) In the licensing, design, construction, operation, maintenance and decommissioning of the Project, each Party shall act without compensation other than payment or reimbursement of costs and expenses as provided herein.

(b) Each Party releases the other Party, its agents and employees from any claim for loss or damage, including consequential loss or damage, arising out of the construction, operation, maintenance, reconstruction, repair or decommissioning of the Project due to negligence, but not any claim for loss or damage resulting from breach of this Agreement or for willful or wanton misconduct. Company, acting for and on behalf of Authority and itself, shall take timely and appropriate legal action to recover losses from damages resulting from breach of any other contract relating to the Project, and shall promptly

notify Authority of any such breach and anticipated loss resulting therefor. Not withstanding the foregoing, Company and Authority acting jointly may initiate and pursue any legal actions or proceedings, and enforce any legal or equitable rights or claims relating to or affecting the Project as and when it may be necessary, appropriate or prudent for them so to do.

(c) Any loss, cost, liability, damage and expense to the Parties or either of them, other than damages to either Party resulting from loss of use and occupancy of the Project or any part thereof, arising out of the construction, operation, maintenance, reconstruction, repair or decommissioning of the Project and based upon injury to or death of persons or damage to or loss of Project property and property of others, to the extent not covered by collectible insurance, shall be charged to Costs of Construction or Costs of Operation, whichever may be appropriate.

(d) Each Party to the extent obtainable shall cause its insurers to waive any rights of subrogation against the other Party, its agents and employees, for losses, costs, damages or expenses, arising out of the construction, operation, maintenance, reconstruction, repair, or decommissioning of the Project.

2.09 Prior to the Date of Commercial Operation of the Project, the Parties shall determine the Plant Real Property Adjustment. Within a reasonable time after such determination

the Parties shall make settlement of any amounts due. In the event the Parties are unable to arrive at mutually agreeable values, the Matter shall be submitted to a Project Consultant for resolution as provided herein.

3. PROJECT COORDINATION

3.01 At the time of the execution of this Agreement the Parties shall each appoint by notice in writing to the other Party a representative and an alternate, who shall be employees of the Party making the appointments. Changes in the representative or alternate shall be made by written notice to the other Party. Notice to an appointed representative or alternate shall be deemed to be notice to the Party represented by him.

3.02 Company shall keep Authority informed of all significant Matters with respect to licensing, design, construction, operation, maintenance and decommissioning of the Project (including plans, specifications, engineering studies, environmental reports, budgets and supporting data, fuel plans, staffing and maintenance programs and schedules) and, when practicable, shall furnish such information in time for Authority to submit comments and recommendations thereon before decisions are made, and shall confer with Authority as and whenever needs arise. Company shall give due consideration to comments and recommendations made by Authority. Company shall furnish or make available any and all other information relating to any aspect of the Project upon request of Authority.

3.03 Nothing contained in this Section 3 shall in any manner diminish the authority, possession and control of Company as set forth in Paragraph 2.07.

4. RESOLUTION OF DISAGREEMENTS

4.01 If Company and Authority cannot agree on any Matter which under the terms of this Agreement requires mutual consent of the Parties a Project Consultant will be appointed to settle the disagreement. In the absence of an agreement as to the selection of a Project Consultant, either Party may request the Chief Judge of the United States District Court for the District of South Carolina to appoint a Project Consultant.

4.02 The Project Consultant shall consider all written arguments and factual materials which have been submitted to it by the Parties within 30 days following its appointment, and as promptly as possible make a written determination as to whether any Matter referred to it would or would not have been consistent with Prudent Utility Practice. If the Project Consultant determines that the Matter referred to it was not consistent with Prudent Utility Practice, it shall at the same time recommend what would under the same circumstances have met such test.

4.03 Matters found by the Project Consultant to be consistent with Prudent Utility Practice shall become immediately effective and Authority shall be obligated to expend funds for its Ownership Share of the increased cost, if any. Subject to

Paragraph 4.05, Matters found by the Project Consultant to be inconsistent with Prudent Utility Practice shall be modified to conform to recommendations of the Project Consultant or as the Parties may otherwise agree, and shall become effective when so modified.

4.04 Company shall have the right, but not the duty, to proceed with Matters which have been disapproved by Authority; provided, however, if Company takes such action on a disapproved Matter and if the determination made by the Project Consultant is that such Matter was not consistent with Prudent Utility Practice, then Company shall bear the net increase in the Costs of Construction or Costs of Operation of such action to the extent it was inconsistent with what the Project Consultant determined would under such circumstances have met such tests.

4.05 Notwithstanding other provisions of this Section 4 whenever a Matter has been referred to the Project Consultant and Company determines that the other position or positions would create an immediate danger to the safe operation of the Project or when in the reasonable judgment of Company necessary to obtain the approval of or to comply with requirements of governmental agencies having jurisdiction, Company may proceed in accordance with Company's position with respect to such Matters until such Matter has been resolved by the Project Consultant. Whenever the Project Consultant has recommended a course of action which the Company determines would

create a danger to the safety of the Project or would violate regulatory requirements of any governmental agency having jurisdiction of the Project, Company may nevertheless proceed in accordance with Company's position subject to a suitable financial adjustment.

4.06 The cost of employing the Project Consultant shall be shared equally by the Parties.

5. CONSTRUCTION AND LICENSING

5.01 Company, acting for itself and as agent for Authority, shall take whatever action is necessary or appropriate to seek and obtain all licenses, permits and other rights and regulatory approvals necessary to construction and operation of the Project.

5.02 Company shall prosecute construction of the Project in accordance with Prudent Utility Practice and plans and specifications for the Project prepared or approved by the Project Architect-Engineer. Company shall use its best efforts to achieve the Date of Commercial Operation during the second quarter of calendar year 1978, but shall not be responsible for delays which are beyond its control, as provided for in Section 17, or for delays resulting from the regulatory process.

5.03 Company shall, as a matter of normal practice, award separate contracts for readily separable parts of the

work to the extent consistent with the construction of the Project at the least overall cost, high quality and the requirements of governmental agencies having jurisdiction. Construction contracts may be lump sum, unit price, and, whenever deemed prudent by Company, may be negotiated, and may also contain incentive and liquidated damages clauses. As a matter of policy, Company shall request bids from qualified contractors and award contracts after appropriate evaluation and review to the lowest evaluated bidder unless there are substantial reasons for deviating from that policy in a particular case. All bids, contracts and related documents shall be made available to Authority as information; provided, however, that the award of any contract in excess of $600,000.00, and any change order which would increase a contract price by an amount in excess of $200,000.00, shall be subject to the approval of Authority.

5.04 Any and all licenses, permits, approvals, contracts, obligations and commitments obtained, made and entered into or incurred by Company prior to the effective date of this Agreement in connection with the acquisition and construction of the Project are hereby ratified and approved by Authority. A list of licenses, permits, approvals, contracts, obligations and commitments and the amounts expended and committed therefor, prior to the effective date of this Agreement is attached hereto as Exhibit III and made a part hereof.

6. <u>REIMBURSEMENT FOR COSTS</u>

6.01 Within three (3) days after the date of delivery to the initial purchasers of Authority's revenue bonds sold to finance its Ownership Share, Authority shall make an initial payment to Company on account of its Ownership Share of all Costs of Construction paid by Company to the effective date of this Agreement. Company shall prepare an initial statement reflecting an estimate of all Costs of Construction paid by Company to the date of such statement. Authority shall promptly pay its Ownership Share of the amount set forth on the initial statement. As soon as practical thereafter, Company shall prepare a final statement setting forth a final detailed accounting of all Costs of Construction paid by Company to the date of the initial payment and Authority shall promptly make a final payment, or Company shall reimburse Authority, in an amount equal to the Authority's Ownership Share of the difference between the initial statement and the final statement. The initial and final statements shall include an amount for interest computed at the rate of 8% per annum on a 365-day basis on all payments for Costs of Construction made by Company to the date of the initial payment by Authority. Thereafter each Party shall pay when due its Ownership Share of Costs of Construction and Costs of Operation.

6.02 Each Party shall pay to the other Party its Ownership Share of Costs of Construction expended for the benefit of the Project by such other Party after the effective

date of this Agreement for, among other things: (a) Labor Costs, (b) Other Costs of Construction including, without limiting the generality of the foregoing, equipment, insurance, licensing fees, materials, supplies, travel, construction power, and (c) administrative and general costs chargeable to the Project.

6.03 Each Party shall pay to the other Party its Ownership Share of Costs of Operation expended for the benefit of the Project by such other Party after the effective date of this Agreement for, among other things: (a) Labor Costs, (b) other operating costs including, without limiting the generality of the foregoing, equipment, insurance, licensing fees, materials, supplies, and travel, and (c) administrative and general costs chargeable to the Project.

7. CONSTRUCTION BUDGET

7.01 An initial budget of the amounts expended or expected to be expended for specific items of Costs of Construction in each month during the period July 1973 through June 1974 and for each 6-month period thereafter to the completion of construction as determined by Company is attached hereto as Exhibit IV and is hereby approved.

7.02 By January 1 and July 1 of each year until completion of construction, Company shall provide Authority an annual construction budget (subject to approval by the Company's Board of Directors) supported by detail adequate for the purpose

of comprehensive review, describing the items of Costs of Construction and of the amounts expected to be expended therefor in each month during the next 12-month period and in 6-month periods thereafter to the completion of construction. Authority shall, within 30 days after receipt of such budget, indicate its approval or disapproval of the budget or any part thereof and may submit to Company any comments or recommendations it deems appropriate. Construction budgets shall be changed by Company from time to time during a calendar year as necessary to reflect substantial changes in construction schedules, plans, specifications or costs, and when so changed shall be submitted similarly to Authority, and action to approve or disapprove shall be taken by Authority within 15 days of receipt thereof.

8. CONSTRUCTION PAYMENTS

8.01 Not later than the fifth working day of each month Company shall furnish Authority an estimate of Costs of Construction expected to be paid during the following calendar month together with Company's approximate schedule of payments of such cost, and will from time to time as appropriate advise Authority of any changes in such estimates or schedules.

8.02 Company shall pay all Costs of Construction and prior to the close of business on each working day, shall notify Authority of the total of such payments made that day and of any significant changes in Company's schedule or estimate

furnished pursuant to Paragraph 8.01. Not earlier than 12:00 noon of the next workday following such payments, Company shall draft Authority's Construction Disbursing Account for Authority's Ownership Share of such payments subject to Paragraph 6.02. Company shall furnish Authority complete supporting data including accounts distribution as soon as practicable.

9. OPERATION

9.01 Company shall operate and maintain the Project in accordance with Prudent Utility Practice and in such manner as is required in the reasonable judgment of the Company to obtain and maintain the approval of or to comply with the requirements of governmental agencies having jurisdiction.

9.02 Subject to Paragraph 9.01 and to the provisions of Section 13, Company shall operate and maintain the Project so as to produce the amounts of energy scheduled by the Parties within their respective Ownership Shares of the Output of the Generating Plant.

10. OPERATING BUDGETS

10.01 For purposes of this Section 10, Contract Year shall be the twelve-month period beginning July 1 and ending June 30 except that the first Contract Year shall be the period beginning on the Date of Commercial Operation and ending the next succeeding June 30.

10.02 At least two (2) months prior to the expected

Date of Commercial Operation, Company shall provide Authority a budget of the Costs of Operation, except Fuel costs, but including administrative and general expenses relating to operation and Fuel, for each month from the expected Date of Commercial Operation to the end of the first Contract Year. Thereafter, on or before June 1 of each year, Company shall provide Authority a similar operating budget for the next succeeding Contract Year. Each operating budget shall be supported by detail adequate to allow Authority's detailed review and shall show, among other things, staffing allocations and Company services. Authority shall indicate its approval or disapproval of the proposed operating budget or any part thereof within 30 days after receipt.

10.03 The effective operating budget shall be revised semi-annually and also shall be changed from time to time: (a) to include costs occasioned by an emergency, (b) to provide for repairs, renewals, replacements or additions necessary to achieve and maintain design capacity and energy capability and (c) to provide for expenditures which in the reasonable judgment of Company are necessary to obtain the approval of or to comply with the requirements of governmental agencies having jurisdiction or an expenditure required by Section 18. Promptly after the semi-annual revision or the occurrence of any of the above events and promptly after the occurrence of other circumstances requiring the expenditure of funds not contemplated in the effective operating budget, Company shall provide a

revised operating budget to Authority. Costs incurred by Company in the exercise of Prudent Utility Practice prior to the time a revised operating budget becomes effective shall be added as incurred to the amounts due under the operating budget. Authority shall indicate its approval or disapproval of the revised operating budget or any part thereof within fifteen days after receipt.

11. OPERATING PAYMENTS

11.01 Company agrees to make payment of all Costs of Operation and Authority upon notice shall promptly reimburse Company for Authority's Ownership Share of such costs subject to the provisions of Paragraph 6.03.

11.02 Not later than the next to the last working day of each month and at such other times as is practicable Company shall notify Authority of any significant changes in Costs of Operation expected to be paid in the following month.

11.03 Company will notify Authority one (1) working day prior to anticipated payment of Costs of Operation and of the amount of money required to make such payment. Authority will transfer to Company's account in a bank mutually agreed upon sufficient moneys to cover Authority's Ownership Share of such Costs of Operation. Company shall furnish Authority complete supporting data, including accounts distribution, as soon as practicable.

12. FUEL

12.01 Unless otherwise agreed by the Parties, all costs, obligations, liabilities, credits and recoveries incurred or realized with respect to Fuel including without limitation, cost of nuclear Fuel materials (including costs associated therewith while in the process of refinement, conversion, enrichment and fabrication into nuclear Fuel assemblies), insurance when outside the Project, shipping, service charges from any supplier, nuclear assemblies in stock and the estimated costs associated with shipping, reprocessing, reconversion of spent Fuel, disposal and the estimated net value of recovered fissionable material and Fuel by-products, but excluding any amounts for interest, depreciation or amortization (Cost of Fuel), shall be shared in proportion to the respective Ownership Shares and adjusted as appropriate and equitable in proportion to the respective usages of such Fuel.

12.02 Company and Authority shall each pay or cause to be paid when due its Ownership Share of the Cost of Fuel as determined by Company in accordance with the Fuel Plan (hereinafter defined).

12.03 Each Party shall have the right to make whatever arrangements it may desire, whether by lease, security transaction or otherwise, for the discharge of its Fuel payment obligations so long as such arrangements do not impair the rights of the other Party. Such arrangements shall be subject

to change as desired by Company or Authority until the end of the Project.

12.04 Company, in consultation with Authority, shall conduct a continuing Fuel management program, appropriate to the Project, utilizing necessary consulting services and scientific and core design information. As part of the Fuel program, detailed Fuel Plans will be developed. Each Fuel Plan shall be submitted to Authority for its concurrence.

12.05 At least 90 days in advance of the initial payment for Fuel and thereafter annually on or before June 1 of each year, Company shall submit to Authority a Fuel Plan which shall describe all contemplated actions, payments and dates thereof, core usage, core design burnup, estimated fueling dates, cash flow analysis of forecasted expenditures and credits for each Party for each major component of the Fuel cycle by months for the period of the Fuel Plan (Fuel Plan). Company shall amend the Fuel Plan as reasonably required to reflect changes in conditions and shall submit such amended Fuel Plan to Authority for its concurrence.

12.06 Authority shall furnish to Company, as requested, forecasts of its generation requirements from the Project. Company shall use such forecasts together with forecasts of its generation requirements from the Project in preparing each Fuel Plan.

12.07 Company shall arrange for Fuel in amounts so that each Party may utilize its Ownership Share of the capacity

and energy from the Project as provided for in Paragraph 12.06.

12.08 Company shall, unless otherwise agreed, prepare monthly operating records, based, as appropriate, upon measured or estimated quantities which shall contain, with other details to be agreed upon: (a) thermal energy consumed and net kilowatt-hours delivered (hourly and daily) to each Party during the preceding month, (b) cumulative thermal energy consumed and net kilowatt-hours delivered to each Party from the last fueling date, (c) thermal energy and kilowatt-hours available to each Party until the next scheduled fueling, and (d) cost per kilowatt-hours delivered to each Party during the preceding month and estimated cost per kilowatt-hours until next scheduled fueling, which will be determined from estimates of plant factor, thermal energy usage, and the appropriate Cost of Fuel. Company shall consult with Authority regarding such records and make revisions as appropriate.

12.09 At the time of each fueling, Company and Authority shall mutually determine: (a) the next forecasted fueling date; (b) the kilowatt-hours of net electrical energy and units of thermal energy available to each Party to the next forecasted fueling date; and (c) the estimated costs per kilowatt-hour and unit of thermal energy until the next fueling date, and shall periodically review such determinations and agree upon revisions as are deemed necessary.

12.10 Each Party's forecasted energy requirements shall equal as nearly as practicable such Party's Ownership

Share.

12.11 After reprocessing of Fuel removed from the core, and settlement therefor, the Company shall make a final accounting of all costs, payments and energy allocable to each Party including any provisional settlements made. Such final accounting shall stipulate any credits or deficits with regard to either Party, and shall be subject to approval by Authority.

12.12 Test or experimental Fuel may be incorporated in the Project only with the mutual consent of the Parties.

12.13 The Company shall keep an hourly record charging to each Party the kilowatt-hours of electric energy delivered to each such Party during the month and cumulative from the time of the most recent fueling, and the thermal energy to which such Party is entitled. When either Party's electrical energy or thermal energy usage equals that Party's Ownership Share estimated to be available as determined pursuant to Paragraph 12.09, such Party shall become the deficient Party. Unless such deficient Party has made arrangements with the other Party pursuant to Paragraph 13.08 it shall (1) make arrangements for delivering of alternative capacity and energy to the other Party in amounts which would make available to such other Party capacity and energy at least equal to the amount of Output which such other Party would otherwise have been entitled to receive but for the deficient Party or (2) make such other arrangements acceptable to the other Party

as would under the circumstances result in an equitable adjustment between the Parties.

13. SCHEDULING OF PROJECT OUTPUT

13.01 Each Party shall be entitled to receive as scheduled all or any part of its Ownership Share of the Output of the Generating Plant.

13.02 Company shall be responsible for the scheduling and dispatching of capacity and energy available from the Generating Plant to give effect to the provisions of this Agreement.

13.03 Each Party will schedule capacity and energy to adhere as closely as practicable to the energy to which it is entitled pursuant to Section 12.

13.04 Company and Authority mutually agree to change schedules of the delivery of capacity and energy from the Project as appropriate to insure to the extent practicable that each Party receives its Ownership Share of the Minimum Capability of the Generating Plant to the next scheduled fueling date.

13.05 Authority shall report its hourly schedule for the following day to Company by 4 o'clock p.m. each day, except that the schedule for holidays, Saturdays and Sundays, and for the day following such days shall be submitted by 4 o'clock p.m. of the preceding workday; provided, however, that Authority shall have the right to change its schedule on shorter notice to reflect changes in its requirements.

13.06 Should the changes in the level of operation of the Generating Plant requested by the Parties require a rate of change in excess of that determined by Company, recommended by the manufacturers or prescribed in the AEC Operating License, whichever is lower, the Party whose scheduled rate of change is in excess of its Ownership Share of such prescribed or recommended change shall be limited proportionately so that the total rate of change is maintained within allowable limits.

13.07 Company shall notify Authority if fulfilling the requested schedules would require operation of the Generating Plant below Minimum Capability. The Parties shall schedule their respective Ownership Shares of such Minimum Capability, unless other arrangements are agreed to by the Parties.

13.08 If a Party schedules less than its Ownership Share of Output the other Party may schedule the remaining Output or any portion thereof until called for by the Party and appropriate adjustments or payments will be made as agreed to by the Parties. This provision does not in any way alter the provisions of Section 12.

13.09 Company, with the concurrence of Authority, shall schedule Generating Plant outages, other than emergency outages, and notify Authority as to the time and duration thereof as far in advance as practicable. Notwithstanding the foregoing, Company may shut the Generating Plant down,

reduce power or take other appropriate action which in the reasonable judgment of the Company is necessary to obtain the approval of or comply with the requirements of governmental agencies having jurisdiction, or to insure safety to persons or property.

13.10 When testing of plant facilities requires generation, each Party shall make provisions for acceptance of its Ownership Share of such generation unless other arrangements are agreed to by Parties. Company shall notify Authority of test schedules as far in advance as practicable.

13.11 During any hour in which the Project generates less than its station use and losses to the high-voltage terminals of the Project Substation, Company shall notify Authority and Authority shall deliver its Ownership Share of needed energy to the Project unless other arrangements are agreed to by Parties.

14. DELIVERY OF PROJECT OUTPUT

14.01 Each Party shall bear all costs of acquiring and installing its 230 KV transmission lines and switching facilities for connecting its transmission system to the Project Substation or other mutually agreed to interconnection points to provide for delivery of Project Output.

14.02 Electric capacity and energy scheduled by Authority from the Project shall be delivered and measured over interconnections now or hereafter existing between the

Parties' systems as mutually agreed to, or over interconnections with others.

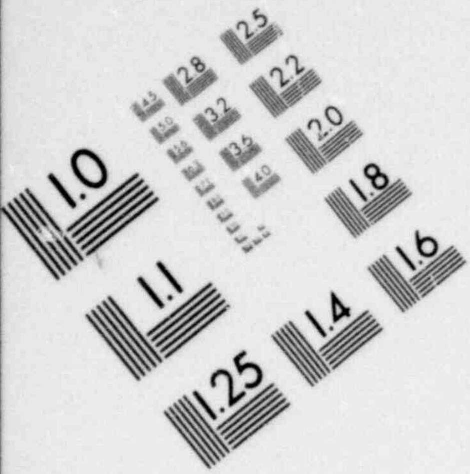
14.03 The Parties shall equitably compensate each other for losses incurred in effecting the delivery of Project Output. Such losses shall be determined by appropriate joint studies.

14.04 Company shall not deliver an unreasonable amount of kilovars from the Project when to do so might introduce objectionable operating conditions on Authority's or Company's system.

14.05 Each Party shall operate its system in such a manner as to make the actual net deliveries of capacity and energy as nearly equal as practicable to the net scheduled deliveries. Any difference between net scheduled and actual net deliveries shall be accounted for and settled according to established procedures for interconnected system operation as approved by the Parties.

14.06 Each Party at its own expense shall maintain in good condition its interconnection facilities located at the Project or arrange for compensating payment for such maintenance as may be performed by the other Party pursuant to arrangements mutually agreed to.

14.07 The Parties shall coordinate their transmission line maintenance schedules so as not to jeopardize the reliability of the Project Output and so as not to place an undue burden on the system of either Party.



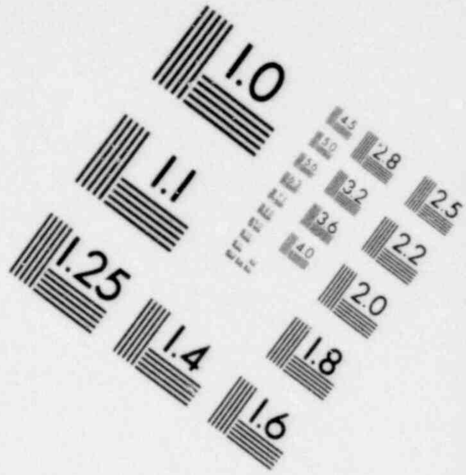
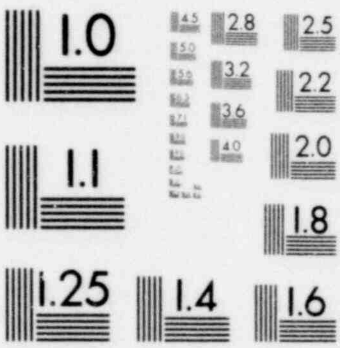


IMAGE EVALUATION
TEST TARGET (MT-3)



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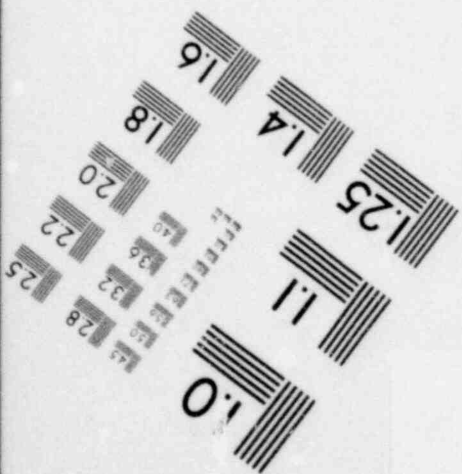

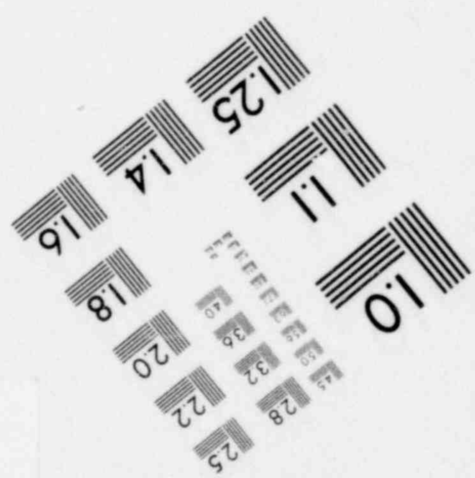

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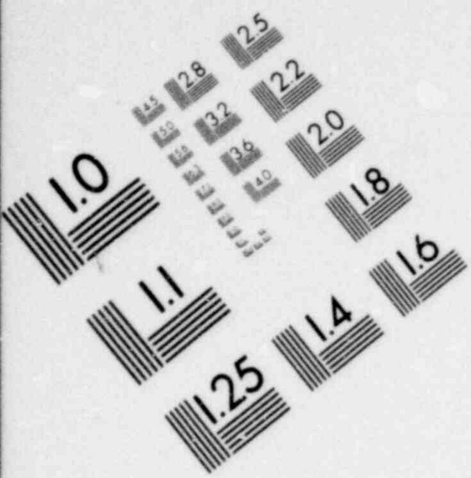


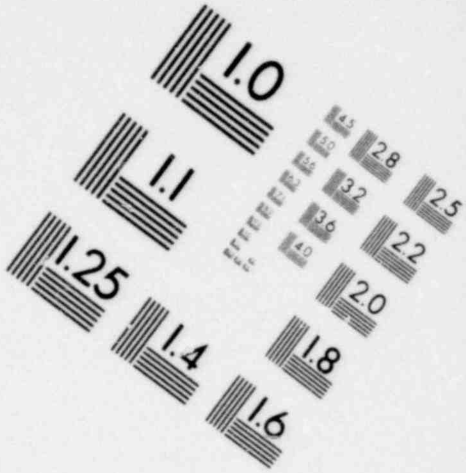
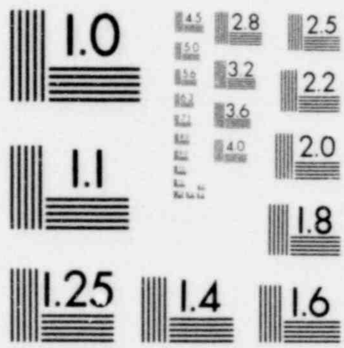


IMAGE EVALUATION TEST TARGET (MT-3)



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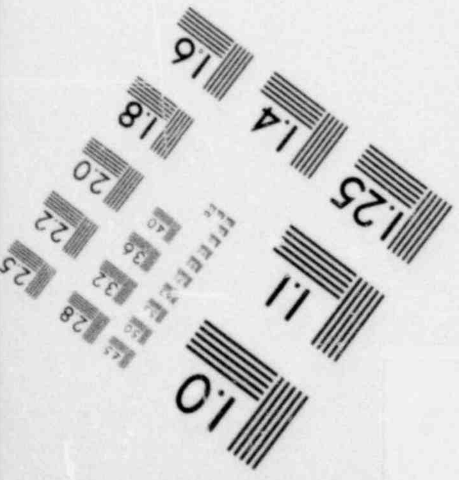

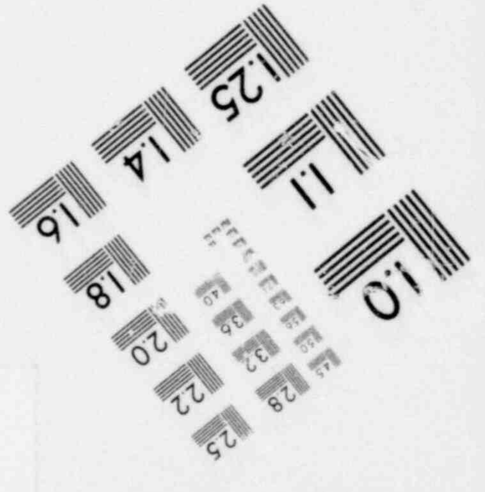

14.08 Metering of electric capacity and energy delivered to Authority from Project shall be measured at all interconnections between Company and Authority by metering equipment as may be necessary to measure accurately the electric capacity and energy to be furnished hereunder. Said interconnection metering equipment shall be kept accurate within one (1%) percent. All metering instruments pertaining to billing shall be sealed and shall be opened only in the presence of an authorized representative of each Party hereto and all such instruments shall be tested by such representatives at intervals agreed upon or upon request of either Party. If, as a result of such test, any instrument shall be found to be inaccurate by more than one (1%) percent, it shall be restored to a condition of accuracy satisfactory to such representatives or replaced by a new instrument or instruments satisfactory to such representatives. If the inaccuracy of any instrument exceeds one (1%) percent, then the readings of such instrument previously taken, and all charges based thereon, shall be corrected on the basis of said test, but not for more than thirty (30) days prior to the date of test nor prior to the date within such thirty (30) days upon which such meters have been proven or agreed to be accurate. Representatives of Authority and Company shall at all times have access to premises of Company and Authority for the purpose of inspection or maintenance of such interconnection metering equipment of Company and Authority. Authority or Company shall have the right to

test such instruments for accuracy at reasonable intervals. If either Party shall at any time discover that any instrument registers inaccurately, or fails to register, then such Party shall notify the other Party. In the event of failure or inaccuracy of an instrument, the amount of electric capacity and energy furnished during the period of such failure or inaccuracy shall be determined as agreed to by the Parties.

15. ACCOUNTING

15.01 Company shall keep separate, complete and accurate account of all receipts and expenditures of Costs of Construction and Costs of Operation. Each of the Parties shall keep complete and accurate accounts of all costs incurred by it for which it is to be reimbursed as a Costs of Construction or Costs of Operation as appropriate.

15.02 All accounts shall be kept in accordance with or so as to permit conversion to the Uniform System of Accounts. The allocation of costs by Company between Costs of Construction and Costs of Operation pursuant to this Agreement shall be binding on the Parties for purposes of this Agreement, but the manner in which accounts are kept pursuant to this Agreement is not intended to be determinative of the manner in which they are treated in the separate books of account of the Parties.

15.03 Authority shall have the right at any reasonable time to examine the separate books of account relating to the Project k [illegible] Company pursuant to this Section Fifteen and to examine

and copy all plans, specifications, bids and contracts relating to the Project. Each Party shall have the right to examine the books of account and all supporting data and documents relating to amounts for which the other Party is to be reimbursed. The measure of the acceptability of the amounts for which a Party is to be reimbursed shall be Prudent Utility Practice. Either Party shall have the right to challenge any of the amounts for which the other Party has made payment, and if the Parties cannot agree on the amounts so challenged, the Matter shall be referred to a Project Consultant.

15.04 Company shall cause all accounts to be audited by a firm of independent Certified Public Accountants of national reputation acceptable to both Parties and regulatory agencies at approximately annual intervals and when such accounts are closed. Copies of such audits shall be supplied to Authority.

16. INSURANCE

Company shall maintain in force, for the benefit of the Parties as their interest shall appear, as Costs of Construction or Costs of Operation as appropriate, such insurance as Company and Authority may agree upon, but not less than will satisfy the requirements of the Atomic Energy Act of 1954, as amended, and AEC Regulations thereunder, and conform to Prudent Utility Practice. Company shall keep Authority informed as to the status of insurance in force and if it does so, Company shall not be liable for any failure to insure or

inadequacy of coverage. The Authority may request additional insurance to the extent available, and Company shall purchase such requested insurance at the expense of Authority. The proceeds from such requested insurance shall be disbursed as directed by Authority. If an additional unit or generating project is proposed for the site of the Project, Company may cause the insurance on the Project to be extended to such unit or generating project, and in such case shall make appropriate premium adjustments as agreed to by the Parties.

17. UNCONTROLLABLE FORCES

Neither Party hereto shall be in default in performance of any obligation hereunder, except the payment of monies, if such failure of performance is due to causes which such Party could not have reasonably been expected to avoid.

18. DAMAGE TO PROJECT

18.01 If the Project suffers damage resulting from causes other than ordinary wear, tear or deterioration to the extent that Company's estimate of the cost of repair, as agreed to by Authority, is twenty-five (25%) percent or less of the depreciated value of the Project prior to the damage, and does not exceed available insurance proceeds by $5,000,000.00 or more, and if the Parties do not agree that the Project shall be ended pursuant to Section 24, Company shall promptly submit to Authority a revised construction or operating budget, as appropriate. Company shall then proceed to repair the

Project and each Party shall pay as budgeted its Ownership Share of the cost of such repair.

18.02 If Company's estimate of the cost of repair exceeds twenty-five (25%) percent of the depreciated value of the Project, or if the estimated cost of repair exceeds the available proceeds of insurance by $5,000,000.00 or more, the Parties shall determine the estimated fair market value of the Project if it is then terminated without repair. If, within ninety (90) days thereafter, the Parties do not mutually agree that the Project shall be repaired as provided in Paragraph 18.01, each Party shall become entitled to its Ownership Share of available insurance proceeds and the Party desiring such repair shall have the option to either (a) purchase the other Party's Ownership Share of the Project by paying to the other Party its Ownership Share of the estimated value of the Project without repair, or (b) paying the full amount of the cost of repair, in which latter case the Ownership Share of the Party not desiring repair shall be reduced at the end of each month to the extent determined by the following formula:

$$S_r = S_o \frac{(V)}{(V + C)}$$

where:

V = Estimated fair market value of the Project if it is terminated without repair.

C = Actual expenditures for repair.

S_o = Ownership Share prior to loss.

S_r= Reduced Ownership Share.

18.03 Any change in the Parties' Ownership Shares resulting from Paragraph 18.02 shall be subject to necessary regulatory approvals.

19. DEFAULT

19.01 Upon failure of either Party hereto to make any payment when due or perform any obligation of any owner herein, the other Party may make written demand upon said Party, and if said failure is not cured within 60 days from the date of such demand it shall at the expiration of such period constitute a default. A Party in default shall have no right to the Output of the Project or to exercise any other right of a Party. In such event the defaulting Party's Ownership Share of capacity and energy may be sold during the period of the default for the benefit of the defaulting Party and the proceeds applied to the amounts owed by such defaulting Party. If a Party in good faith disputes the existence or extent of such failure, it shall within said 60-day period make such payment or perform such obligation under written protest directed to the other Party. Such dispute shall be submitted to a Project Consultant who shall determine the extent of the obligation of the Party disputing such failure and any payments shall be adjusted accordingly. Payments not made when due may be advanced by the other Party and, if so advanced, shall bear interest, until paid, at the rate of eight (8%) percent per annum or the highest lawful rate, whichever is

lower. Notwithstanding any of the provisions of this Section 19, if Company is the Party in default, Company shall continue to operate the Project in accordance with Prudent Utility Practice.

19.02 If the default results from non-payment of capital costs, as defined in the Uniform System of Accounts, and continues for a period of four months, the defaulting Party shall afford the other Party the right (but such other Party shall not have the obligation) for an additional period of two months by notice in writing, to undertake the payment of such capital costs in full and the Ownership Share of the Parties shall be adjusted as determined by the following formula:

$$S_r = S_o \frac{(V)}{(V + A)}$$

where:

V = Estimated fair value of Project without the capital addition assignable to non-payment.

A = Capital addition assignable to non-payment plus interest thereon.

S_o= Ownership Share prior to default.

S_r= Reduced Ownership Share.

19.03 Any change in the Parties' Ownership Shares resulting from Paragraph 19.02 shall be subject to necessary regulatory approval.

19.04 In addition to the rights granted in this Section 19, any non-defaulting Party may take any action, in

law or equity, to enforce this Agreement and to recover for any loss or damage, including attorney's fees and collection costs, incurred by reason of such default.

20. ELECTIVE CAPITAL ADDITIONS

Renewals and replacements not necessary to assure design capability, and betterments and additions to the Project which in the reasonable judgment of Company are not required to obtain the approval of or comply with requirements of governmental agencies, shall be made after the Date of Commercial Operation only upon agreement between the Parties; provided, however, that Company may make such additions at its own expense.

21. ADDITIONAL FACILITIES

21.01 If Company determines to construct additional nuclear generating facilities on Plant Real Property, Authority shall have the right to become a joint owner thereof with Company in the same proportion as its Ownership Share set forth in Paragraph 2.01 hereof. The terms and conditions of such joint ownership shall be in accordance with the provisions of this Agreement as the same may be appropriately modified, amended or supplemented with the mutual consent of the Parties to reflect such joint ownership.

21.02 Company shall furnish Authority copies of pertinent studies relating to the construction of such additional facilities as soon as such studies become available,

and as soon as practicable shall notify Authority in writing of its determination to construct such additional facilities. The notice shall specify a period of time, but not less than ninety (90) days, within which Authority shall indicate whether it desires to become such a joint owner.

21.03 If Authority elects not to become a joint owner of such additional nuclear generating facilities, in consideration of Authority's right to participate in such facilities granted in Paragraphs 21.01 and 21.02 and to the extent that it lawfully may do so, it shall grant to Company all easements, licenses, permits and other rights and interests required by Company to enable it to construct, operate and maintain such additional facilities and Company shall bear all costs of such construction, operation and maintenance, including any increased Costs of Construction or Costs of Operation resulting therefrom, and shall pay or agree to pay any costs incurred by Authority by reason of the relocation or modification of Project facilities. In addition to the foregoing, Company shall, to the extent that it uses Project personnel or Project facilities, except easement rights, in connection with the construction, operation or maintenance of such additional facilities, allocate such joint use and costs associated therewith fairly between the Project and such additional facilities so that Costs of Construction or Costs of Operation, as appropriate, may be reduced accordingly.

21.04 If Company determines to construct non-nuclear

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electrical facilities on Plant Real Property, in consideration of Authority's right to participate in additional nuclear generating facilities granted in Paragraphs 21.01 and 21.02 and to the extent that it may lawfully do so, Authority shall grant to Company all easements, licenses, permits and other rights and interests required by Company to enable it to construct, operate and maintain such facilities and Company shall bear all costs, including any increased Costs of Construction or Costs of Operation resulting therefrom, and shall pay or agree to pay any costs incurred by Authority by reason of the relocation or modification of Project facilities. In addition to the foregoing, Company shall, to the extent that it uses Project personnel or Project facilities, except easement rights, in connection with the construction, operation or maintenance of such non-nuclear electrical facilities, allocate such joint use and costs associated therewith fairly between the Project and the non-nuclear electrical facilities so that Costs of Construction or Costs of Operation, as appropriate, may be reduced accordingly.

22. ASSIGNMENTS

22.01 This Agreement shall be binding upon and shall inure to the benefit of successors and assigns of the Parties; provided, however, that no transfer or assignment of other than all of a Party's interest in the Project and under this Agreement to a single entity shall operate to give the assignee or transferee the status or rights of a "Party" hereunder. Except as provided in Sections 18 and 19 of this Agreement, the

undivided interest (or a portion thereof) of either Party in the Project under this Agreement may be transferred and assigned as set out below but not otherwise;

(a) To any mortgagee, trustee, or secured party, as security for bonds or other indebtedness of such Party, present or future; and such mortgagee, trustee or secured party may realize upon such security in foreclosure or other suitable proceedings, and succeed to all right, title and interests of such Party;

(b) To any corporation or other entity acquiring all or substantially all the property of the Party making the transfer;

(c) To any corporation or entity into which or with which the Party making the transfer may be merged or consolidated;

(d) To any corporation or entity, t e stock or ownership of which is wholly owned by the Party making the transfer;

(e) To any corporation or entity in a single transaction constituting a sale and lease back to the transferor or assignor.

22.02 Transfer or assignment shall not relieve a Party of any obligation hereunder except to the extent agreed to in writing by the Parties and shall be subject to the approvals of governmental agencies having jurisdiction.

23. TRAINING

(a) Company shall carry out a familiarization and training program to maintain adequate staffing, engineering and operation of the Project and the expenses thereof shall be part of the Costs of Construction or Costs of Operation as appropriate.

(b) Each Party shall be entitled within the limits of operating efficiency and safety requirements to use of the facilities of the Project for the training of its own employees for staffing of other nuclear facilities or the engineering and operation thereof. Any increase in the Costs of Construction or the Costs of Operation resulting from such training shall be borne by the Party employing such trainees.

24. END OF PROJECT

When the Generating Plant can no longer be made capable, consistent with Prudent Utility Practice, of producing electricity, or is not licensable by the AEC, or when the Project is ended pursuant to Section 18, Company shall sell for removal all saleable parts of the Project to the highest bidders; provided, however, that the Plant Real Property shall revert to Company upon payment by Company to Authority of Authority's Ownership Share of such Plant Real Property. After deducting all costs of ending the Project including, without limiting the generality of the foregoing, the cost of decommissioning to meet all requirements of Federal, State or local law relating to the safe deactivation

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of the plant, Company shall distribute to each Party its Ownership Share of any net proceeds, including the value of the Plant Real Property as determined by agreement of Company and Authority, or in the absence of such agreement, by the Project Consultant. In the event such costs of ending the Project exceed available funds, each Party shall pay its Ownership Share of such excess as incurred.

25. <u>PERSONAL COVENANTS AND LIMITATION AGAINST ALIENATION</u>

25.01 Except for the Parties' mutual waiver of the right to partition set forth in Section 2, all of the covenants and conditions herein shall be personal to the respective Parties and not covenants running with the land and shall be binding upon any person or entity acquiring any right, title or interest of any Party in or to the Project or under this Agreement, by assignment or in any other way.

25.02 If the duration of any term or condition of this Agreement shall be subject to the rule against restrictions on alienation or to a similar or related rule, then the effectiveness of such term or condition shall not extend beyond: (a) the maximum period of time permitted under such rule, or (b) the specific applicable period of time expressed in this Agreement, whichever is shorter. For purposes of applying the rule against restrictions on alienation, or any similar or related rule, the measuring lives in being shall be those of the officers and members of the Board of Directors of Company

listed by name in Exhibit V, entitled "Directory of Officials of Company," together with all such listed persons' children who are living on the date of execution of this Agreement. As used in this paragraph, the word "children" shall have its generally accepted meaning of descendants of the first degree.

26. PROPRIETARY INFORMATION

All information made available to Authority by Company hereunder shall be subject to any applicable restrictions on disclosure of proprietary information.

27. MISCELLANEOUS

27.01 Counterparts. This Agreement may be simultaneously executed in several counterparts and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument. Upon proof of any original counterpart, it shall not be necessary to prove any other counterpart.

27.02 Further Assurances. A Party will promptly and duly execute and deliver to the other Party such documents and assurances and take such other further action as a Party may from time to time reasonably request of the other Party in order:

(a) to carry out more effectively the intent and purpose of this Agreement, or

(b) to establish and protect the rights and remedies created or intended to be created in favor of either

Party hereunder, or

(c) as may be reasonably necessary and convenient in the conduct of a Party's business affairs.

27.03 Captions. The captions of the various sections and paragraphs herein are intended for convenience or reference only and shall not define or limit any of the terms or provisions hereof.

27.04 Governing Laws. This Agreement shall in all respects be governed by and construed in accordance with the laws of the State of South Carolina including all matters of construction, validity and performance.

27.05 Amendment. Neither this Agreement nor any terms hereof may be terminated, amended, supplemented, waived or modified except by an instrument in writing signed by the Party against which the enforcement of the termination, amendment, supplement, waiver or modification is sought.

27.06 Succession. All covenants and agreements contained in this Agreement shall be binding upon, and inure to the benefit of, the Parties and their respective successors and assigns, subject however to the requirements of Section 22.

28. EFFECTIVE DATE OF AGREEMENT

This Agreement shall become effective upon delivery by Authority of the initial payment set forth in Paragraph 6.01 and shall continue in effect until the Project is ended pursuant to the terms of this Agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed in their corporate names and their corporate seals affixed, all by the proper officer duly authorized thereunto, as of the day and year first hereinabove written.

SOUTH CAROLINA ELECTRIC & GAS COMPANY

[SEAL]

/s/ V. C. Summer
V. C. Summer, Senior Vice President

Attest:

By /s/ H. M. Bryant
H. M. Bryant, Secretary

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

[SEAL]

/s/ Robert S. Davis
Robert S. Davis, Chairman

Attest:

By /s/ L. P. Dorman
L. P. Dorman, Secretary

EXHIBIT I

PLANT REAL PROPERTY

Plant Real Property as defined in Paragraph 1.13 of the Agreement means the real property acquired or to be acquired as a site for and necessary and useful for the construction, operation and maintenance of the Project as defined in the Agreement. The Plant Real Property and the estimated cost thereof is described as follows:

(A) Land inside the Nuclear Exclusion Zone and lying above the highwater mark of the upper pond of FPC Project 1894, as proposed to be constructed, being known as Lake Monticello, said highwater mark being a contour of 425 feet above mean sea level ("425 contour") less (1) easements and rights of way for transmission lines leading from the Project and (2) the Fairfield Power House and Fairfield-Summer 230 KV right of way and easements which are inside the Project Boundary Line ("PBL") for FPC Project 1894 as the same is proposed to be constructed.

(B) An easement for a Nuclear Exclusion Zone for all purposes required by the laws of the United States of America and the Rules and Regulations of the Atomic Energy Commission ("AEC") or any successor agency having jurisdiction of nuclear energy, as the same may be amended from time to time, and being within the PBL for Lake Monticello of FPC Project 1894 and including lands described in subsections (1) and (2) of Paragraph A of this Exhibit.

(C) Non-exclusive water rights in Lake Monticello, being the upper pond of Project 1894 as proposed to be constructed, including the right to take water and to discharge heated water in Lake Monticello, together with the non-exclusive right to back water over lands in Lake Monticello up to the 425 contour, together with the non-exclusive right to take water and discharge heated water from the lower pond of Project as may be necessary and convenient for the exercise of such rights in Lake Monticello.

The herein described Plant Real Property is generally depicted on the attached drawings entitled as follows:

(1) General map of Project Area, Exhibit K, Sheet 8 of 8, Parr Hydroelectric Project No. 1894, July 17, 1972.

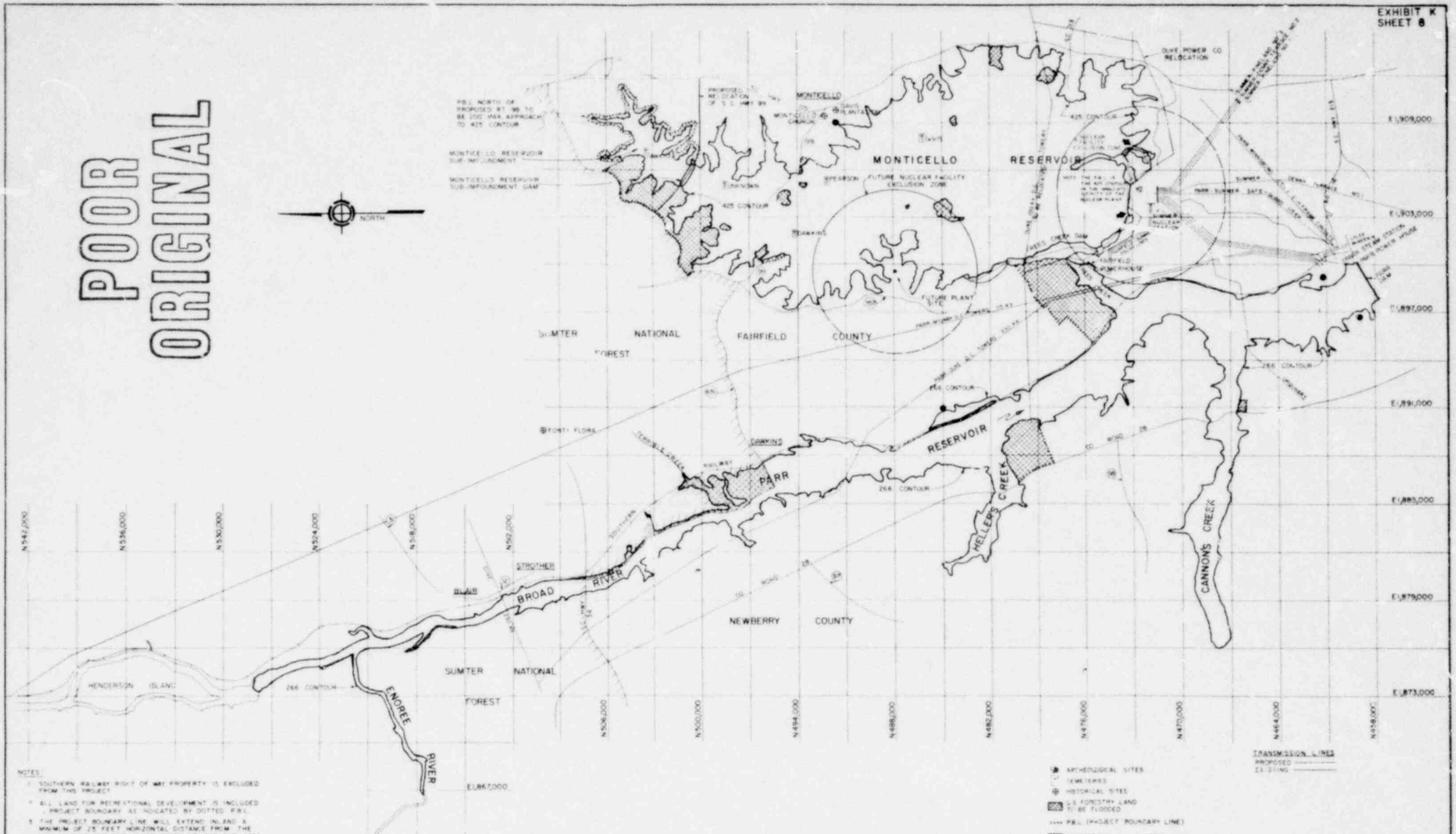
(2) Detail map of Project Area, Exhibit K, Sheet 2 of 9, Parr Hydroelectric Project No. 1894, July 17, 1972, Revised March 3, 1973.

The aforesaid items of Plant Real Property shall be adjusted as described in Paragraph 1.14 (Plant Real Property Adjustment).

The Total Estimated Cost of land purchases is $1,023,000.00 and does not include the values of and adjustments for water rights which shall be made pursuant to Paragraph 1.14 of this Agreement (Plant Real Property Adjustment).

POOR ORIGINAL

EXHIBIT K
SHEET 8



NOTES:

1. SOUTHERN RAILWAY RIGHT OF WAY PROPERTY IS EXCLUDED FROM THIS PROJECT.
2. ALL LAND FOR RECREATIONAL DEVELOPMENT IS INCLUDED. PROJECT BOUNDARY AS INDICATED BY DOTTED P.B.L.
3. THE PROJECT BOUNDARY LINE WILL EXTEND INLAND A MINIMUM OF 25 FEET HORIZONTAL DISTANCE FROM THE 266 CONTOUR FOR THE LOWER RESERVOIR AND THE 425' CONTOUR FOR THE UPPER RESERVOIR. EXCEPTIONS TO THIS ARE SHOWN BY THE DOTTED PROPERTY BOUNDARY LINES, OR AS NOTED.
4. CO-ORDINATES SHOWN ARE BASED ON STATE GRID SYSTEM.
5. ELEVATIONS SHOWN ARE CORRECTED ACCORDING TO RECENT SURVEY ... ON U.S.C. & G.S. DATUM (M.S.L.)

ARCHEOLOGICAL SITES
CEMETERIES
HISTORICAL SITES
U.S. FORESTRY LAND TO BE FLOODED
P.B.L. (PROJECT BOUNDARY LINE)
RECREATIONAL LAND AREA
SUMTER NATIONAL FOREST BOUNDARY

TRANSMISSION LINES
PROPOSED
EXISTING

K8

THIS DRAWING IS APPROVED AS CORRECTED, AS A PART OF THE AMENDED APPLICATION FOR A NEW LICENSE FOR PROJECT NO. 1894 MADE BY THE UNDERSIGNED THIS 17th DAY OF JULY, 1972

SOUTH CAROLINA ELECTRIC AND GAS COMPANY

BY D. C. [signature]
SENIOR VICE-PRESIDENT

THIS DRAWING IS A PART OF THE AMENDED APPLICATION FOR A NEW LICENSE FOR PROJECT NO. 1894 MADE BY THE UNDERSIGNED THIS 22ND DAY OF FEBRUARY 1972

SOUTH CAROLINA ELECTRIC AND GAS COMPANY

BY W. C. [signature]
SENIOR VICE-PRESIDENT

GENERAL MAP OF PROJECT AREA
SHEET 8 OF 8
PARR HYDROELECTRIC PROJECT NO. 1894
SOUTH CAROLINA ELECTRIC & GAS COMPANY

SCALE 1"=2500'
0 2500 5000

1066 019

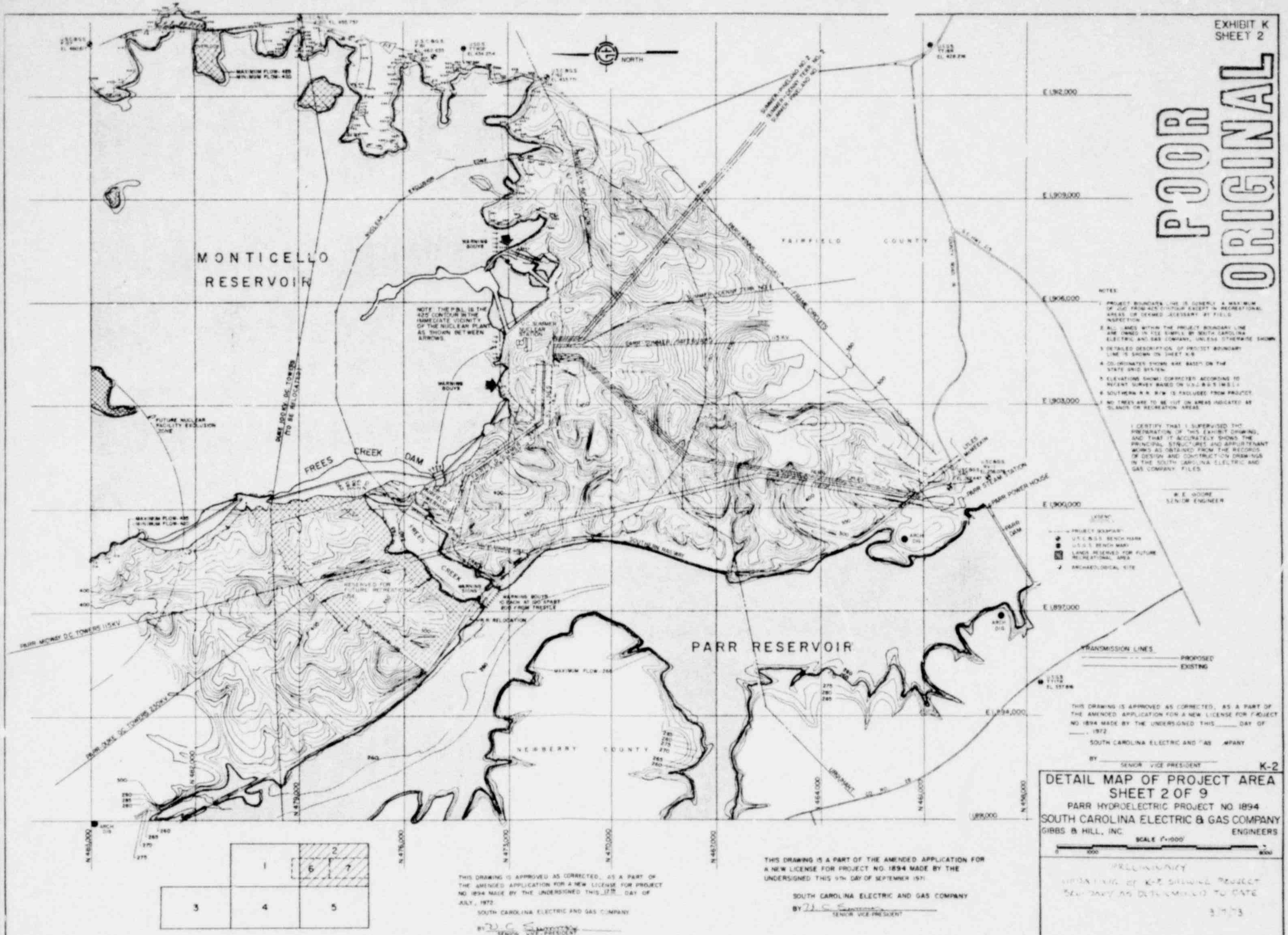


EXHIBIT K
SHEET 2
POOR ORIGINAL
NORTH
MONTICELLO RESERVOIR
PARR RESERVOIR
FAIRFIELD COUNTY
NEWBERRY COUNTY
FREES CREEK DAM
NOTE: THE FILL IS THE 425 CONTOUR IN THE IMMEDIATE VICINITY OF THE NUCLEAR PLANT AS SHOWN BETWEEN ARROWS.
SUMMER NUCLEAR STATION
WARNING BOUYS
FUTURE NUCLEAR FACILITY EXCLUSION ZONE
PARR STEAM STATION
PARR POWER HOUSE
PARR DAM
MAXIMUM FLOW-266
NOTES
I CERTIFY THAT I SUPERVISED THE PREPARATION OF THIS EXHIBIT DRAWING, AND THAT IT ACCURATELY SHOWS THE PRINCIPAL STRUCTURES AND APPURTENANT WORKS AS OBTAINED FROM THE RECORDS OF DESIGN AND CONSTRUCTION DRAWINGS IN THE SOUTH CAROLINA ELECTRIC AND GAS COMPANY FILES.
SENIOR ENGINEER
LEGEND
TRANSMISSION LINES
PROPOSED
EXISTING
THIS DRAWING IS APPROVED AS CORRECTED, AS A PART OF THE AMENDED APPLICATION FOR A NEW LICENSE FOR PROJECT NO 1894 MADE BY THE UNDERSIGNED THIS ____ DAY OF ____, 1972
SOUTH CAROLINA ELECTRIC AND GAS COMPANY
BY ____ SENIOR VICE PRESIDENT
K-2
DETAIL MAP OF PROJECT AREA
SHEET 2 OF 9
PARR HYDROELECTRIC PROJECT NO. 1894
SOUTH CAROLINA ELECTRIC & GAS COMPANY
GIBBS & HILL, INC.
ENGINEERS
SCALE 1"=1000'
THIS DRAWING IS A PART OF THE AMENDED APPLICATION FOR A NEW LICENSE FOR PROJECT NO. 1894 MADE BY THE UNDERSIGNED THIS 9TH DAY OF SEPTEMBER 1971.
SOUTH CAROLINA ELECTRIC AND GAS COMPANY
SENIOR VICE PRESIDENT
THIS DRAWING IS APPROVED AS CORRECTED, AS A PART OF THE AMENDED APPLICATION FOR A NEW LICENSE FOR PROJECT NO 1894 MADE BY THE UNDERSIGNED THIS 17th DAY OF JULY, 1972.
SOUTH CAROLINA ELECTRIC AND GAS COMPANY
SENIOR VICE PRESIDENT
PRELIMINARY
3/7/73

1066 020

EXHIBIT II

PROJECT DESCRIPTION

The Project consists of the Virgil C. Summer Nuclear Station, Unit #1, together with its associated facilities and property as described in the Preliminary Safety Analysis Report ("PSAR"), as amended, and all items acquired for construction, operation and maintenance of the Project. See Amendment No. 18, to PSAR, dated December 4, 1972, Figure 1.4-2, entitled "Yard Plan, Including General Grading, Catch Basin, and Drainage System" attached hereto.

The Project is located upon Plant Real Property described in Exhibit I.

The Generating Plant will use a 2775 Megawatt thermal (MWt) Westinghouse Pressurized Water Reactor with a 900 Megawatt electrical (MWe) net Output General Electric Turbine Generator complete with various safety, control and auxiliary systems. Gilbert Associates, Inc. is the Architect-Engineer for the Project. Daniel Construction Company is the construction contractor.

The Fuel is slightly enriched Uranium Dioxide contained in Zirconium alloy tubes which are formed into fuel assemblies. The initial Fuel loading and the first eight reload regions are being purchased from Westinghouse. In the future, it is anticipated that Plutonium in combination with Uranium will be utilized as a fuel. Licenses and permits required for construction and operation of the Project are shown in Table II of Exhibit III.

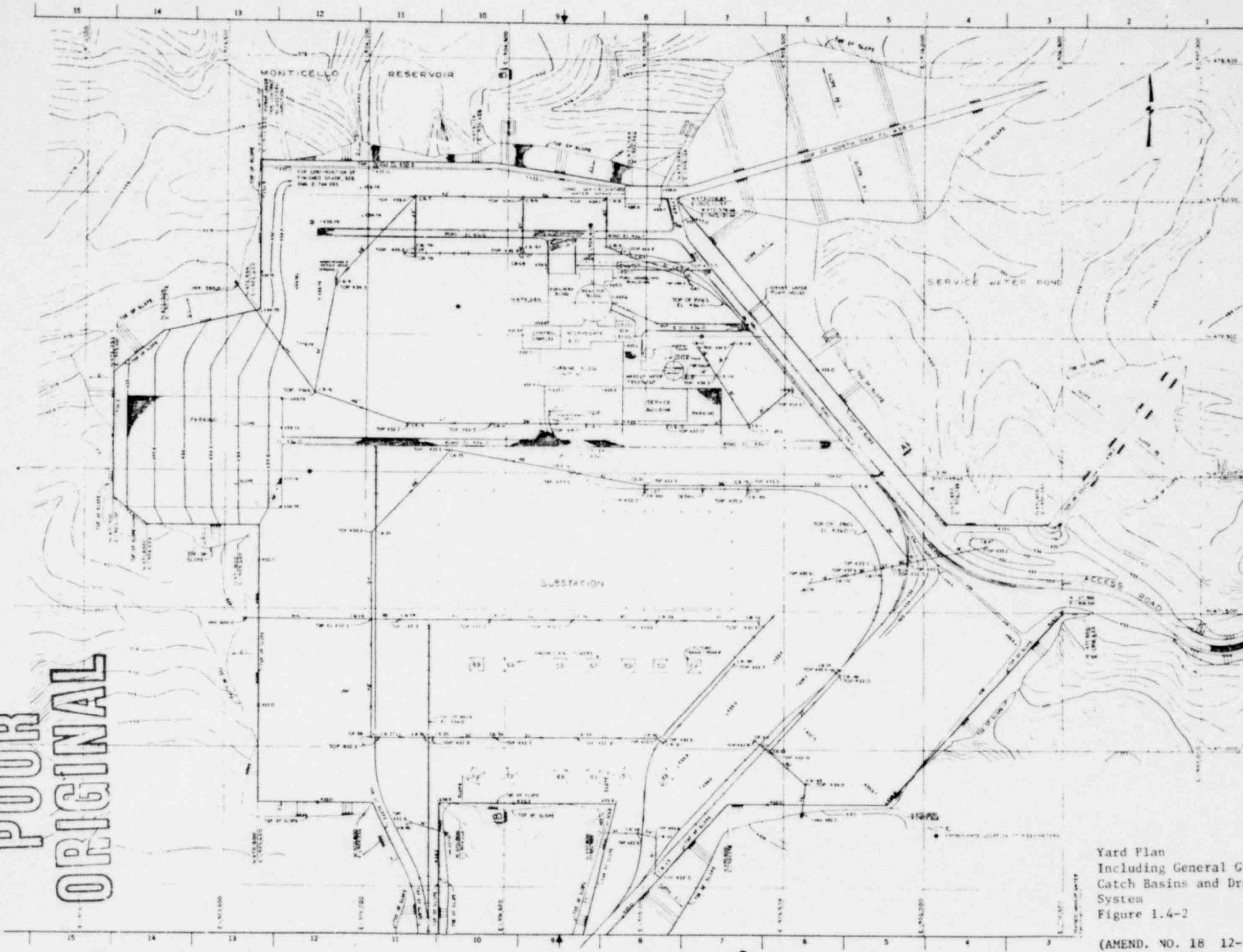
A railroad spur line approximately 2 miles in length will connect the Project site with the main line of the Southern Railroad Company, which parallels the east side of the Broad River. Permanent and temporary on-site tracks will be built in order to provide access to laydown areas, a concrete batch plant and the Generating Plant.

Main access to the Summer Station is provided by Fairfield County Road 311 which runs approximately 1 1/4 miles from South Carolina Highway 215 to the Project site. State legislation has provided for South Carolina Electric & Gas Company to upgrade and maintain this road for the Project. Access to the Project site for construction purposes has been provided by upgrading the existing rural road from Parr. Adequate parking facilities with necessary improvements will be provided on-site for all construction forces, and paved parking areas will be provided where required for plant operations.

South Carolina Electric & Gas Company will acquire control of access to the Nuclear Exclusion Zone which consists of an area within approximately one mile of the reactor building. The portion of Monticello Reservoir lying within the one mile Nuclear Exclusion Zone will be marked with warning buoys to keep unauthorized persons away. Other methods of access control and warning may be implemented from time to time as required by regulatory agencies having jurisdiction thereof and by Prudent Utility Practice.

Other items acquired for construction, operation and maintenance include a meteorological monitoring system with a 200 foot tower on the site, a 10 meter meteorological tower on the east side of Monticello Reservoir, a concrete batch plant for construction, a construction substation, a construction water line from Parr Shoals Reservoir and a 115 KV safeguard line from Parr Shoals Generating Station which will also provide construction power for warehouses and other construction facilities.

The estimated cost of the Project is $341,792,000.00, subject to adjustments to reflect participation in the Project by Authority.



POOR ORIGINAL

Yard Plan
Including General Grading
Catch Basins and Drainage
System
Figure 1.4-2

(AMEND. NO. 18 12-4-72)

Exhibit II-3

Exhibit II-3

1066 023

EXHIBIT III

Company has retained Gilbert Associates, Inc. of Reading, Pennsylvania to provide for the Project: (a) engineering services and (b) a Quality Assurance Program to meet the "Quality Assurance Criteria for Nuclear Power Plants" of Appendix B to 10 CFR Part 50. Gilbert Associates, Inc. will be reimbursed on a cost basis. The estimated cost to the Project for engineering services is $15,005,000.00 and for the Quality Assurance Program $3,540,000.00.

Company has awarded a cost type construction contract for the Project to Daniel Construction Company of Greenville, South Carolina. This contract provides for a constructor's fee with a fixed ceiling. The estimated cost of construction under the Daniel Construction Company contract, including the constructor's fee, is $24,375,000.00.

A list of Purchase Orders issued by Company is shown in Table I to this Exhibit III.

A list of licenses, permits, and certifications obtained by Company is shown in Table II to this Exhibit III.

This Exhibit III and the Tables thereto are correct as of October 1, 1973 and will be amended and revised as of the effective date of this Agreement as provided in Section 28.

TABLE I

PURCHASE ORDER	EQUIPMENT	SUPPLIER	BASIS OF AWARD	COMMITMENT EST.
SN-10001-SR	Nuclear Steam Supply System	Westinghouse Corp.	C.B.	$40,600,000.00 *
SN-10002	Turbine	General Electric	N	26,542,111.82
SN-10003	Auxiliary Turbine	General Electric	N	**
SN-10004	Condensers	South Western Eng.	C.B.	1,156,475.00
SN-10005	Feedwater and Booster Pumps	Ingersoll-Rand	C.B.	445,996.00
SN-10006	Condensate Pumps	Ingersoll-Rand	C.B.	298,100.00
SN-10007	L.P. Feedwater Heaters	Struthers Nuclear	C.B.	678,170.00
SN-10008	H.P. Feedwater Heaters	Westinghouse Corp.	C.B.	684,495.00
SN-10009-SR	Control Valves	Fisher Controls Co.	N	100,000.00 *
SN-10010	Control Valves	Fisher Controls Co.	N	100,000.00 *
SN-10011-SR	Laboratory Testing Services	Pittsburgh Testing Lab.	C.B.	50,000.00 *
SN-10012-SR	Excavation Contract	Clement Brothers Co.	C.B.	3,650,731.00
SN-10013	Clearing & Grubbing Contract	Phillips & Jordan	C.B.	81,737.50
SN-10014-SR	Cement	Giant Portland Cement	C.B.	1,149,808.00 *
SN-10015-SR	Sand	Becker Sand & Gravel Co.	C.B.	109,296.00 *
SN-10016-SR	Stone	Lone Star Industries	C.B.	552,074.00 *
SN-10017	Field Erected Water Tank	Chicago Bridge & Iron	C.B.	78,500.00
SN-10018	Condenser Tubes	Carpenter Technology	C.B.	676,612.61
SN-10019	Main Power Transformer	Westinghouse Corp.	C.B.	800,000.00 *
SN-10020	Instrument Air Dryer	Lectrodryer, Inc.	C.B.	9,630.00
SN-10021	Deaerator	Chicago Heater Company	C.B.	145,320.00
SN-10022	Condenser Cleaning System	Amertap Corporation	N	382,359.00 *
SN-10023	Spent Fuel Demineralizers	L. A. Water Treatment	C.B.	14,960.00
SN-10024	Air Compressors	Ingersoll-Rand Co.	C.B.	96,330.37

1066 025

SN-10025	Spent Fuel Pit Filters	Paul Trinity Micro Corp.	C.B.	5,798.32	
SN-10026-SR	Reinforcing Steel	Florida Steel Corp.	C.B.	2,819,800.00	*
SN-10027	Hydrogen Storage System	National Welders Supply	C.B.	[illegible],468.00	*
SN-10028-SR	Concrete Manufacturers	Southern Mobile Concrete	C.B.	1,267,500.00	
SN-10029-SR	Nuclear Fuel	Westinghouse Corp.	C.B.	59,883,570.00	***
SN-10030	Turbine Room Crane	Harnischfeger Corp.	C.B.	295,000.00	
SN-10031	Unit Auxiliary Transformer	Westinghouse Corp.	C.B.	207,518.00	*
SN-10032-SR	Post Tensioning System	Inland Ryerson	C.B.	2,437,320.00	
SN-10033-SR	Engineering Safeguards - Transformers	Westinghouse Corp.	C.B.	157,369.00	*
SN-10034-SR	Emergency Auxiliary - Transformers	Westinghouse Corp.	C.B.	389,771.00	*
SN-10035-SR	Nondestructive Testing	Conam Inspection, Inc.	C.B.	568,000.00	*
SN-10036	Auxiliary Boiler	Riley Stoker Corp.	C.B.	170,250.00	
SN-10037-SR	Reactor Building Liner	Pittsburgh-DesMoines	C.B.	3,285,000.00	*
SN-10038-SR	Concrete Admixtures	Sika Chemical Corp.	C.B.	650,000.00	
SN-10039-SR	Electric Motors, 30 to - 350 h.P.	Louis Allis Co.	C.B.	19,779.18	*
SN-10040	Turbine Room Roof - Ventilators	Moffitt Co.	C.B.	71,254.00	
SN-10041	Extraction Non-Return Valves	Schutte & Koerting Co.	C.B.	40,255.00	
SN-10042	Water Treating Plant	Graver Water Conditioning Co.	C.B.	754,153.00	
SN-10043-SR	Fabricate and Deliver - Stainless Steel Liners	Pittsburgh-DesMoines	C.B.	759,340.00	
SN-10044-SR	Installation of Stainless - Steel Liners	Pittsburgh-DesMoines	C.B.	430,660.00	
SN-10045	Concrete Waterproofing Material	Rubber and Plastics - Compound Co., Inc.	C.B.	18,460.00	
SN-10046-SR	Miscellaneous Steel	Northern Steel Corp.	C.B.	500,000.00	*

* Subject to Escalation
** Shop Space and Price Basis Committed at Time of Main Turbine Commitment
*** This Does Not Include the Enrichment Costs

TABLE II

The following is a list of the permits and certifications from the local, state, and federal agencies which Company has obtained or expects to obtain as being required for the Project:

Local

(A) Fairfield County Auditor's Office:

*(1) Building permit for construction of major structures. (April 2, 1973)

State

(A) Department of Health and Environmental Control:

*(1) Letter of Water Quality Certification (January 11, 1973)

(2) Effluent Discharge Permit

(3) Sewage Disposal System Permit

(4) Industrial Waste Permit

(5) Permit for auxiliary boiler and diesel-generator

*(6) Permit to refurbish and construct water system (February 27, 1973)

(7) Sanitary License - Construction Facilities

(B) South Carolina Highway Department:

(1) Permits for oversize, overweight, and overlength loads.

(C) South Carolina Public Service Commission:

(1) Order authorizing transfer of title to Authority

Federal

(A) Atomic Energy Commission:

*(1) Nuclear Station Construction Permit (March 21, 1973, as amended May 29, 1973)

(2) Nuclear Station Operating License

(3) Nuclear Station Operating Personnel Licenses

(4) Nuclear Station Source Material License.

(B) Environmental Protection Agency:

(1) National Pollutant Discharge Elimination System Permit.

Company has filed or will file applications on a schedule consistent with Project requirements.

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*Permit has been obtained.

1066 027

EXHIBIT IV

V. C. SUMMER NUCLEAR STATION

Unit #1

Budget Estimate

Direct Plant Cost

320	Land and Land Rights	$ 1,023,000
321	Structures and Improvements	53,619,500
322	Reactor Plant Equipment	80,172,300
323	Turbine Generator Equipment	36,654,100
324	Accessory Electrical Equipment	14,926,300
325	Miscellaneous Power Plant Equipment	2,161,100
353	Main Power Transformer	1,598,700
	Total Direct Cost	$190,155,000

Indirect Cost

383	Spare Parts	$ 2,360,000
384	S. C. Sales Tax	2,000,000
390	Daniel Construction Co.	24,375,000
391	Gilbert Associates	18,545,000
392	S. C. Electric & Gas Co.	23,146,000
400	Allowance for Funds During Construction (AFC)*	66,211,000*
500	Contingency	15,000,000
	PROJECT TOTAL	$341,792,000*

* Subject to adjustments to exclude AFC on Authority's Ownership Share after Authority has reimbursed Company for initial advance of Costs of Construction.

1066 028

EXHIBIT IV
INITIAL BUDGET - COST OF CONSTRUCTION

Acct. #	Description	Expended Prior July 1, 1973	July 73*	Aug 73*	Sept 73*	Oct 73	Nov 73	Dec 73
320	Land & Land Rights	777,509	15,795	256,687	2,705	35,250	35,250	35,682
321	Structures & Improvements	189,140	240,178	239,272	443,337	415,155	337,992	5[illegible],062
322	Reactor Plant Equipment	3,468,896	321,940	260,553	325,714	341,250	486,250	394,450
323	Turbo-Generator Equip.							
324	Accessory Elect. Equip.	1,156				3,527	3,526	3,022
325	Misc. Power Plant Equip.		9,355	84,849	1,047	7,558	7,557	7,557
383	Unallocated & Clearing Items	5,324	827	1,053				
384	Control Accounts		1,389	4,302	315	20,000	20,000	20,000
390	Daniel Construction Co.	1,984,360	271,908	221,764	258,631	257,260	300,000	780,000
391	Gilbert Associates, Inc.	4,792,905	314,698	316,283	360,577	325,000	325,000	325,000
392	SCE&G Company	3,829,442	186,128	217,312	185,792	275,000	285,000	295,000
	TOTAL	15,048,732	1,362,218	1,602,075	1,578,118	1,680,000	1,800,575	2,446,773

* Actual Expenditures

1066 029

EXHIBIT IV
INITIAL BUDGET - COST OF CONSTRUCTION

Acct. #	Description	Jan 74	Feb 74	March 74	April 74	May 74	June 74
320	Land & Land Rights						
321	Structures & Improvements	728,593	971,816	1,214,320	1,457,184	2,046,706	2,428,809
322	Reactor Plant Equipment	468,681	525,057	642,107	723,001	642,107	909,315
323	Turbo-Generator Equip.						
324	Accessory Elect. Equip.	10,934	43,738	54,674	65,608	76,542	98,412
325	Misc. Power Plant Equip.	4,053	5,404	6,756	8,106	9,457	12,159
384	Control Accounts	30,000	30,000	30,000	30,000	30,000	30,000
390	Daniel Construction Co.	500,000	450,000	450,000	500,000	550,000	550,000
391	Gilbert Associates, Inc.	295,000	295,000	295,000	295,000	295,000	300,000
392	SCE&G Company	295,000	295,000	295,000	295,000	295,000	300,000
	TOTAL	2,332,261	2,616,015	2,987,857	3,373,899	3,944,812	4,628,695

1066 030

EXHIBIT IV
INITIAL BUDGET - COST OF CONSTRUCTION

6-Months Periods	1974	1975	1976	1977	1978
January - June		46,512,000	37,999,000	10,886,000	7,343,000
July - December	32,023,970	46,513,000	37,999,000	10,886,000	
	32,023,970	93,025,000	75,998,000	21,772,000	7,343,000

1066 031

EXHIBIT V

DIRECTORY OF OFFICIALS OF COMPANY

S. C. McMeekin
Chairman

Anne McMeekin Boyle
S. C. McMeekin, Jr.

A. M. Williams
President and Chief Executive Officer

Katherine W. Mahon
Patricia W. Boykin
Elizabeth Middleton Williams

A. C. Mustard
Senior Vice President-Commercial

Rev. Allan C. Mustard, Jr.
Charles S. Mustard
William B. Mustard

V. C. Summer
Senior Vice President-Operations

Brenda S. Nunamaker
Michael C. Summer
Kenneth V. Summer

O. S. Wooten
Senior Vice President-Finance

Oscar S. Wooten, Jr.
Catherine Wooten
Charles Wooten
Richard Wooten

1066 032

DIRECTORS

R. C. Barkley, Jr.

Rufus C. Barkley, III
Joseph Miles Barkley
Nella Elizabeth Barkley

W. B. Bookhart
W. B. Bookhart, Jr.
Sara B. Pepper

C. M. Etherredge

None

J. B. Guess, III

James B. Guess, IV
Mary Elizabeth Guess

Edward Kronsberg

Avram Kronsberg
Jonathan S. Kronsberg

George Lott, Jr.

George Lott, III
Martha J. Lott
Frank B. Lott

J. H. Lumpkin

John H. Lumpkin, Jr.
Caroline Lumpkin Cooper

J. B. Rhodes

Cathy Smith
Peggy Ann Rhodes
John Marshall Rhodes

J. E. Schachte, Jr.

J. E. Schachte, III
Stephen T. Schachte

John C. B. Smith

John C. B. Smith, Jr.

W. H. Taylor

Dr. John P. Taylor
Robert M. Taylor

John M. Trask

John M. Trask, Jr.
Frederick G. Trask
Charles H. Trask
George G. Trask

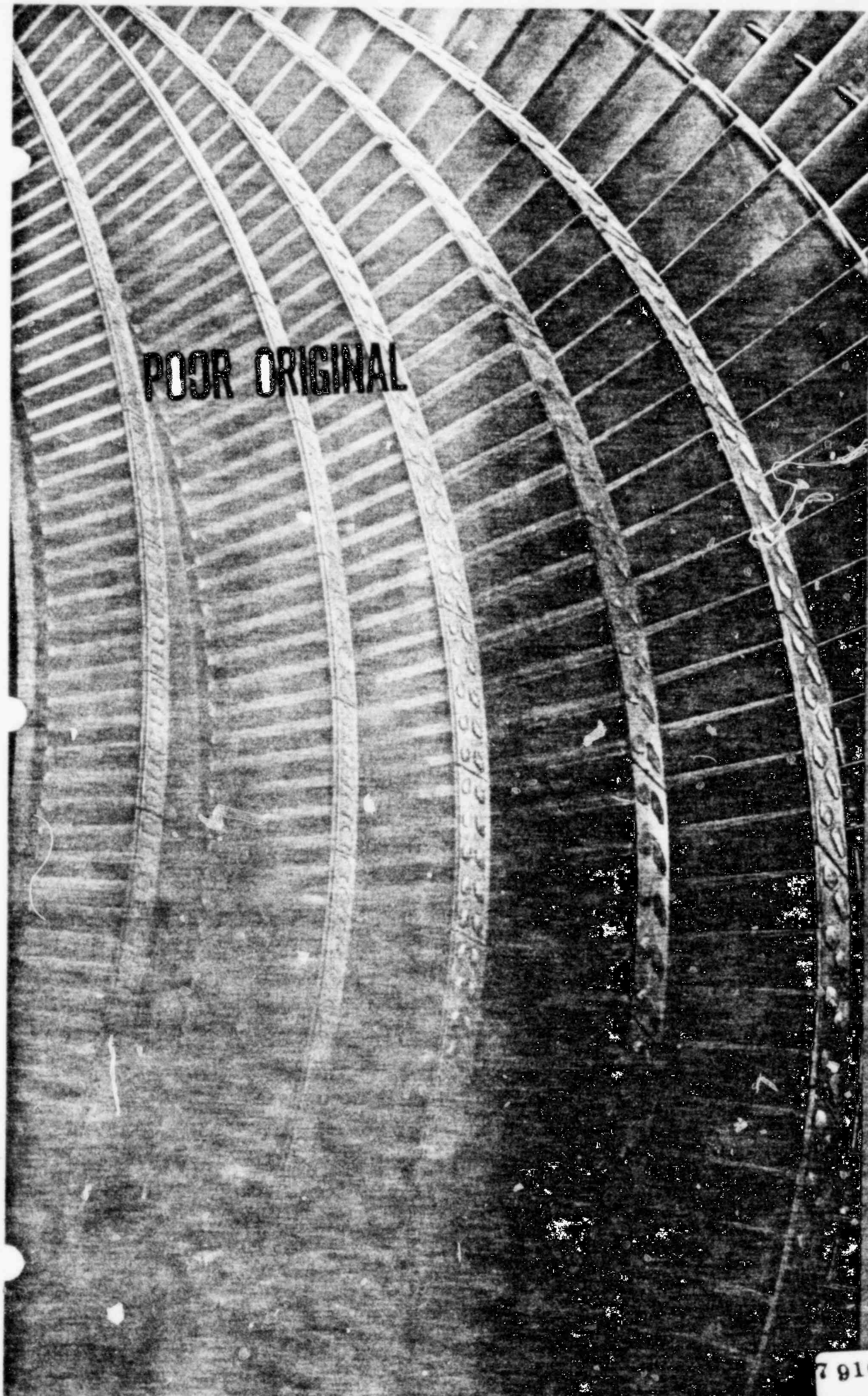
5. With respect to South Carolina Electric and Gas Company:

   a. Provide copies of:

      1) the 1977 and 1978 annual reports to stockholders;
      2) the most recent interim financial statements;
      3) the prospectus for the company's most recent security issue;
      4) the preliminary prospectus for any pending security issue; and
      5) the 1977 and 1978 SEC Form 10-K and the most recent SEC Form 10-Q.

RESPONSE

Documents follow in requested sequence.



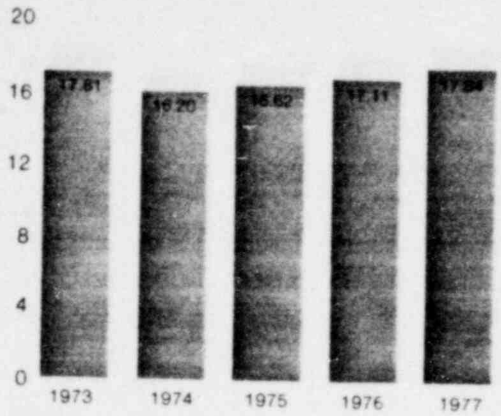
South Carolina Electric & Gas Company

1977 Annual Report

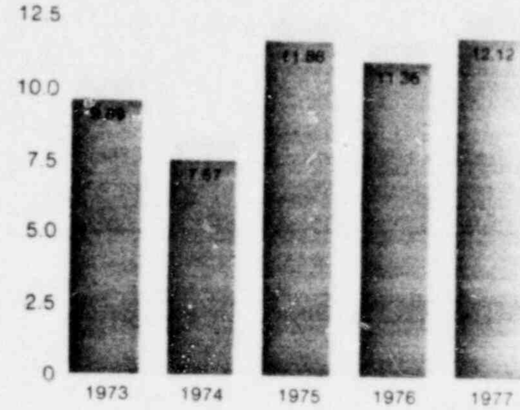
POOR ORIGINAL

POOR ORIGINAL

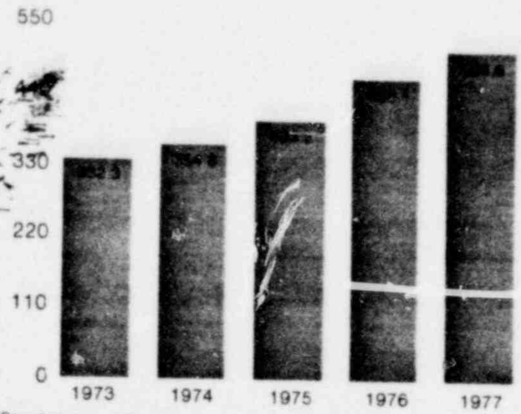
Shareholders' Equity
PER COMMON SHARE – DOLLARS



Return on Common Equity
PER CENT

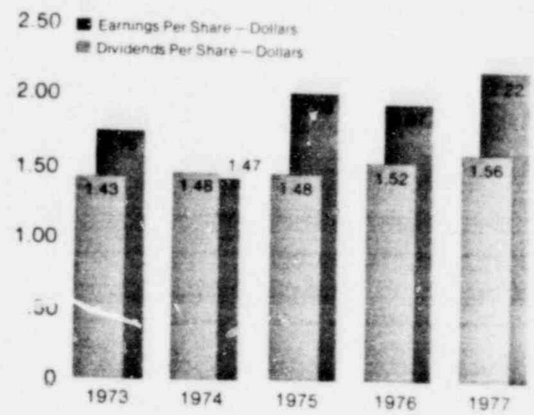


Investment Per Employee*
THOUSANDS OF DOLLARS

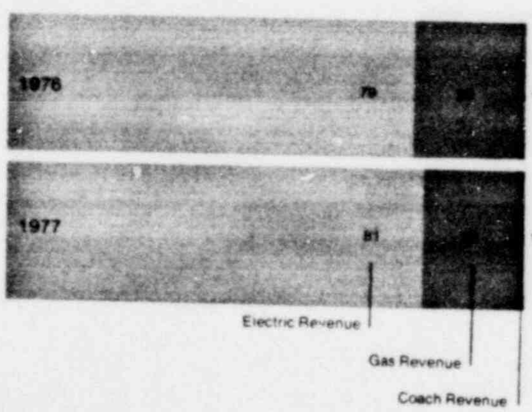


*Based on gross utility plant excluding nuclear fuel in trust

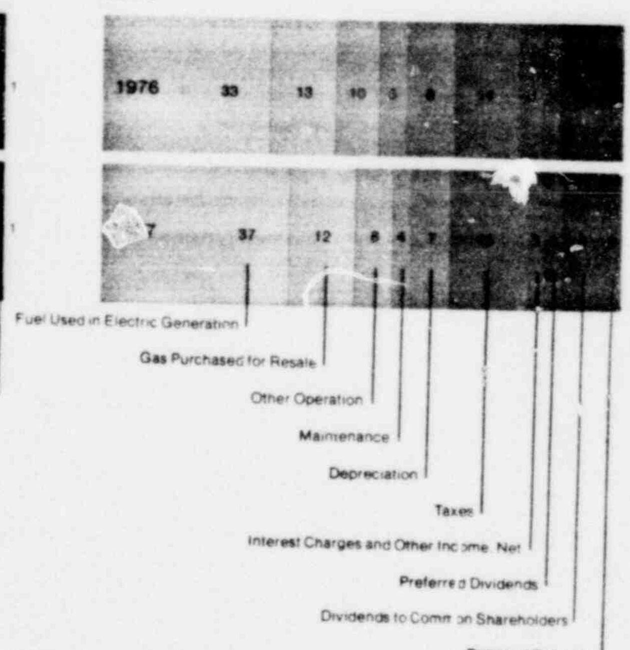
Earnings and Dividends
PER COMMON SHARE



Source of Revenue Dollar
CENTS



Use of Revenue Dollar
CENTS



1066 036

Contents

Annual Meeting and Solicitation of Proxies

The annual meeting of stockholders will be held at the office of the Company, 328 Main Street, Columbia, South Carolina on Wednesday, April 26, 1978. Proxies will be requested for such meeting and will be sent to stockholders on or about March 17, 1978.

This report is issued solely for the purpose of providing information. It is not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, any securities.

Form 10-K

A copy of the Company's 1977 Form 10-K filing with the Securities and Exchange Commission will be made available to stockholders upon written request. Exhibits to this filing, which are quite extensive, will be furnished upon request to stockholders for a fee to reimburse the Company for the actual cost of reproduction and mailing.

A copy of the Statistical Supplement to this report, or information concerning financial and operating data is available without charge. Please call or address your request to Silas W. Holmes, Manager, Investor Relations, South Carolina Electric & Gas Company, P.O. Box 7ᴦ4, Columbia, South Carolina 2 218 Telephone (803) 799-1234.

Corporate Information

Transfer Agents

COMMON STOCK:

Manufacturers Hanover Trust Company
New York, New York

The South Carolina National Bank
Columbia, South Carolina

CUMULATIVE PREFERRED STOCK:

Irving Trust Company
New York, New York

The South Carolina National Bank
Columbia, South Carolina

Registrars

COMMON STOCK:

Manufacturers Hanover Trust Company
New York, New York

The Citizens and Southern National Bank of South Carolina
Columbia, South Carolina

CUMULATIVE PREFERRED STOCK:

The Chase Manhattan Bank, N.A.
New York, New York

The Citizens and Southern National Bank of South Carolina
Columbia, South Carolina

Trustee and Paying Agent

FIRST AND REFUNDING MORTGAGE BONDS:

Manufacturers Hanover Trust Company
New York, New York

Dividend Reinvestment Agent

South Carolina Electric & Gas Company
Stockholder Records
328 Main Street
Post Office Box 764
Columbia, South Carolina 29218

Common stock and 5% cumulative preferred stock listed on the New York Stock Exchange

Meet he New President

Virgil C. Summer is SCE&G's new President and Chief Operating Officer. Summer, 57, was elected to this office by the Board of Directors on May 18, 1977. At the same time, former President Arthur M. Williams was elected Chairman of the Board and Chief Executive Officer.

Summer, who was born in Spartanburg, came to work with SCE&G in 1937 at the Parr Steam Plant following graduation from high school.

He began a study of mechanical engineering and management, and in 1949 was granted a professional engineering license. In 1968, he completed a Master of Science Degree in Engineering from the University of South Carolina.

After 15 years at Parr, Summer served as Assistant Plant Superintendent at Plant Hagood. In 1955, he was named Superintendent of Saluda Hydro while he coordinated the engineering and design of nearby McMeekin Station. When McMeekin was completed, Summer was promoted to Superintendent of the Station.

In 1959, he was named Superintendent of Production, and in 1962, he was promoted to Manager of Production Operations, Engineering and Construction. He was elected Vice President and named to the Board of Directors in 1966.

Summer was elected Senior Vice President of Operations in 1967. He held this position until he was elected President of SCE&G.

The Company's first commercial nuclear powered generating station, presently under construction at Parr, was named in honor of Summer. This was done in 1971 by action of the Board of Directors.

Summer was honored in 1968 as "Engineer of the Year" by the Columbia Chapter of the South Carolina Society of Engineers. He was awarded an Honorary Doctorate Degree from Newberry College in February of 1978.

He is a Fellow of the American Society of Mechanical Engineers, a member of the National Society of Professional Engineers and is past Chairman, Engineering Operating Division of the Southeastern Electric Exchange.

1066 038

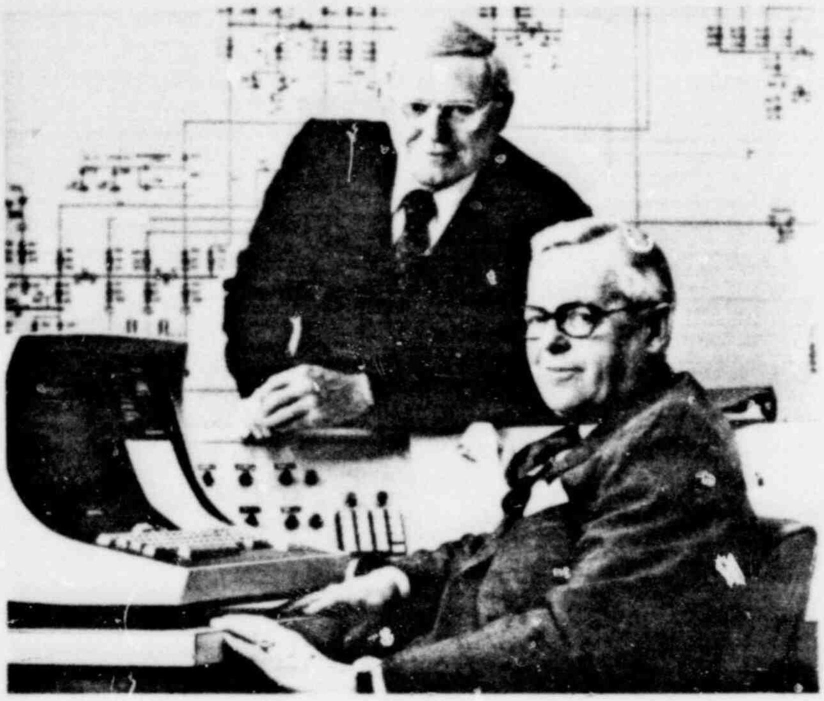
Highlights

South Carolina Electric & Gas Company

	1977	1976	% Increase or (Decrease) Over 1976
Operating Revenues			
Electric	**$ 337,927,000**	$ 275,892,000	22.5
Gas	**78,405,000**	71,948,000	9.0
Transportation (coach)	**2,023,000**	1,996,000	1.4
Total operating revenues	**$ 418,355,000**	$ 349,836,000	19.6
Earnings Available for Common Stock			
Amount	**$ 43,999,000**	$ 34,647,000	27.0
Per average common share	**2.22**	1.97	12.7
Dividends			
Declared on common	**$ 31,525,000**	$ 26,966,000	16.9
Per common share	**1.56**	1.52	2.6
Stockholders' Equity			
Amount	**$ 363,130,000**	$ 305,072,000	19.0
Per common share	**17.84**	17.11	4.3
Operation and Maintenance Expenses (Excluding Taxes and Depreciation)			
Fuel used in electric generation	**$ 155,132,000**	$ 116,892,000	32.7
Gas purchased for resale	**51,321,000**	44,789,000	14.6
Other operation	**32,417,000**	36,613,000	(11.5)
Maintenance	**17,727,000**	15,860,000	11.8
Total	**$ 256,597,000**	$ 214,154,000	19.8
Plant and Construction Costs			
Total utility plant (excludes nuclear fuel in trust)	**$1,478,619,000**	$1,294,279,000	14.2
Construction	**187,768,000**	197,485,000	(4.9)
Electric Statistics			
Customers – year end	**320,476**	312,617	2.5
Total sales (million kwh)	**11,155**	10,318	8.1
System peak load – kw	**2,459,000**	2,304,000	6.7
Per residential customer:			
Average use (kwh)	**12,146**	11,320	7.3
Average rate (cents per kwh)	**4.02**	3.61	11.4
Gas Statistics			
Customers – year end	**161,850**	161,473	.2
Total sales (million cubic feet)	**45,669**	47,721	(4.3)

1066 039

Fellow Shareholders



For the Company, 1977 was a year of significant change and we have much to report.

We had an increase in earnings per common share to $2.22, up from the $1.97 per share reported in 1976. Our earnings available for common stockholders were up from the $34.6 million recorded in 1976 to $44 million, a $9.4 million increase. Improvements in our financial picture can be attributed primarily to the rate relief we were granted during the year.

We are pleased to report that at the January 1978 meeting, the Board of Directors increased the annual dividend rate from $1.56 to $1.62. The new dividend will be paid quarterly, beginning April 1, 1978.

On November 12, 1976, the Company filed a petition with the South Carolina Public Service Commission, requesting a 13.25 per cent increase in electric retail rates. On December 13, 1976, approximately 80 per cent of this request was placed into effect under bond, subject to refund. Then, in December 1977, the Commission announced that it was granting a 9.54 per cent increase. Based on the test year of 1976, this would have generated an additional $22 million annually.

Total operating revenues in 1977 increased by 19.6 per cent but inflation continued to take its toll, pushing up total operating expenses (excluding depreciation and taxes) 19.8 per cent.

Energy sales appear to have returned to the growth trend of prior years. After a decrease of 5.2 per cent in total electric sales in 1975, there was a 7.9 per cent increase in 1976 and a 8.1 per cent rise in 1977. We expect total electric sales for 1978 to continue the same pattern.

By classes, residential sales were up 9.7 per cent; commercial sales increased 7.1 per cent; and industrial sales rose 8.1 per cent.

This past year the Company experienced peaks in winter and summer electric consumption. With the heavy use of air conditioning in our service area during July and August, we expect a new peak each summer, and with the growing use of electricity for heating, it looks as if this will also be a common occurrence in winter. In July 1977, we recorded a territorial peak of 2,216 megawatts as compared to 1,994 megawatts in 1976. In January 1978, the winter territorial peak of 1,899 megawatts was recorded which is 4 per cent higher than the winter of 1976-77.

Looking forward to 1978, we plan to put our Fairfield Pumped Storage Plant at Parr in operation. While we have previously reported that we had planned to bring on just four units of the 480-megawatt plant, we have been able to accelerate the schedule to include all eight units. This facility, which will be used primarily for peaking, will cost

1066 040

approximately $200 million. The V. C. Summer Nuclear Station, also under construction at Parr, is still scheduled for operation in 1980.

The availability and the price of fuel continues to concern those of us in the utility business. Our fuel costs for 1977 increased 32.7 per cent over the previous year.

We plan to use coal for about 76 per cent of our electric generation in 1978. In anticipation of the coal miners' strike, we increased our inventory and thus far we have not had a problem in this area and do not expect any. Residual oil will be used to produce about 18 per cent of our electricity with the remainder being generated with hydroelectric facilities and distillate fuel oil.

The nuclear fuel problem, which began in 1975 when Westinghouse Electric Corporation notified us that it could not meet its contractual obligation, has not been settled. However, as we have reported previously, the Company has taken legal action against Westinghouse to minimize any damages and we will continue to pursue this matter vigorously.

Although the Company has not been able to increase its contract for natural gas, it has been able to build up its reserve gas supply. The LNG facility, located in Charleston, was filled to capacity prior to this heating season. With a storage capacity of one million MCF of natural gas, it can regasify up to 60,000 MCF per day. Additionally, the Company has propane storage facilities capable of supplying over 58,000 MCF per day. If the weather is not too severe, we do not anticipate a problem in meeting the gas demands of our firm customers this winter.

Due to the low availability of gas supplies, there was a drop in sales last year. Gas MCF sales in 1977 decreased 4.3 per cent. This compares to the 4.8 per cent increase in 1976. Gas residential sales decreased 3.8 per cent and commercial sales decreased 11.6 per cent. Sales for resale decreased 2.8 per cent and industrial sales dropped 2.2 per cent.

Although projected construction costs continue to be quite high, they are not quite as extensive as in the past couple years. We have budgeted $178 million for construction in 1978, excluding nuclear fuel. Construction costs through 1982 call for approximately $552 million, excluding nuclear fuel.

On June 30, 1977, Senior Vice President Allan C. Mustard retired after devoting over 41 loyal years to SCE&G. Mr. Mustard, who was also a member of the Board of Directors, was named a Director Emeritus. During his career, Mr. Mustard played a significant role in the many achievements of the Company and his dedicated service will be missed.

In December 1977, John Kermit Addy of Lexington, President of Addy Dodge, Inc., was elected to the Board of Directors to fill Mr. Mustard's vacancy.

We are proud of our accomplishments in 1977 and look forward to the challenges of 1978. As a member of the utility industry, we have the responsibility to provide efficient and reliable service to our customers at the lowest possible cost while providing a fair rate of return for our investors. And we intend to meet our obligations.

For the Board of Directors,

ARTHUR M. WILLIAMS
Chairman of the Board
and Chief Executive Officer

VIRGIL C. SUMMER
President and
Chief Operating Officer

1066 041

Our side of a complex issue

Just a few short years ago, our customer contact was very minimal. And those relations, for the most part, were very cordial.

There just wasn't a need for a comprehensive customer relations program at the time. We were supplying a needed service – electricity and gas – at an inexpensive price. There was plenty of fuel and as we increased the efficiency of our plants, the price of electricity actually came down.

Because electricity was reasonable and because it could be used to do so many things, the customer found more and more ways to use it. He developed a dependence on it, and its low cost implied it was almost a birthright.

But, as our cost of supplying electricity rose, our price to the customer also increased. In addition to having to deal with a growing shortage of fuel, we were struck by the other perils that had befallen business – spiraling inflation, increasing construction costs and higher interest charges.

Conditioned by years of low-cost electricity and spoiled by years of comfort, convenience and labor savings from electricity, the customer recoiled at the higher price. He didn't understand what happened. And not only had utility prices increased but the cost of other products and services had risen as the Nation was caught up in the battle with inflation.

As prices increased and the danger of shortages became more believable, our customers wanted a few more answers than in the past. They wanted to know why their bills were higher and our gas customers were concerned about the availability of this service.

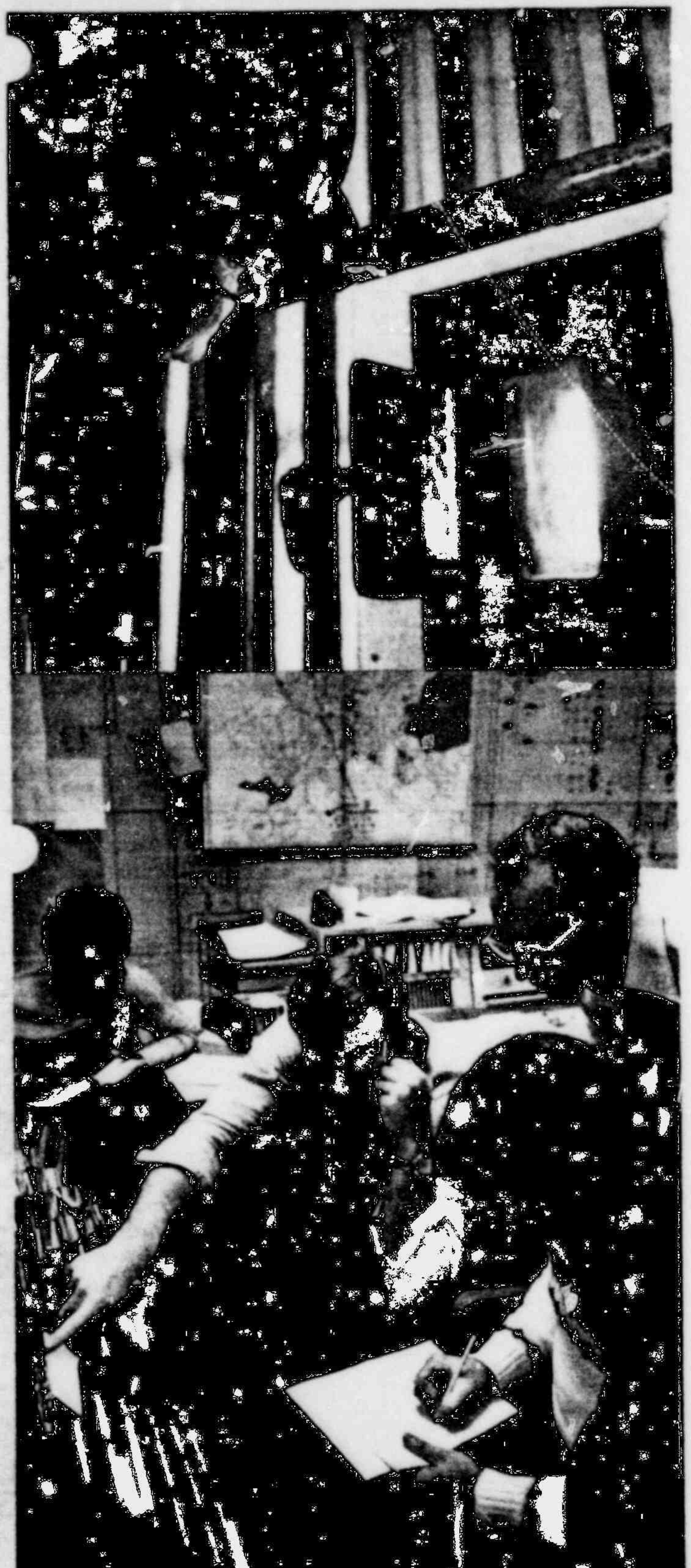
To satisfy this piqued, and sometimes vehement, curiosity of our customers, SCE&G took two significant steps in 1977. The organization of the Customer Operations Department and the development of an information plan by the Corporate Communications Department.

To create Customer Operations, a sweeping organizational change on the part of SCE&G's management was required. Its purpose, very simply stated, is to make the Company more responsive to the needs of its customers.

All of the 1,231 employees that work in this department deal with the customer in one way or another. It may be the lineman that installs the service or the friendly voice in the Customer Inquiry Center, a meter reader, a home economist or a gas department employee.

So now, even with short notice, we can provide prompt answers, whether it be concerning electricity or gas.

1066 042



In short, we have set the stage for the customer to be heard.

To complement the organization of the Customer Operations Department, a comprehensive communication program, for both customers and employees, was created in 1977.

As stated earlier, our customers were becoming more and more concerned about their energy needs as the price rose and shortages were becoming a reality. It became an important news item. Politicians were using it for a platform to seek public office. Practically everyone was discussing it. And in 1977, we decided to let our side be known. And we did.

Our first step was to confirm that our management, operations and performance are in complete consistency with our responsibility to the public. The organization of Customer Operations emphasized this.

Secondly, we established an aggressive, positive employee and customer communications program that provides credible information to allow opinion formulation.

We now take strong, positive positions on issues of specific interest and impact on our operations. We are visible, open and in front of our customers.

SCE&G realizes that its employees are one of its most valuable tools for improving customer relations. Our employees are constantly being asked questions by their families and friends. And to answer these questions, they must be properly informed about Company policy.

To supply this information, the Company is using color video tape equipment, an in-house publication and a dial-in telephone answering service.

By using these three means of communications, our chances of reaching all employees are improved significantly. They receive the necessary background and detailed information that is needed to answer the sometime pointed questions of their acquaintances.

In order to reach its customers, SCE&G uses the traditional methods – news releases, news conferences and advertising.

We feel that our policy of issuing news releases only when the topic has broad news appeal is a sound one. We want the news media to know that we make releases only when we have something significant to say. And when the occasion warrants it, we will not hesitate to call a news conference to show our openness.

In order to better judge the needs of our customers, we are encouraging district meetings

1066 043

Our side of a complex issue

with local civic leaders. These meetings also give the community leaders a chance to be exposed to our thinking.

An increased emphasis has been placed on the Company's speakers bureau. In 1977, there were over 150 known speaking engagements by SCE&G employees to various civic clubs and groups in our service area. This gives our people a chance to be seen which tends to humanize the Company.

SCE&G still believes an ongoing multi-media advertising program is the most efficient method for disseminating our messages to large numbers of customers. In January 1978, a comprehensive media campaign was begun covering a variety of subjects to give our customers more information about our services.

These advertising campaigns are not designed to promote the use of electricity or gas – but to give our customers explanations. Explanations as to why their bills are higher, why there is a shortage of natural gas, and how they can become more cost conscious by practicing conservation.

In short, we just want to tell our story. Let our customers know we are aware of their needs and we are doing everything possible to continue providing reliable service at the best possible price for the customer.

SCE&G has a commitment to its customers to provide reliable service at a fair price. But it also has a commitment to its investors. Actually, one can not exist without the other.

It is important that there be a balancing of the interests of investors and consumers.

Investors are obviously concerned with our financial integrity and expect a reasonable return on their investments.

Consumers want utility services at reasonable rates. But they are also vitally interested in reliability and availability of service for future needs.

If a utility is not financially sound, it will not be able to attract capital on reasonable terms. It is a well known fact that a financially healthy company can obtain money more easily and cheaply than one with a deteriorating financial condition.

If a utility can not acquire the necessary funds, there is a good chance that it may not be able to provide adequate service or the cost of service may be substantially increased in the future.

SCE&G is also interested in assuring industry that we will be able to provide energy supplies well into the future. During 1977, 178 companies announced

1066 044

new or expanding facilities in our service area. This provides more money in our service area through employment for approximately 4,500 people.

For these reasons, SCE&G is vitally aware of the importance of a healthy financial condition. We want our investors to know their money is invested in a sound and competently managed company.

Like all utilities, SCE&G is a capital intensive company. This means it requires a large investment to operate our business. For this reason, we have to give our investors a good return with minimal risk.

Being capital intensive means that our stock is usually widespread. We are fortunate that our largest regional group of stockholders is from South Carolina. This helps put a considerable portion of the money we pay in dividends back into our local economy.

The key word in financing is stability. And SCE&G is proud of the fact that it has not missed paying a dividend on its common stock since it became an independent operating company in 1946.

We have protected our good credit rating in order to obtain the best interest rates. A loss of our credit rating would not only cost our investors money, it would also hurt the consumer who would have to pay higher prices.

While we didn't like increasing our rates in 1977, it enabled us to establish a stronger financial base. This means we can attract adequate capital on reasonable terms, which in the long run will result in the cheapest possible rates for the customer.

Our residential customers have a growing need for electricity. SCE&G residential customers used an average of 12,146 kilowatt hours of electricity in 1977, which is approximately 40 per cent above the national average.

To provide the service that our customers want, we must build now to provide for the future. The construction time for a nuclear plant is 11 to 12 years, and for a fossil-fired station, it is five to six years. So we can't start building the year we need the capacity.

Since the price of construction is so high, we need lots of money now for the future. SCE&G's construction budget for the next five years is about $552 million. Our customers can't provide this much money so we have to obtain it from our investors. In fact, during 1977, approximately 78 per cent of our needs for new construction came from our investors.

So, it is obvious, we must have our investors to stay in business. And we aren't about to hang the "closed" sign on our front door.

1066 045

Corporate and Financial Review

A quarterly dividend of 40.5¢ per share was declared January 25, 1978 by your Board of Directors. The dividends are payable April 1, 1978 to shareholders of record as of March 10, 1978. The Company's annual dividend rate is $1.62 per share as compared to $1.56 per share in 1977. This represents a 6¢ increase in the annual dividend rate as compared to a 4¢ increase granted in 1977 and 1976. We are proud of the fact that during the past 26 years, the annual dividend rate has been increased 25 times.

Revenues

In 1977, total operating revenues increased $68.5 million or 19.6 per cent for a total of $418.4 million. Revenues from electric operations increased 22.5 per cent over 1976 to $337.9 million. Gas sales for the year produced $78.4 million, an increase of 9.0 per cent. The transportation division (coach), which provides bus service in metropolitan Columbia and Charleston, showed a 1.4 per cent increase in revenues during 1977.

Expenses

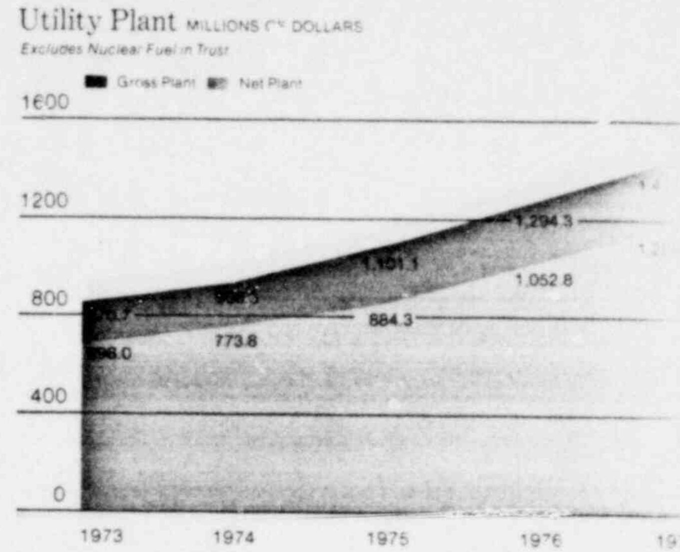
Operation and maintenance expenses, excluding taxes and depreciation, rose 19.8 per cent in 1977. This compares with the 12.6 per cent increase experienced in 1976. Fuel costs for electric generation showed a sizable increase, up 32.7 per cent for the year. Maintenance expenses were up 11.8 per cent while other operation expenses, excluding power purchased, showed an increase of 12.4 per cent. As a result of increased short-term power sales to other utilities and the expiration of a purchase power contract in 1977, power purchased decreased $8.4 million during the year. Gas purchased for resale had an increase of 14.6 per cent.

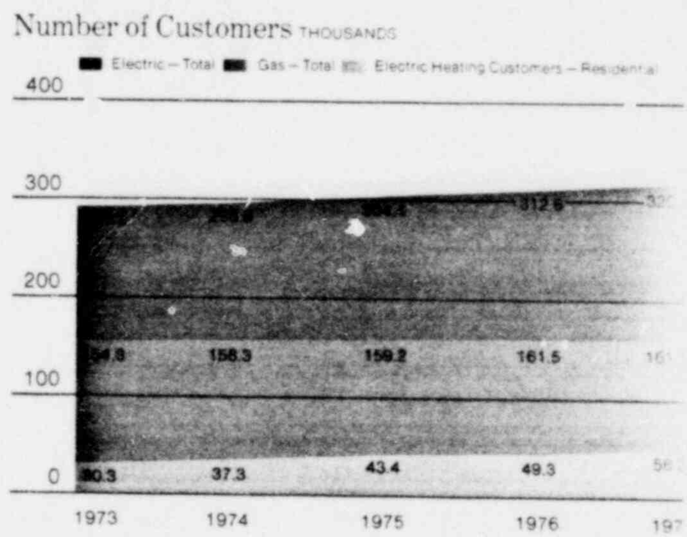
Total annual payroll costs, including construction, increased $4 million over the previous year to $42.0 million. Wage management is carefully administered through the Hay System and union negotiations.

Total tax provisions for 1977 were $54.4 million. Federal taxes totaled $29.8 million, South Carolina state taxes were $9.9 million, and $14.7 million went to counties, municipalities and school districts.

Financing — 1977

Financing in 1977 included the sale in March of 2.2 million shares of common stock at $18.75 per share and $30 million of 8⅜ per cent thirty-year bonds. The proceeds from the new bonds were used to refund the Company's $30 million, 9⅞ per cent series due June 1, 2000. In April, $50 million of 7 per cent five-year bonds were sold.





In December 1977, the Company sold $5.2 million of pollution control facilities revenue bonds, of which $3.4 million was taken down that month. Take down is permitted as qualified pollution control expenditures are made. The interest is at a rate of 4½ per cent per annum until October 1, 1979 and thereafter a percentage of prime until maturity on October 1, 1987.

As reported previously, the Company entered into an agreement in September 1976 with several banks for the financing of the nuclear fuel for the V. C. Summer Nuclear Station. This agreement encompasses up to $42 million, including interest costs for the purchase of the initial fuel for the reactor. This agreement was amended August 1, 1977, extending the date for the repurchase of fuel from June 30, 1979 to June 30, 1980 or prior to

1066 046

initial loading of fuel into the reactor, whichever comes first.

Financing — 1978

Construction cash requirements for 1978 will be met primarily through the sale of first mortgage bonds, common stock and preferred stock. The remaining requirements will come from internally generated funds, short-term borrowings, Stock Purchase-Savings Program for Employees, Dividend Reinvestment and Stock Purchase Plan, the Employee Stock Ownership Plan (ESOP) and the take down at various times during the year of the pollution control facilities revenue bonds.

On February 8, 1978, the Company completed a portion of its 1978 financing by the sale of $30 million of 8.90 per cent thirty-year first mortgage bonds and the sale of 1.5 million shares of common stock at a price of $18.25 per share.

Rates

The South Carolina Public Service Commission announced on December 13, 1977 that it was granting the Company a 9.54 per cent increase in electric retail rates. The new rates, which would have generated an additional $22 million annually based on the test year of 1976, were placed into effect in January 1978.

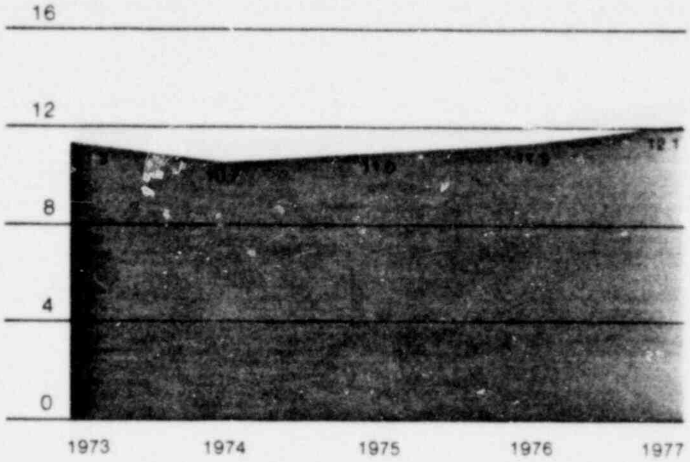
The increase was the result of a petition filed November 12, 1976 by the Company with the Commission. The request was for a 13.25 per cent increase which would have produced an additional $30 million in annual revenues based on the test year. On December 13, 1976, the Company placed approximately 80 per cent of the request into effect under bond, subject to refund.

Due to the difference between the bonded rates and those approved by the Commission, the Company was required to refund approximately $2.8 million with 9 per cent interest. This was scheduled for February 1978 by applying a credit on customer bills.

In an unprecedented move, the Commission also stated in its rate order that the Company must refund to customers an additional $7 million, with 6 per cent interest, that resulted from interchange power sales and purchases with neighboring utilities. The $7 million represents the difference between the net amount paid out by SCE&G in the first six months of 1976 for the purchase of electricity and the net amount received by SCE&G in the first six months of 1977 for electricity sold to other utilities.

The Company took exception to this section of the rate order and requested the Commission to

Average Use per Electric Residential Customer
THOUSANDS KWH



rehear the case. The Commission denied this request, prompting the Company to file an appeal January 17, 1978 with the Court of Common Pleas.

The Court granted a stay January 20, 1978 to the Company which allows SCE&G to defer refunding of the $7 million until the case is heard. It is expected that it may take as long as a year to settle the case.

The Company believes the order to refund $7 million to customers is unlawful and unreasonable. It is the Company's position that the order deprives the Company of its property without due process of law, and that the Commission only has the authority to order refunds of amounts collected under bond. The Company is also arguing that the $7 million was not a part of the rate case and that none of it was collected from rate payers.

According to the new base rates, SCE&G's residential customers will pay 3.459¢ per kilowatt hour for the first 1,000 kilowatt hours and 3.8 [illegible]¢ per kilowatt hour for all over 1,000 kilowatt hours. The Commission stated that this "will hopefully lead to conservation by higher electricity users."

Stockholders

Outstanding shares of common stock, as of December 31, 1977 totaled 20,358,612 and represent an increase over the previous year of 2,524,439 shares. SCE&G, as of December 31, 1977, had 48,752 stockholders. South Carolina continues to rank number one in the nation in having the largest number of stockholders.

Approximately 6,800 common shareholders participate in the Company's Dividend Reinvestment and Stock Purchase Plan. Under this plan, the shareholders' dividends are automatically reinvested in additional shares of common stock at a discount.

1066 047

Corporate and Financial Review

Electric Sales

At the end of 1977, the Company was serving 320,476 electric customers, an increase of 7,859 during the year. Of this total, 280,179 were residential; 37,693 commercial; 781 industrial and 1,823 in other classifications. The compound rate of growth for electric customers for the past five years is 2.8 per cent.

The number of customers using electric'ty for heating purposes continued to increase in 1977. There were 7,001 customers joining this class:fication last year. The total number of electric heating customers is now 56,259, an increase of 14.2 pe: cent over 1976.

Energy sales in 1977 were 11.2 billion kilowatt hours, as compared to the 10.3 billion kilowatt hours sold in 1976. Sales to ultimate consumers in 1977 reached 9.8 billion kilowatt hours for an increase of 8.3 per cent. The compound growth rate for the five-year period of 1973-1977 is 5.9 per cent.

In 1977, 6,566 customers were added to our residential classification for an increase of 2.4 per cent. In addition, the average consumptic n per customer increased 7.3 per cent to 12,146 kilowatt hours. This ranks SCE&G 14th in the nation in average customer consumption.

Electric Operations

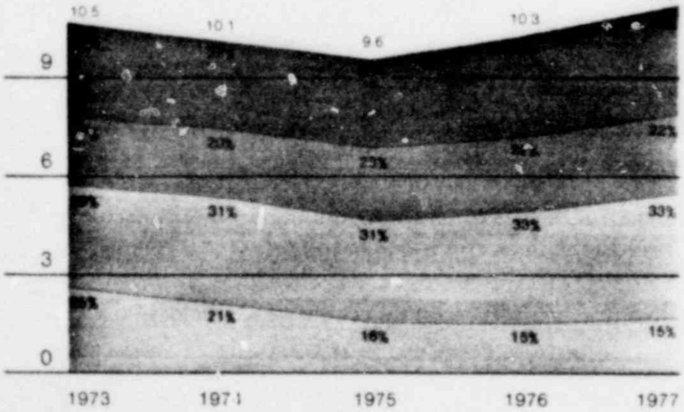
Electric system generation for 1977 totaled 12.1 billion kilowatt hours, which was 1.1 billion kilowatt hours higher than 1976.

A system pe k load of 2,459 megawatts was recorded in January 1977. This occurred during a period of severe cold weather when the Company was aiding some neighboring utilities that were experiencing difficulty in meeting their demands due to mechanical problems at several of their plants.

The Company also experienced a territorial peak demand of 2,216 megawatts in July 1977. This 11.1 per cent increase in territorial peak demand over 1976 represents the highest energy demand ever required by our ultimate consumers. The territorial load factor for 1977 was 57.4 per cent.

Due to the cold weather in Jar uary 1978, a new winter territorial peak was est blished which showed a 4.0 per cent increase over the previous year. For the past five years, this winter peak has been growing at a compound rate of 7.0 per cent. Because of the increase in the use of electricity for home heating, we expect this trend to continue and to even accelerate in the years ahead.

Electric Sales BILLIONS KWH



Breakdown by Classes – Percent

Fuel

Fuel costs for electric generation continue to be the major and growing expense in the utility industry. During 1977, fuel costs for SCE&G increased $38.2 million, a 32.7 per cent increase over the previous year. This compares to the $7.2 million increase recorded in 1976. Rising fuel prices and an increase in steam generation are largely responsible for the rise in fuel expenses during 1977.

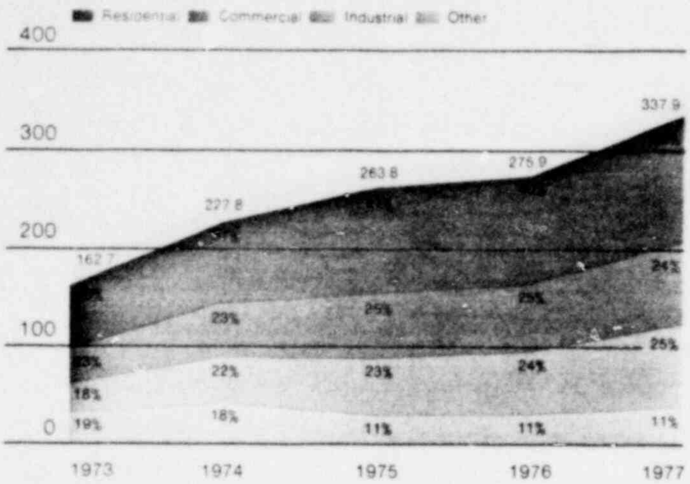
Natural gas as a boiler fuel is now practically non-existent, so the Company has increased its use of coal to compensate for the loss. In 1977, for example, coal was used to provide 69 per cent of the electricity on the system. Residual oil provided 25 per cent, hydro facilities accounted for 4 per cent and natural gas provided only 2 per cent.

Coal is expected to continue bearing the load in 1978 for electric generation. Of the needed generation, coal is scheduled to produce 76 per cent while residual oil is expected to provide 18 per cent. Hydroelectric facilities and distillate fuel oil will provide the remainder.

Normally, the Company maintains a 60-day supply of coal. However, in anticipation of the coal miners' strike, the Company increased its supply of coal to a 100-day supply during the latter part of 1977. This represents approximately 900,000 tons of coal. The Company anticipates continued receipt of coal during the strike. The majority of the coal used by the Company comes from long-term contracts with companies in Kentucky and West Virginia.

1066 048

Electric Revenues MILLIONS OF DOLLARS



Breakdown by Classes – Percent

Two of the Company's generating plants use Number 6 fuel oil to fire the boilers. Oil for Williams Station is supplied by Exxon Company under a contract expiring in 1992, subject to renegotiation of price in 1982 and 1987. The contract for oil at Plant Hagood is also with Exxon and covers the period from 1976 to 1982.

Oil for Williams Station is barged up the Cooper River from Charleston and stored at a tank farm which currently has approximately a 100-day supply. Fuel for Plant Hagood is shipped through a pipeline from the supplier's terminal in Charleston.

The Company has contracts with Westinghouse Electric Corporation, with an effective date of December 18, 1970, for the supply of uranium concentrate, conversion and fabrication and with the Energy Research and Development Administration (ERDA) for supply of enriching services for the V. C. Summer Nuclear Station, which is presently under construction. The contract with Westinghouse covers the initial core loading of three regions and eight yearly reload regions for a total of 11 regions of fuel. (A region represents approximately one-third of the nuclear cores in the reactor at any time.) Under anticipated operating conditions this would cover a period of approximately ten years.

It will be necessary for the Company to enter into future contracts to cover the difference between its total requirements and those covered by its present contract. The contract with the ERDA is a "requirements" type contract whereby the ERDA supplies total enriching requirements for the unit through the year 2002.

There are presently no reprocessing facilities in operation in the United States available to utilities for reprocessing of spent fuel. President Carter has announced his opposition to reprocessing.

On September 8, 1975, Westinghouse notified the Company that "Under present and anticipated market conditions, Westinghouse finds itself unable to obtain sufficient uranium to meet . . . customer needs except at such onerous prices that performance on Westinghouse's part would be commercially impracticable." On October 22, 1975, the Company commenced an action against Westinghouse in the U. S. District Court for the District of South Carolina seeking specific performance of the uranium supply provisions of the contract and damages for its breach. Such action was consolidated with other similar actions by other utility companies against Westinghouse and transferred to the U. S. District Court for the Eastern District of Virginia. Trial commenced September 12, 1977; proceedings are continuing at present.

On February 3, 1976, Westinghouse consented to an order of the U. S. District Court for the Eastern District of Virginia requiring it to deliver, without prejudice to the position of any of the parties as to their ultimate obligations, quantities of uranium concentrates at the contract price equal to its inventories of uranium concentrates then on hand and on order to the extent received. The Company will receive approximately 731,000 pounds of uranium concentrates, which is approximately 18 per cent of the original Westinghouse commitment to the Company (estimated at approximately 4.1 million pounds) and 82 per cent of the first core fuel requirements (estimated at approximately 888,000 pounds).

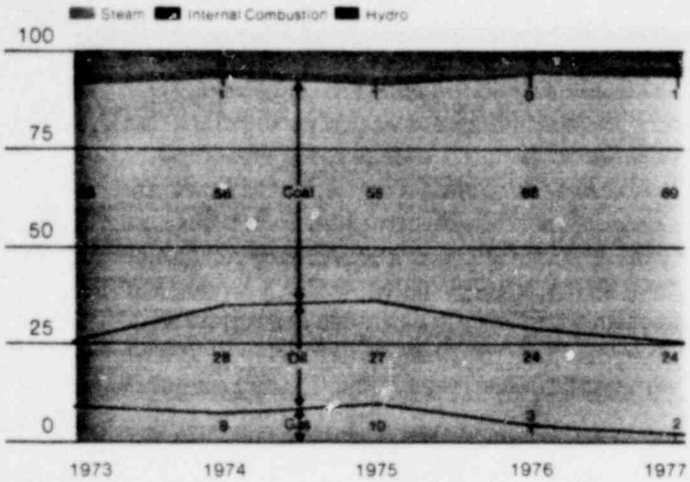
The contract with Westinghouse provides for a base price subject to increases or decreases in price according to changes in various indices published by several federal agencies. The Company estimates that the contract price for the 731,000 pounds of uranium concentrates will be in the range of $12 to $13 per pound. The Company has purchased on the open market, at prices averaging approximately $40 per pound, sufficient quantities of uranium to meet the fuel requirements of the initial core.

The Company cannot at this time estimate the amount of damages occasioned by Westinghouse's actions because the contract calls for performance by Westinghouse over a period of years. The Company is continuing discussions with

1066 049

Corporate and Financial Review

Source of Electric Generation PER CENT



Westinghouse and also with other suppliers for the purpose of obtaining an adequate supply of uranium and minimizing any damage to the Company or cost to its customers resulting from the actions of Westinghouse. The Company does not anticipate that uranium supply problems are likely to result in a delay in completion or operation of the V. C. Summer Nuclear Station.

Construction

The Fairfield Pumped Storage Plant has been rescheduled for completion in 1978. The plant, capable of producing 480 megawatts, had been scheduled for completion during the two year period of 1978 and 1979. It is expected to cost approximately $200 million ($417 per KW) and will be used primarily as a peaking station.

The V. C. Summer Nuclear Station, located adjacent to the Fairfield Plant, is still scheduled for operation in 1980. It will have a capacity of 900 megawatts and has an estimated total cost of $674.8 million. This nuclear plant is a joint venture between the Company and the South Carolina Public Service Authority (a public corporation of the State of South Carolina). The Company will own and receive two-thirds of the plant's output. One-third of the plant's capacity will be owned and received by the Authority.

Total construction cost for the year 1978 is projected to be approximately $178 million, the third largest annual construction budget in the Company's history. Construction forecasts through 1982 are expected to be approximately $552 million, excluding nuclear fuel.

Two additional coal-fired units are expected to be needed during the 1980's. Construction of the first unit is presently expected to commence by 198

Gas Sales

The Company serves natural gas to over 70 towns and communities. At the end of 1977, the Company was providing natural gas service to 161,850 customers, adding 377 during the year.

Sales for the year decreased 4.3 per cent and totaled 45.7 billion cubic feet. Sales to firm customers recorded a 5.6 per cent decrease. Residential customers, who constitute 45 per cent of all firm sales and use gas primarily for heating, decreased their consumption 3.8 per cent. Firm sales to commercial establishments decreased 11.0 per cent and firm industrial customers decreased their consumption by 5.4 per cent. Interruptible customers, which include commercial and industria users, decreased their use by 2.8 per cent. These drops in the sale of gas are directly related to the national shortage of natural gas and its availability on the SCE&G system during the severe winter weather of 1977.

Gas Operations

In 1974, the South Carolina Public Service Commission ordered the Company to continue to install and furnish gas service to new and old residences located on existing mains. To preserve it ability to supply gas to existing firm customers, the Company adopted the policy of not extending servic to any other firm customers. The Company also limits its interruptible sales to a maximum of 1,000 MCF per day on existing mains.

The Company, under a contract which extends to 1989, purchases 165,000 MCF per day from Southern Natural Gas Company. However, due to the establishment of curtailment priorities by the Federal Energy Regulatory Commission, the Company does not always receive its full contract demand. Because of these priorities, Southern Natural allocates gas to its customers based upon "end-use" categories.

To help supplement the Company's supply of natural gas, LNG facilities were completed in 1977 and were full at the beginning of the 1977-78 heating season. The facility, operated by South Carolina LNG Company, Inc., a wholly-owned subsidiary, was constructed at a cost of approximately $14.8 million. During off-peak periods, the Charleston-based operation can liquefy up to 6,000 MCF per day and store one million MCF

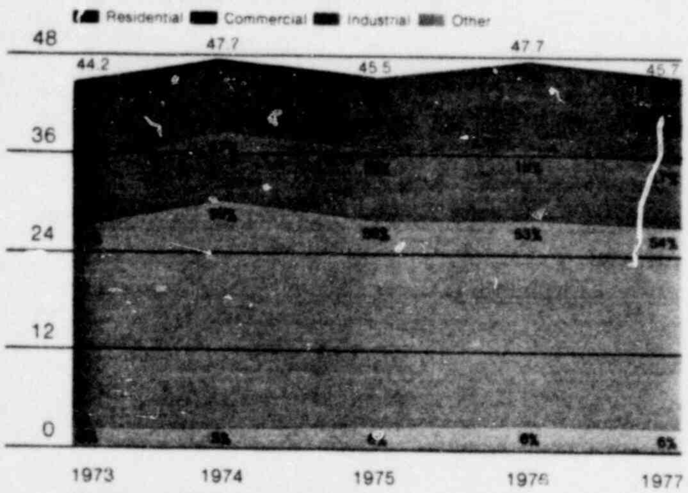
1066 050

of natural gas. On peak days, the plant can regasify up to 60,000 MCF per day.

Additionally, the Company has propane storage facilities which can supplement our supply of natural gas by approximately 58,200 MCF per day. At the beginning of the current winter season the Company had approximately 6.3 million gallons of propane (equivalent to approximately 525,000 MCF of gas) in inventory. The Company also had a contract for an additional 2.7 million gallons of propane (equivalent to approximately 222,000 MCF of gas) for use during the current winter season.

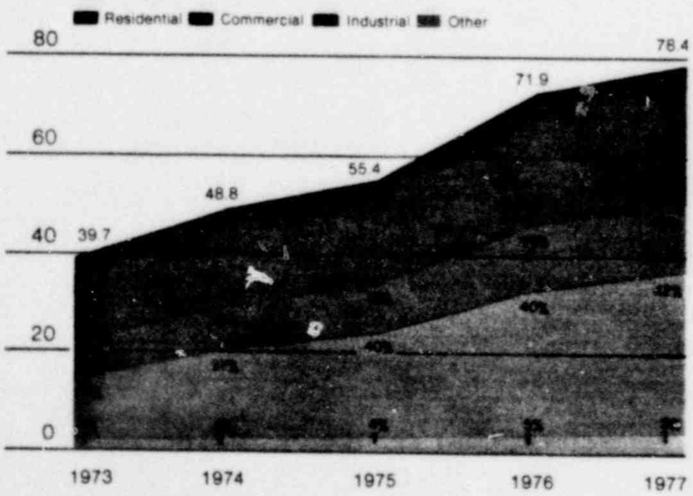
By using these supplemental sources and if the weather conditions are no more severe than during the winter of 1976-77, the Company expects that it will be able to meet the gas demands of its firm customers.

Gas Sales BILLIONS CUBIC FEET



Breakdown by Classes – Percent

Gas Revenues MILLIONS OF DOLLARS



Breakdown by Classes – Percent

Environmental Matters

Both federal and state authorities have imposed various environmental control requirements relating primarily to airborne pollution and liquid discharge of pollutants, including heat, into waters in the vicinity of the Company's plants. The Company is attempting to insure that its facilities meet these standards.

In the years 1970 through 1977, the Company's expenditures for environmental control facilities amounted to approximately $14.4 million. The Company forecasts a minimum expenditure of at least $1.9 million for 1978 and an additional $3.8 million for the years 1979 to 1982, inclusive.

Litigation

The Company has been named as a codefendant in an action filed on August 17, 1977, in the United States District Court for the Middle District of North Carolina in Greensboro, N. C., by certain North Carolina electrical cooperative utilities as plaintiffs. The complaint alleges that the Company and Carolina Power & Light Company have maintained an unlawful monopoly in power exchange services, firm bulk power, and firm retail power in areas of North and South Carolina and seeks an order requiring the Company to negotiate with the plaintiffs and $50,400,000 damages trebled against both defendants. The Company has filed a motion to dismiss the action against the Company on the grounds that the court lacks jurisdiction over it. The General Counsel of the Company believes that, even if the presently pending motion to dismiss the action is not granted, the Company has meritorious defenses to such action and should be able to defend such action successfully.

Transportation (Coach)

The Company has entered into discussions with the Charleston Area Transit Committee, looking toward a transfer of the Company's transit facilities in Charleston to a public body. For many years the coach operation in Charleston has been operated at a loss. Negotiations are proceeding and the Company is unable to predict the outcome at this time. Any agreement between the Company and the Transit Committee would be subject to the approval of the Board of Directors, the South Carolina Public Service Commission and the local governments involved.

1066 051

Consolidated Balance Sheet

December 31, 1977 and 1976

ASSETS	**1977**	1976
Utility Plant (including construction work in progress;		
1977 – $505,554,271; 1976 – $355,329,443) (Notes 1, 3 and 4):		
Electric	**$1,330,820,210**	$1,151,950,903
Gas	**130,816,589**	128,019,435
Transportation (coach)	**3,643,670**	3,643,565
Common	**13,338,687**	10,664,758
Total	**1,478,619,156**	1,294,278,661
Less accumulated depreciation and amortization	**269,228,397**	241,489,626
Utility Plant, net (excluding nuclear fuel in trust)	**1,209,390,759**	1,052,789,035
Nuclear fuel in trust	**10,491,895**	6,500,867
Utility Plant, net	**1,219,882,654**	1,059,289,902
Other Property and Investments:		
Nonutility property (substantially at cost)	**2,447,715**	2,464,546
Investments in, notes receivable and advances to subsidiary and partnership (Note 1)	**17,026,432**	13,720,621
Other investments and special funds (at cost or less)	**145,591**	4,386,147
Total Other Property and Investments	**19,619,738**	20,571,314
Current Assets:		
Cash (Note 7)	**1,990,115**	5,011,276
Temporary cash investments	**—**	1,500,000
Special deposits	**103,287**	107,765
Receivables (including $921,672 due from subsidiary) (Note 1)	**44,486,088**	36,772,013
Materials and supplies (at average cost or less):		
Fuel	**50,848,340**	29,629,726
Other	**6,106,672**	6,895,931
Prepayments	**2,099,919**	2,059,861
Total Current Assets	**105,634,421**	81,976,572
Deferred Debits:		
Unamortized debt expense	**3,882,493**	2,853,155
Other	**12,202,823**	6,939,319
Total Deferred Debits	**16,085,316**	9,792,474
Total	**$1,361,222,129**	$1,171,630,262

See notes to consolidated financial statements.

1066 052

LIABILITIES	1977	1976
Stockholders' Investment (Note 5):		
Preferred stock	$ 136,056,000	$ 137,771,000
Common stock	91,613,754	80,253,778
Premium on common stock	164,466,509	129,649,328
Other paid-in capital	4,182,117	4,176,823
Capital stock expense (debit)	(5,029,857)	(4,430,534)
Retained earnings	107,897,373	95,423,087
Total Stockholders' Investment	499,185,896	442,843,482
Long-Term Debt (Note 3):		
Principal amounts	575,518,281	524,046,244
Less unamortized discount and premium, net	703,154	1,897,419
Long-Term Debt, net	574,815,127	522,148,825
Total Capitalization	1,074,001,023	964,992,307
Nuclear Fuel Trust (Note 4)	10,491,895	6,500,867
Current Liabilities:		
Short-term borrowings (Note 7):		
Banks	1,750,900	6,454,500
Other	39,019,725	10,799,015
Accounts payable and customer rate refunds (Note 2)	48,083,170	23,750,834
Customer deposits	6,002,282	4,871,345
Taxes accrued	12,557,589	8,381,954
Interest accrued	12,445,450	10,946,893
Dividends declared	10,594,820	9,112,552
Current portion of long-term debt (Note 3)	9,268,192	12,499,855
Tax collections payable	563,296	1,041,411
Other	5,102,924	5,412,404
Total Current Liabilities	145,388,348	93,270,763
Deferred Credits:		
Accumulated deferred investment tax credits (Note 1)	36,906,085	22,684,231
Accumulated deferred income taxes (Note 1)	91,885,000	81,084,200
Other	2,549,778	3,097,894
Total Deferred Credits	131,340,863	106,866,325
Commitments and Contingencies (Note 8)	—	—
Total	$1,361,222,129	$1,171,630,262

See notes to consolidated financial statements.

1066 053

Consolidated Statement of Income

For the Years Ended December 31, 1977 and 1976 — **South Carolina Electric & Gas Company**

	1977	1976
Operating Revenues (Notes 1 and 2):		
Revenues from sales:		
Electric	$290,970,933	$242,525,513
Gas	78,405,485	71,948,122
Transportation (coach)	2,023,009	1,996,186
Total	371,399,427	316,469,821
Electric fuel adjustment clauses	46,955,899	33,365,877
Total Operating Revenues	418,355,326	349,835,698
Operating Expenses:		
Fuel used in electric generation	155,132,324	116,892,037
Power purchased, net (credit)	(5,304,083)	3,064,887
Gas purchased for resale	51,321,499	44,789,012
Other operation	37,720,633	33,547,818
Maintenance	17,726,553	15,859,807
Depreciation and amortization (Note 1)	30,338,900	27,825,300
Taxes (Notes 1 and 6):		
Other than income	22,454,847	20,111,595
State income	4,270,300	2,554,400
Federal income	9,988,900	5,192,200
Provision for deferred income	15,880,636	10,245,992
Deferred taxes (credit)	(5,135,564)	(1,248,871)
Investment tax credit adjustments:		
Amount deferred	16,289,894	12,214,854
Amortization of amounts deferred (credit)	(594,816)	(346,082)
Total Operating Expenses	350,090,023	290,702,949
Operating Income	68,265,303	59,132,749
Other Income (Notes 1 and 6):		
Allowance for funds used during construction:		
Borrowed and equity – prior to January 1, 1977	—	18,094,168
Equity – since January 1, 1977	16,610,026	—
Income tax – credit	9,182,700	5,859,400
Other income and deductions, less income taxes (debit)	(184,703)	345,350
Total Other Income	25,608,023	24,298,918
Income Before Interest Charges	93,873,326	83,431,667
Interest Charges:		
Interest on long-term debt	43,020,566	37,050,967
Amortization of debt premium, discount and expense, net	548,156	341,627
Other interest expense	2,556,277	2,223,505
Allowance for borrowed funds used during construction – since January 1, 1977 (credit) (Note 1)	(6,903,601)	—
Total Interest Charges	39,221,398	39,616,099
Net Income	54,651,928	43,815,568
Dividends on Preferred Stock	10,653,247	9,168,825
Earnings Available for Common Stock	$ 43,998,681	$ 34,646,743
Average Common Shares Outstanding	19,833,002	17,547,328
Earnings Per Share of Common Stock	$2.22	$1.97

See notes to consolidated financial statements.

1066 054

Consolidated Statement of Retained Earnings

For the Years Ended December 31, 1977 and 1976 **South Carolina Electric & Gas Company**

	1977	1976
Balance at Beginning of Year	**$ 95,423,087**	$ 87,741,998
Add – Net income	**54,651,928**	43,815,568
Total	**150,075,015**	131,557,566
Deduct —		
Cash dividends declared:		
Preferred stock	**10,653,247**	9,168,825
Common stock (at an annual rate of $1.56 per share and $1.52 per share for 1977 and 1976, respectively)	**31,524,395**	26,965,654
Total Deductions	**42,177,642**	36,134,479
Balance at End of Year (Note 5)	**$107,897,373**	$ 95,423,087

Consolidated Statement of Changes in Financial Position

For the Years Ended December 31, 1977 and 1976

	1977	1976
Working Capital Provided:		
Net income	**$ 54,651,928**	$ 43,815,568
Charges (credits) to income not providing or requiring working capital:		
Depreciation and amortization	**30,338,900**	27,825,300
Deferred income taxes, net	**10,745,072**	8,997,121
Investment tax credit, net	**15,695,078**	11,868,772
Allowance for funds used during construction	**(23,513,627)**	(18,094,168)
Total from Operations	**87,917,351**	74,412,593
Nuclear fuel trust	**3,991,028**	6,500,867
Sale of mortgage bonds	**79,130,600**	99,125,000
Sale of pollution control revenue bonds	**5,155,000**	—
Sale of preferred stock	**—**	20,000,000
Sale of common stock	**46,177,157**	33,281,418
Decrease in other property and investments	**951,576**	6,824,016
Decrease in other non-current funds	**—**	2,498,205
Total Working Capital Provided	**223,322,712**	242,642,099
Working Capital Applied:		
Utility plant additions (exclusive of allowance for funds used during construction)	**164,254,229**	179,391,001
Nuclear fuel in trust	**3,991,028**	6,500,867
Cash dividends on preferred stock	**10,653,247**	9,168,825
Cash dividends on common stock	**31,524,395**	26,965,654
Reduction of long-term debt	**32,488,698**	29,546,306
Retirement of preferred stock	**1,715,000**	1,715,000
Increase in other non-current funds	**7,155,851**	—
Total Working Capital Applied	**251,782,448**	253,287,653
Decrease in Working Capital	**$(28,459,736)**	$(10,645,554)
Increase (Decrease) in Working Capital by Component:		
Cash	**$ (3,021,161)**	$ (625,122)
Temporary cash investments	**(1,500,000)**	(9,758,322)
Receivables	**7,714,075**	10,243,003
Materials and supplies	**20,429,355**	2,135,900
Short-term borrowings	**(23,517,110)**	4,523,575
Current portion of long-term debt	**3,231,663**	(5,946,655)
Accounts payable and accruals	**(31,832,138)**	(7,027,967)
Other, net	**35,580**	(4,189,966)
Decrease in Working Capital	**$(28,459,736)**	**$(10,645,554)**

See notes to consolidated financial statements.

1066 055

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. System of Accounts

The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC which term as used herein, includes its predecessor, the Federal Power Commission) and the South Carolina Public Service Commission (PSC).

B. Principles of Consolidation

The accounts of the Company's wholly-owned subsidiary, South Carolina LNG Company, Inc., are consolidated in the accompanying Consolidated Financial Statements.

The Company's investments in its wholly-owned subsidiary, Energy Subsidiary, Inc. and a partnership (in which the Company and Energy Subsidiary are equal partners) are reported in the accompanying Consolidated Financial Statements using the equity method of accounting.

C. Utility Plant

Utility plant is stated at original cost. The cost of additions, renewals and betterments to utility plant, including direct labor, material and indirect charges for engineering, supervision, and an allowance for funds used during construction, are added to utility plant accounts. The original cost of utility property retired or otherwise disposed of is removed from utility plant accounts and along with the cost of removal, less salvage, is charged to accumulated depreciation. The cost of repairs, replacements and renewals of items of property determined to be less than a unit of property is charged to maintenance expense.

D. Allowance for Funds Used During Construction

Allowance for funds used during construction (AFC), a non-cash item, reflects the cost for the period of capital devoted to plant under construction. This cost represents interest charges on borrowed funds and a reasonable rate of return on equity funds so used. This accounting practice results in the inclusion, as a component of construction cost (construction work in progress), of amounts of AFC which will ultimately be included in rate base in establishing rates for utility charges. The rates used for computing AFC were 6.5% in 1977 and 8% in 1976.

Effective January 1, 1977, the FERC issued an order which provided a formula for computing a maximum allowable AFC rate based on, among other things, embedded cost, actual capitalization ratios, includi short-term debt, and semi-annual compounding of th AFC rate. The Company's AFC rate, determined compliance with the above-mentioned FERC orde does not exceed the maximum allowable rate.

Beginning in 1977, pursuant to the FERC Ord the interest portion of AFC related to borrowed fun has been reclassified in the Consolidated Statement Income from "Other Income" to a reduction in "Inte est Charges." The Company has not reclassified AF into its debt and equity components for periods prior January 1, 1977. The Company believes that such reclassification would be inappropriate since the alloc tion between the debt and equity components for pe ods prior to January 1, 1977 would not be comparab to the allocation of such components determined aft December 31, 1976, utilizing the revised procedure the FERC order. For comparative purposes, "Allow ance for funds used during construction – equity sin January 1, 1977" and "Allowance for borrowed fun used during construction – since January 1, 19 (credit)" should be combined.

E. Depreciation

The Company provides for depreciation for financi reporting purposes on a straight-line basis over th estimated useful lives of utility plant. Annual rat average 3.30% for 1977 and 3.16% for 1976.

F. Income Taxes

Deferred income taxes, arising from the use accelerated amortization and depreciation rather th straight-line tax depreciation, are charged to incon with corresponding credits to accumulated deferr income taxes and are credited to income in appr priate amounts when subsequent income tax liabiliti are greater as a result of this practice. With respe to the excess of tax straight-line depreciation over boo depreciation, the Company follows flow-through a counting for income tax reductions arising therefro

Income taxes are allocated to "Operating Expense or "Other Income." The income tax–credit und "Other Income" results from tax deductions rela to interest expense arising principally from inve ments in construction work in progress.

Investment tax credits on eligible property as pr vided by the Revenue Act of 1971 and the Tax Redu tion Act of 1975 are being amortized over the lives the respective assets.

The Company's 1975, 1974 and 1973 income ta returns are currently being examined by the ta authorities; however, no report has been received o such examination at this time.

POOR ORIGINAL

1066 056

G. Pension Plan

The Company has a pension plan covering all employees. Unfunded prior service cost is being amortized over a twenty-year period ending in 1995. The unfunded prior service cost was approximately $2,635,000 at December 31, 1977 based on the latest actuarial valuation dated January 1, 1976.

The Company's policy is to fund pension cost accrued. There was no excess of actuarially computed value of vested benefits over the total assets of the Plan based on the latest actuarial valuation. Total pension contributions by the Company, including amortization of prior service cost, were $3,490,000 and $3,236,000 for 1977 and 1976, respectively.

H. Revenue Recognition

Customers' meters are read and bills are rendered on a monthly cycle basis. Base rate revenue is recorded during the accounting period when the meters are read. Revenue attributable to electric fuel and gas costs (to the extent collectible through adjustment clauses) is recorded in the month during which the fuel and gas are used rather than when the revenue is billed.

2. RATE MATTERS:

On December 13, 1977, the PSC granted an electric retail rate increase approximating 72% of the amount requested in an application filed by the Company November 12, 1976. The order also required a refund to the Company's retail customers of approximately $2.8 million of revenues collected under bond plus interest and approximately $7.0 million from net interchange sales to other utility companies during 1977, plus interest. The 1977 Consolidated Financial Statements reflect the effect of the PSC order and include revenues of approximately $17.0 million resulting from the rate order. However, certain parties, including the Attorney General of South Carolina, have appealed the PSC order granting the rate increase.

During January 1978, the Company appealed to the Court of Common Pleas that portion of the PSC order requiring refund of the $7.0 million. The Court issued an order staying the Company's requirement to make the $7.0 million refund until the Company's appeal of the PSC order can be heard by the Court. The rates directed by the PSC order have been placed into effect with bills rendered during January 1978.

At this time the Company is unable to determine the impact, if any, that final resolution of its appeal or the appeals by others may have on its Consolidated Financial Statements.

3. LONG-TERM DEBT:

	1977	1976
First and Refunding Mortgage Bonds:		
3% Series, due 1977	$ —	$ 4,000,000
3⅛% Series, due 1979	4,000,000	4,000,000
10½% Series, due 1979	35,000,000	35,000,000
3% Series, due 1980	22,200,000	22,200,000
3% Series A, due 1980	4,000,000	4,000,000
3¾% Series, due 1981	4,020,000	4,110,000
7% Series, due 1982	50,000,000	—
4⅛% Series, due 1983	2,800,000	2,860,000
9⅝% Series, due 1984	25,000,000	25,000,000
3½% Series, due 1985	3,650,000	3,724,000
5½% Series, due 1987	7,600,000	7,750,000
4⅞% Series, due 1988	10,000,000	10,000,000
10½% Series, due 1990	13,800,000	14,400,000
5% Series, due 1990	10,000,000	10,000,000
5% Series, due 1991	8,000,000	8,000,000
4⅞% Series, due 1995	16,000,000	16,000,000
5.45% Series, due 1996	15,000,000	15,000,000
6% Series, due 1997	15,000,000	15,000,000
6½% Series, due 1998	20,000,000	20,000,000
8% Series, due 1999	35,000,000	35,000,000
9⅛% Series, due 1999	15,000,000	15,000,000
9⅞% Series, due 2000	—	30,000,000
8% Series, due 2001	35,000,000	35,000,000
7¼% Series, due 2002	30,000,000	30,000,000
9⅛% Series, due 2006	50,000,000	50,000,000
8.40% Series, due 2006	50,000,000	50,000,000
8⅝% Series, due 2007	30,000,000	—
Pollution Control Facilities Revenue Bonds:		
4½% Series, until October 1, 1979, thereafter 70% of applicable prime rate until October 1, 1981 and 75% of such prime rate until maturity, due 1987	5,155,000	—
5.95% Series, due 2003	7,500,000	7,500,000
First Mortgage Bonds:		
3⅞% Series, due 1979	1,620,000	3,005,000
4% Series, due 1981	1,121,000	1,603,000
5% Consolidated Mortgage Gold Bonds, due 1999 (non-callable)	1,087,000	1,106,000
Unsecured Notes — Banks, due 1980 with interest not to exceed 7.625% over the term of the notes	45,000,000	45,000,000
First Mortgage Bonds — South Carolina LNG Company, Inc., 10½% Series, due 1990	10,810,000	11,500,000
Capitalized lease obligations — vehicles	1,423,473	788,099
Total	584,786,473	536,546,099
Less current portion of long-term debt	9,268,192	12,499,855
Total	$575,518,281	$524,046,244

1066 057

Substantially all utility plant is mortgaged in connection with the various issues of long-term debt. Approximately $5,306,000 of the current portion of long-term debt for 1978 may be satisfied by deposit and cancellation of bonds issued upon the basis of property additions.

The annual amounts of long-term maturities, including sinking fund requirements, for the calendar years 1978 through 1982 are summarized as follows:

Year	Amount	Year	Amount
1978	$ 9,268,192	1981	$10,330,000
1979	47,099,000	1982	56,523,000
1980	78,099,000		

4. NUCLEAR FUEL TRUST:

A Trust Agreement dated September 30, 1976 and amended August 1, 1977 between the Company and The Citizens & Southern National Bank of South Carolina as Trustee provides for the financing of the Company's two-thirds ownership share (see Note 8) of the cost of nuclear fuel related to the initial core requirement of the V. C. Summer Nuclear Station. Pursuant to terms of the Agreement the Company has assigned to the Trust certain contracts for purchase of nuclear fuel and the Trustee will borrow necessary funds up to an aggregate amount of $42 million to purchase the fuel and to make interest payments when due. The Company is unconditionally obligated to repurchase the fuel from the Trust either prior to initial loading of fuel into the reactor or no later than June 30, 1980. For financial reporting purposes, purchases by the Trust are assumed to have been made on behalf of the Company and the amounts expended by the Trustee ($10,189,000) and accrued by the Company ($303,000) through December 31, 1977 are included in the accompanying Consolidated Financial Statements.

5. STOCKHOLDERS' INVESTMENT:

	1977	1976
Common Stock:		
$4.50 par value; Authorized, 1977 – 30,000,000 shares; 1976 – 22,500,000 shares: Outstanding, 1977 – 20,358,612 shares; 1976 – 17,834,173 shares	$ 91,613,754	$ 80,253,7
Preferred Stock:		
Cumulative $100 par value; Authorized 1,000,000 shares:		
6⅞% Series (Outstanding 150,000 shares)	$ 15,000,000	$ 15,000,0
7.70% Series (Outstanding, 1977 – 141,000 shares; 1976 – 144,000 shares)	14,100,000	14,400,0
8.12% Series (Outstanding, 1977 – 202,400 shares; 1976 – 206,800 shares)	20,240,000	20,680,0
8.40% Series (Outstanding 200,000 shares)	20,000,000	20,000,0
10¾% Series (Outstanding 200,000 shares)	20,000,000	20,000,0
Cumulative $50 par value; Authorized, 1977 – 1,968,320 shares; 1976 – 1,981,020 shares:		
4.50% Series (Outstanding, 1977 – 46,400 shares; 1976 – 48,000 shares)	2,320,000	2,400,0
4.60% Series (Outstanding, 1977 – 27,834 shares; 1976 – 29,334 shares)	1,391,700	1,466,7
4.60% Series A (Outstanding, 1977 – 62,052 shares; 1976 – 64,052 shares)	3,102,600	3,202,6
4.60% Series B (Outstanding, 1977 – 136,000 shares; 1976 – 139,400 shares)	6,800,000	6,970,0
5% Series (Outstanding 125,234 shares)	6,261,700	6,261,7
5.125% Series (Outstanding, 1977 – 90,000 shares; 1976 – 91,000 shares)	4,500,000	4,550,0
6% Series (Outstanding, 1977 – 140,800 shares; 1976 – 144,000 shares)	7,040,000	7,200,0
9.40% Series (Outstanding, 1977 – 306,000 shares; 1976 – 312,800 shares)	15,300,000	15,640,0
Cumulative $25 par value; Authorized 2,000,000 shares: Outstanding	—	—
Total	$136,056,000	$137,771,0

1066 058

The call premium of the respective series of preferred stock in no case exceeds the amount of the annual dividend.

Increases in "Premium on common stock" for 1977 ($34,817,000) and 1976 ($24,602,000) represent the premium on issuance of additional shares of stock as follows:

	1977	1976
Common stock – public sale	2,200,000	1,700,000
Stock Purchase-Savings Program for Employees	125,014	121,419
Dividend Reinvestment and Stock Purchase Plan	145,405	88,687
Employee Stock Ownership Plan (ESOP)	54,020	18,725
Total	2,524,439	1,928,831

Increases in "Other paid-in capital" for 1977 ($5,000) and 1976 ($109,000) consist of gains on the reacquisition of 7,400 shares of preferred stock each in 1977 and 1976.

Increases in "Capital stock expense" for 1977 ($599,000) and 1976 ($330,000) are summarized as follows:

	1977	1976
Charges in connection with issuance of stock:		
Common	$488,000	$ 48,000
Preferred	138,000	309,000
Retirement of preferred stock through purchase or sinking funds	(27,000)	(27,000)
Net increase	$599,000	$330,000

The Restated Articles of Incorporation of the Company and the indentures underlying certain bond issues contain certain provisions that limit the payment of cash dividends on common stock. The most restrictive of these provisions would have permitted the payment of approximately $106,308,000 and $81,168,000 of cash dividends on common stock at December 31, 1977 and 1976, respectively.

6. INCOME TAX EXPENSE:

The Company's income taxes differ from amounts computed by applying the Federal income statutory rate of 48% to pre-tax income as follows:

	1977	1976
Net income	$54,652,000	$43,816,000
Add (deduct) components of income tax expense:		
Income tax expense charged to operating expenses (income taxes and credits and investment tax credits, net)	40,699,000	28,612,000
Income tax credited to other income	(9,183,000)	(5,860,000)
Income tax expense charged to other income and deductions	385,000	472,000
Total income tax expense	31,901,000	23,224,000
Total pre-tax income	$86,553,000	$67,040,000
Income taxes on above at statutory Federal income tax rate	$41,545,000	$32,179,000
Increases (decreases) attributable to:		
Allowance for funds used during construction	(11,287,000)	(8,685,000)
Depreciation differences	934,000	(121,000)
Amortization of investment tax credits	(596,000)	(348,000)
State income taxes (less Federal income tax effect)	2,273,000	1,579,000
Taxes, pensions and other items capitalized on books	(2,056,000)	(1,832,000)
Other differences, net	1,088,000	452,000
Income tax expense	$31,901,000	$23,224,000
Income tax expense is composed of:		
Provision for currently payable taxes:		
Federal	$ 2,177,000	$ (36,000)
State	3,232,000	1,860,000
Total currently payable	5,409,000	1,824,000
Deferred taxes (net):		
Federal	10,317,000	8,810,000
State	482,000	723,000
Total deferred taxes	10,799,000	9,533,000
Investment tax credits (net)	15,693,000	11,867,000
Total income tax expense	$31,901,000	$23,224,000

1066 059

Provision for net deferred taxes results from timing differences in recognition of the following items:

	1977	1976
Excess of accelerated depreciation and amortization deductions over straight-line depreciation otherwise deductible for income tax purposes	$ 7,399,000	$ 7,107,000
Other, net	3,400,000	2,426,000
Provision for net deferred income taxes	$10,799,000	$ 9,533,000

7. LINES OF CREDIT, COMPENSATING BALANCES, AND NOTES PAYABLE:

The Company has lines of credit which may be reduced or withdrawn at the banks' option and maintains without formal agreement average bank balances of approximately 10% of such lines of credit with all such balances available for use as general operating funds. Bank loans are for 270 days or less. Detail of lines of credit and short-term borrowings at December 31, 1977 and 1976 and for the years then ended are as follows:

	December 31, 1977	December 31, 1976
	(Dollars in Millions)	
Lines of credit at end of year	$82.9	$82.9
Borrowings against credit line at end of year	—	$ 1.0
Average bank balances during the year	$ 6.6	$ 6.7
Short-term borrowings (including commercial paper) during the year:		
Maximum outstanding	$43.3	$72.7
Average outstanding	$21.9	$39.9
Weighted daily average interest rates:		
Bank loans	6.12%	6.64%
Commercial paper	5.90%	5.60%
Notes payable at end of year:		
Bank loans	$ 1.8	$ 6.5
Interest rate	6.72%	6.10%
Commercial paper	$38.0	$ 9.7
Interest rate	6.72%	5.07%

8. COMMITMENTS AND CONTINGENCIES:

A. Construction

In addition to routine commitments of approximately $10,021,000 for operating materials and supplies, the Company at December 31, 1977 had commitments for major construction of approximately $85,761,000 comprised of $82,483,000 (includes one-third inter of South Carolina Public Service Authority) for c struction of the V. C. Summer Nuclear Station a $3,278,000 for construction of the Fairfield Pump Storage facility.

The Company and the South Carolina Public Servi Authority (a public corporation of the State of Sou Carolina) have contracted to become joint owners the V. C. Summer Nuclear Station on the basis of tw thirds by the Company and one-third by the Authori and to participate, on a like basis, in the costs of co struction, costs of operation and in the energy outp thereof. Completion is scheduled for 1980.

The Company has made a timely application for operating license for the V. C. Summer Nuclear St tion. The Company is unable to predict at this tir whether proceedings by regulatory and government bodies would delay the issuance of such license beyor the date of scheduled operation.

B. Litigation

The Company is involved in litigation with Westin house Electric Corporation concerning contracts f the supply of nuclear fuel for the V. C. Summer Nu clear Station. (Reference is made to "Corporate an Financial Review" beginning with the seventh para graph under "Fuel.")

Additionally, the Company is involved as a code fendant with Carolina Power & Light Company i litigation brought by certain North Carolina electri cooperatives. (Reference is made to "Corporate an Financial Review" under "Litigation.")

C. Leases

Minimum lease commitments as of December 31 1977 under all noncancellable non-capitalized leases ar not material. The present value of minimum lease com mitments at December 31, 1977 with respect to non capitalized financing leases (as defined by the Securi ties and Exchange Commission) is less than fiv per cent of the total capitalization of the Compan The impact on net income if non-capitalized financing leases were capitalized, related assets amortized on a straight-line basis and interest cost accrued on the basis of the outstanding lease liability is less than three per cent of the average net income for the most recen three years.

D. Licensed Projects

Licenses granted by the FERC with respect to the hydroelectric projects of the Company provide that

1066 060

after an initial twenty-year period a portion of the ırnings on such projects in excess of a specified rate ɔf return is to be set aside in an amortization reserve.

At the termination of a license under the Federal Water Power or Federal Power Act, the Federal government may take over the related project, or the FERC may extend the license or issue a license to another applicant. If the Federal government takes over a project or the FERC issues a license to another, the original licensee shall be paid its "net investment" in the project not to exceed fair value, plus severance damages.

The Company is licensee for five hydroelectric projects. The initial license for two of the projects (Columbia and Saluda) expired in 1970 and 1977, respectively, with the Company continuing operations under annual licenses.

9. SEGMENT OF BUSINESS INFORMATION:

Segment information at December 31, 1977 and for the twelve-month period then ended is as follows:

	Electric	Gas	Transportation (coach)	Total
	(Thousands of Dollars)			
Operating revenues	$ 337,927	$ 78,405	$ 2,023	$ 418,355
Operating expenses, excluding depreciation	249,609	67,075	3,067	319,751
Depreciation	25,255	4,902	182	30,339
Total operating expenses	274,864	71,977	3,249	350,090
Operating income	$ 63,063	$ 6,428	$(1,226)	68,265
Add — Other income, net				25,608
Less — Interest charges				39,221
Net income				$ 54,652
Capital expenditures:				
Identifiable	$ 182,249	$ 3,094	$ 28	$ 185,371
Utilized for overall Company operations				2,397
Total				$ 187,768
Identifiable assets at December 31, 1977:				
Utility plant, net	$1,112,014	$ 95,974	$ 1,291	$1,209,279
Materials and supplies	51,943	4,784	63	56,790
Total	$1,163,957	$100,758	$ 1,354	1,266,069
Assets utilized for overall Company operations				95,153
Total assets				$1,361,222

1066 061

10. QUARTERLY FINANCIAL DATA (UNAUDITED):

The following data have not been audited, but in the opinion of the Company, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of such amounts.

	1977 Restated for First Three Quarters				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total operating revenues (000)	$101,740	$ 89,920	$123,040	$103,655	$418,355
Operating income (000)	18,010	14,550	19,842	15,863	68,265
Net income (000)	14,147	11,230	16,182	13,093	54,652
Earnings available for common stock (000)	11,469	8,573	13,519	10,438	43,999
Per common share:					
Earnings	.62	.42	.67	.51	2.22
Dividends paid	.38	.39	.39	.39	1.55
Price range:					
High	19⅝	20	21	19⅞	
Low	18¼	18⅜	18⅝	17⅝	

The quarterly data for the first three quarters of 1977 have been restated from amounts previously reported to reflect the effect of the refund ordered by the PSC (see Note 2) as follows:

1977 Reductions to Previously Reported Results	First Quarter	Second Quarter	Third Quarter
Total operating revenues (000)	$ 2,441	$ 2,219	$ 2,954
Operating income (000)	1,178	1,050	.386
Net income (000)	1,208	1,117	1,500
Earnings available for common stock (000)	1,208	1,117	1,500
Earnings per common share	.06	.06	.07

	1976				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total operating revenues (000)	$ 89,082	$ 78,489	$ 92,421	$ 89,844	$349,836
Operating income (000)	15,895	12,475	16,581	14,182	59,133
Net income (000)	11,518	8,502	12,708	11,088	43,816
Earnings available for common stock (000)	9,236	6,225	10,434	8,752	34,647
Per common share:					
Earnings	.55	.35	.59	.49	1.97
Dividends paid	.37	.38	.38	.38	1.51
Price range:					
High	18	17⅞	18½	19⅛	
Low	15⅝	15⅝	16¾	17⅛	

Notes to Consolidated Financial Statements

11. REPLACEMENT COSTS (UNAUDITED):

The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity that are significantly greater than the historical costs of such assets reported in the Company's Consolidated Financial Statements. The Company's ability to replace plant in the future as well as to expand will be contingent upon its ability to finance the needed additions. This, in turn, will depend on the Company's ability to obtain adequate and timely rate relief. In compliance with reporting requirements estimated replacement cost information will be disclosed in the Company's annual report to the Securities and Exchange Commission on Form 10-K.

12. SUBSEQUENT EVENTS:

On February 8, 1978 the Company completed the sale of $30,000,000 First and Refunding Mortgage Bonds, 8.90% Series due February 1, 2008, and 1,500,000 shares of $4.50 par value Common Stock.

Report of Independent Certified Public Accountants

HASKINS & SELLS
Internationally
Deloitte, Haskins & Sells

1250 First National Bank Building
Main at Washington Street
Columbia, South Carolina 29201

South Carolina Electric & Gas Company:

We have examined the Consolidated Balance Sheet of South Carolina Electric & Gas Company and consolidated subsidiary as of December 31, 1977 and 1976 and the related Consolidated Statements of Income, Retained Earnings and Changes in Financial Position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2 to Consolidated Financial Statements certain parties have appealed and are seeking to have rescinded a Public Service Commission (PSC) order granting the Company a rate increase which increased operating revenues during 1977 by approximately $17,000,000. In addition the Company has appealed that portion of the PSC order which requires it to refund approximately $7,000,000. Because the appeals are in the early stages their final resolution and their impact, if any, on the Consolidated Financial Statements is not presently determinable.

In our opinion, subject to the effects, if any, on the 1977 Consolidated Financial Statements of final determination of the matters referred to in the preceding paragraph, such Consolidated Financial Statements present fairly the financial position of the companies at December 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

February 6, 1978 (except for
Note 12 to Consolidated Financial
Statements, the date of which is
February 8, 1978)

1066 062

Summary of Operations

South Carolina Electric & Gas Company

	1977	1976	1975	1974	1973	1967
INCOME DATA — THOUSANDS						
Operating Revenues:						
Revenues From Sales:						
Electric	**$ 290,971**	$ 242,526	$ 206,656	$182,743	$150,030	$ 72,092
Gas	**78,405**	71,948	55,379	48,750	39,693	20,389
Transportation (coach)	**2,023**	1,996	1,979	2,024	1,898	1,595
Total	**371,399**	316,470	264,014	233,517	191,621	94,076
Electric Fuel Adjustment Clauses	**46,956**	33,366	57,117	45,060	12,620	—
Total Operating Revenues	**418,355**	349,836	321,131	278,577	204,241	94,076
Operating Expenses:						
Fuel Used in Electric Generation	**155,132**	116,892	109,649	104,993	52,015	16,776
Gas Purchased for Resale	**51,321**	44,789	31,061	26,517	21,748	9,733
Other Operation	**32,417**	36,613	36,255	32,272	33,105	12,875
Maintenance	**17,727**	15,860	13,189	12,538	11,598	4,390
Depreciation and Amortization	**30,339**	27,825	26,703	23,544	20,450	10,142
Taxes:						
Other Taxes	**22,455**	20,112	17,874	17,159	15,486	7,058
Income Taxes	**40,699**	28,612	27,662	13,878	8,561	11,791
Total Operating Expenses	**350,090**	290,703	262,393	230,892	162,963	72,765
Operating Income	**68,265**	59,133	58,738	47,685	41,278	21,311
Other Income:						
Allowance for Funds Used During Construction:						
Borrowed and Equity – prior to January 1, 1977	—	18,094	9,668	4,105	6,320	1,070
Equity – since January 1, 1977	**16,610**	—	—	—	—	—
Income Tax – Credit	**9,183**	5,860	3,317	1,590	1,891	—
Other Income and Deductions, Less Income Taxes	**(185)**	345	376	507	1,047	274
Total Other Income	**25,608**	24,299	13,361	6,202	9,258	1,344
Income Before Interest Charges	**93,873**	83,432	72,099	53,887	50,536	22,655
Interest Charges:						
Interest	**46,125**	39,616	33,677	29,309	23,820	6,825
Allowance for Borrowed Funds Used During Construction – Since January 1, 1977 – (credit)	**(6,904)**	—	—	—	—	—
Total Interest Charges	**39,221**	39,616	33,677	29,309	23,820	6,825
Net Income	**54,652**	43,816	38,422	24,578	26,716	15,830
Dividends on Preferred Stock	**10,653**	9,169	7,060	7,117	6,259	1,875
Earnings Available for Common Stock	**$ 43,999**	$ 34,647	$ 31,362	$ 17,461	$ 20,457	$ 13,955
GENERAL						
Earnings Per Share of Common Stock	**$2.22**	$1.97	$2.09	$1.47	$1.75	$1.71
Dividends Per Share of Common Stock	**$1.56**	$1.52	$1.48	$1.48	$1.43	$1.05
Average Common Shares Outstanding – Thousands	**19,8[illegible]3**	17,547	15,023	11,890	11,714	8,182
Year-End Common Shares Outstanding – Thousands	**20,359**	17,834	15,905	14,236	11,746	8,189
Book Value Per Share of Common Stock – Year End	**$17.84**	$17.11	$16.62	$16.20	$17.61	$11.67
Operating Income – Before Income Taxes (%)						
Electric	**93**	88	88	84	87	84
Gas	**9**	15	14	18	15	17
Transportation (coach)	**(2)**	(3)	(2)	(2)	(2)	(1)
BALANCE SHEET DATA — THOUSANDS						
Total Utility Plant (excluding nuclear fuel in trust)	**$1,478,619**	$1,294,279	$1,101,086	$966,492	$870,731	$425,257
Common Equity	**$ 363,130**	$ 305,072	$ 264,331	$230,572	$206,882	$ 95,538
Preferred Stock	**136,056**	137,771	119,486	101,201	87,616	37,126
Long-Term Debt	**574,815**	522,149	451,695	403,494	357,972	156,015
Total Capitalization	**$1,074,001**	$ 964,992	$ 835,512	$735,267	$652,470	$288,679
OTHER STATISTICS						
Electric						
Customers – Year End	**320,476**	312,617	304,366	298,585	290,180	241,728
KWH Sales – Thousands	**11,155,095**	10,318,150	9,563,369	10,092,501	10,492,078	5,792,024
Annual KWH per Residential Customer	**12,146**	11,320	10,970	10,745	11,291	7,380
Annual Rate per KWH – Residential – Cents	**4.02**	3.61	3.69	3.04	2.29	1.97
Generating Capability – Net KW – Year End	**2,852,000**	2,852,000	2,851,000	2,883,000	2,918,000	1,390,500
Peak Demand – Net KW						
System	**2,459,000**	2,304,000	2,422,000	2,195,000	2,523,000	1,169,000
Territorial	**2,216,000**	1,994,000	1,931,000	1,819,000	1,762,000	969,000
Gas						
Customers – Year End	**161,850**	161,475	159,241	158,253	154,348	102,225
MCF Sales (Million Cubic Feet)	**45,669**	47,721	45,534	47,722	44,225	28,682
Gas Produced and Purchased for Resale (Million Cubic Feet)	**48,745**	50,374	49,273	51,[illegible]	48,427	31,150
Transportation (coach)						
Number of Coaches	**96**	96	96	100	96	82
Revenue Passengers Carried (000)	**8,971**	8,915	8,937	9,310	8,978	10,806

1066 063

Management's Discussion and Analysis of the Summary of Operations

Operating Revenues – Total operating revenues increased $68.5 million or 19.6% and $28.7 million or 8.9% for 1977 and 1976, respectively. The increase in electric operating revenues during 1977 was primarily attributable to an 8.1% increase in sales of electricity, a rate increase effective December 13, 1976 and recovery of increased fuel costs through fuel adjustment clauses. Gas sales during 1977 decreased 4.3% from 1976. Accordingly, the increase in gas operating revenues in such period was primarily attributable to recovery of purchased gas costs through the purchased gas adjustment clause. The increase in total operating revenues during 1976 was primarily attributable to increased sales and recovery of increased fuel and purchased gas costs. The decrease in electric fuel adjustment clause revenues for 1976 was a result of a revision in the Company's electric fuel adjustment clause ordered by the South Carolina Public Service Commission, effective April 1, 1976, which increased the fuel component in base rates from .456¢ to .9¢ per KWH. Such order had the effect of increasing base revenues and reducing fuel adjustment clause revenues with no effect on the recovery of total fuel costs.

Electric Sales – Electric energy sales to ultimate consumers increased 8.3% and 8.8% during 1977 and 1976, respectively, due primarily to recovery from the recession in the economy and to an increase in the number of customers.

Gas Sales – Total gas MCF sales decreased 4.3% during 1977 due primarily to the nationwide shortage of natural gas and curtailments by the Company's supplier during the winter of 1976-1977. During 1976 there was an increase of 4.8% in total MCF sales du[e] primarily to increased usage by residential customer[s]

Fuel Used in Electric Generation – The cost of fu[el] used in electric generation increased $38.2 million o[r] 32.7% in 1977 due primarily to an increase in electri[c] generation of 11.8% and rising fuel prices. Durin[g] 1976 fuel prices were stable and the increase in fu[el] costs of $7.2 million or 6.6% was due primarily to a[n] increase in electric generation of 8.7%.

Power Purchased, Net – Net power purchased fluctu[]ates with sales and purchases between the Compan[y] and other utilities. The decrease of $8.4 million an[d] $2.0 million for 1977 and 1976, respectively, result[ed] primarily from increased sales to other utilities an[d] the expiration of a purchase power contract in 1977.

Gas Purchased for Resale – The increase in the cost o[f] gas purchased for resale of $6.5 million or 14.6% dur[]ing 1977 was due primarily to rising gas prices. Th[e] increase in gas costs of $13.7 million or 44% durin[g] 1976 was attributable to increased volumes of gas sol[d] of 4.8% and rising gas prices.

Other Operation – Inflationary pressures on wages an[d] material costs continue to be the prime cause for in[]creases in almost all other items of electric and ga[s] operating expenses despite cost reduction program[s] which have been continued by the Company.

Maintenance – The increase of $1.9 million or 11.8[%] during 1977 was due primarily to repairs on electri[c] distribution overhead lines, repairs to gas distributio[n] mains, extraordinary maintenance for generator in[]spection and repairs and air preheater basket replace[]

Stock Price Range and Dividends Paid Per Share

Common Stock	1977				1976			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qt[r.]
Price Range: (Price of Common Stock on New York Stock Exchange)								
High	19⅝	20	21	19⅞	18	17⅞	18½	19½
Low	18¼	18⅜	18⅝	17⅜	15⅜	15⅝	16¾	17½
Dividends Paid Per Share	$.38	$.39	$.39	$.39	$.37	$.38	$.38	$.38

Preferred Stock	5% Series	4.50% Series	7.70% Series	8.12% Series	8.40% Series	9.40% Se[ries]
Valuation Price – Year End 1977	$28.375	$25.50	$90.00	$95.00	$98.00	$52.00

1066 064

ment at the Company's Williams Station, high pressure turbine overhaul at the McMeekin Station, turbine repairs at the Canadys Station, and repairs to #5 generator at Saluda Hydroelectric Station. The increase of $2.7 million or 20.3% during 1976 was due primarily to extraordinary maintenance for low pressure turbine and turbine shell repairs at the Company's Canadys Station, turbine inspection and boiler feed pump repairs at the Wateree Station and dredging at the Stevens Creek Hydroelectric Station. This increase in maintenance expense was also caused by increased costs related to tree trimming, repairs on electric transmission and distribution overhead lines, repairs to gas transmission compressor equipment and repairs to gas distribution mains and services.

Depreciation – Depreciation expense has continued to increase as additional facilities were placed in service. A portion of the increase of $2.5 million or 9.0% and $1.1 million or 4.2% for 1977 and 1976, respectively, was caused by a change in the gas composite depreciation rate from 2.71% to 3.48% and establishment of a depreciation rate of 6.67% for the LNG facility owned by South Carolina LNG Company, Inc., during 1976.

Taxes Other than Income – Taxes other than income taxes consist primarily of property taxes, electric generation tax, franchise taxes, gross receipts tax and payroll taxes. These taxes continue to fluctuate due to changes in plant in service, millage as determined by the statutory bodies, electric generation, operating revenues and payroll costs.

Income Taxes – State and Federal income taxes increased by $6,513,000 in 1977 and decreased by $5,154,000 in 1976 due to fluctuations in pre-tax income and investment tax credits. Additionally, current and deferred Federal income taxes and allowance for funds used during construction (which is not a cash item and although credited to Other Income or Interest Charges is not taxable income) fluctuate with the level of plant construction and its ultimate placement into service. (See Note 6 of the Notes to Consolidated Financial Statements.)

Investment Tax Credits – Increases in investment tax credits were due primarily to the Tax Reduction Act of 1975 which increased the investment tax credit rate from 4% to 10% effective in 1975. The increases during 1977 and 1976 also reflect an additional 1% investment tax credit as provided by the Tax Reduction Act of 1975 which the Company used to establish an Employee Stock Ownership Plan. Such increase during 1976 was offset somewhat by the use in 1975 of a $4 million carry-forward credit generated in 1973.

Allowance for Funds Used During Construction – Allowance for funds used during construction (AFC – both debt and equity portion) increased by $5.4 million or 30% and $8.4 million or 87% in 1977 and 1976, respectively, as construction activity continued to progress at the Company's V. C. Summer Nuclear Station and Fairfield Pumped Storage Project. The increase during 1977 occurred despite a reduction in the Company's composite AFC rate from 8% to 6.5% effective January 1, 1977. It should be noted that the amount of AFC capitalized fluctuates with construction activity.

The capitalization of AFC is a utility accounting practice whereby the cost of the interest component of borrowed funds and a reasonable rate of return on equity funds so used are credited to Other Income or Interest Charges and capitalized to construction work in progress as a part of the cost of construction. While the AFC is a non-cash item and does not contribute to the current cash flow of the Company, the Company does expect to recover such costs through utility rates after the completion of the related construction. (See Note 1 of the Notes to Consolidated Financial Statements.)

Interest Charges – Increases in total interest charges (exclusive of allowance for borrowed funds used during construction) of $6.5 million or 16.4% and $5.9 million or 17.6% during 1977 and 1976, respectively, were due primarily to additional long-term debt financing required for construction purposes.

Preferred Stock Dividends – The increase in preferred stock dividends of $1.5 million or 16.2% during 1977 and $2.1 million or 29.9% during 1976 was the result of preferred stock issues of 200,000 shares, 8.40% Series in December 1976 and 200,000 shares, 10¾% Series, in December 1975.

Earnings Available for Common Stock – Earnings available for common stock increased $9.4 million or $.25 per share during 1977 due primarily to rate relief. (See Note 2 of the Notes to Consolidated Financial Statements.) The increase in earnings per share was partially offset by an increase of 2,285,674 in the average number of common shares outstanding during 1977. Although operating income increased by only $.4 million or .7% during 1976, earnings available for common stock increased $3.3 million or 10.5% primarily as a result of an increase in allowance for funds used during construction. Earnings per share for 1976 decreased $.12 due primarily to an increase of 2,523,829 in the average number of common shares outstanding.

1066 065

Directors and Officers

Directors

J. K. Addy (1)
President, Addy Dodge, Inc.
Lexington, South Carolina

W. B. Bookhart
Owner, W. B. Bookhart Farms
Elloree, South Carolina

K. W. French
Retired Plant Manager
E. I. duPont de Nemours
Savannah River Plant
Aiken, South Carolina

J. B. Guess, III
Owner, Edisto Farms
Denmark, South Carolina

B. A. Hagood
President, Wm. M. Bird and Co., Inc.
Charleston, South Carolina

J. F. Hassell, Jr.
President and Chairman of the Board
Pre-Stress Concrete Co., Inc.
Charleston, South Carolina

Avram Kronsberg
President, Edward's, Inc.
Charleston Heights, South Carolina

George Lott, Jr.
Retired Division Manager
South Atlantic Division
Lone Star Industries, Inc.
Columbia, South Carolina

J. H. Lumpkin*
Chairman of the Board
and Chief Executive Officer
South Carolina National Corporation
Columbia, South Carolina

F. C. McMaster
President and Manager
Winnsboro Petroleum Company
Winnsboro, South Carolina

E. W. Pike, Jr.
President, Colonial Development Co.
Beaufort, South Carolina

J. B. Rhodes*
President, Rhodes Oil Company, Inc.
Walterboro, South Carolina

J. E. Schachte, Jr.
President, Schachte Agency, Inc.
Real Estate and Insurance
Charleston, South Carolina

Virgil C. Summer*
President and Chief Operating Officer
of the Company
Columbia, South Carolina

W. H. Taylor
President and Chairman of the Board
Twin City Motor Company, Inc.
Batesburg, South Carolina

Arthur M. Williams*
Chairman of the Board and Chief
Executive Officer of the Company
Columbia, South Carolina

Oscar S. Wooten*
Executive Vice President –
Finance of the Company
Columbia, South Carolina

Directors Emeriti

D. H. Banks
W. J. Keenan, Jr.
Edward Kronsberg
S. R. McMaster
F. R. McMeekin
A. C. Mustard
W. J. Ready
John C. B. Smith

*Member of the Executive Committee

(1) Elected Effective December 21, 1977

Officers

Arthur M. Williams
Chairman of the Board and
Chief Executive Officer

Virgil C. Summer
President and
Chief Operating Officer

Oscar S. Wooten
Executive Vice President –
Finance

C. Joseph Fritz
Senior Vice President –
Administration

Grayson C. Meetze
Senior Vice President and
General Manager – Operations

William N. Ackerman
Vice President –
Gas Operations

Harry G. Boylston, Jr.
Vice President –
Marketing and Area Development

Esca (Ed) H. Crews, Jr.
Vice President and
Group Executive –
Engineering Services and
Construction

Frank C. Davis
Vice President –
Corporate Communications

George H. Fischer
Vice President –
General Counsel

Thomas M. Groetzinger
Vice President
and Controller

D. Ellis Hay, Jr.
Vice President –
Customer Operations,
Districts

Malcolm C. Johnson
Vice President and
Group Executive –
Special Services
and Purchasing

Thomas C. Nichols, Jr.
Vice President
and Group Executive –
Power Production
and System Operations

Curtis L. Rye
Vice President –
Customer Operations,
Metro Columbia

B. Marion Smith, Jr.
Vice President –
Governmental Affairs

Herman B. Speissegger, Jr.
Vice President –
Customer Operations,
Metro Charleston

Donald R. Tomlin
Vice President
and Group Executive –
Customer Operations

James W. Wedding
Vice President –
Computer Services

Hugh W. Weldon (1)
Vice President
and Group Executive –
Administrative Services

Harold M. Bryant
Secretary

Henry H. Gaddis
Treasurer

S. Jane Dent
Assistant Secretary

Samuel B. Harrington, Jr.
Assistant Controller

George C. How
Assistant Controller

T. Roland Lide
Assistant Treasurer

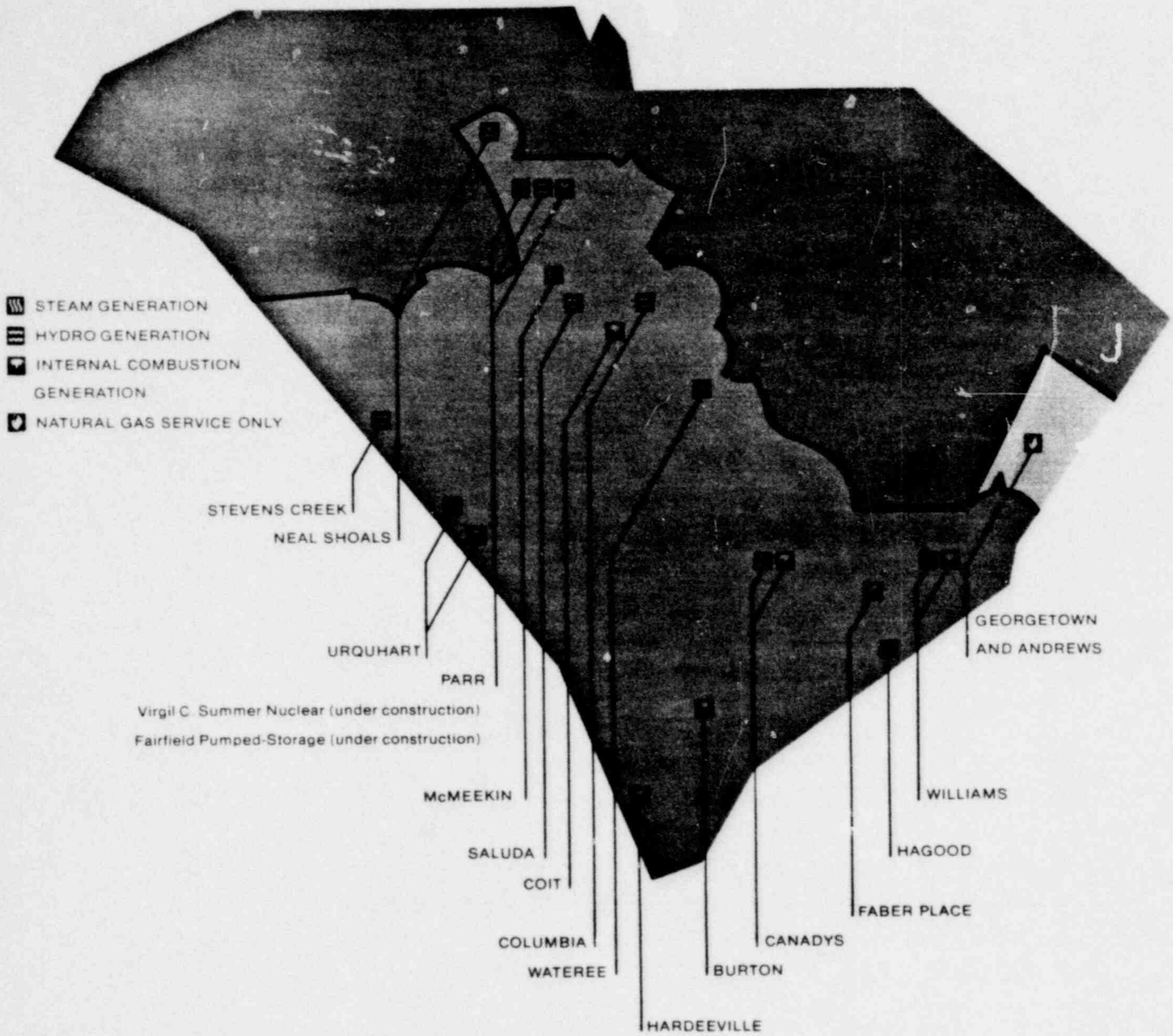
Edward C. Roberts
Assistant Secretary

Robert W. Stedman
Assistant Controller

(1) Elected Group Executive Effective January 1, 1978

1066 066

SCE & G Service Area

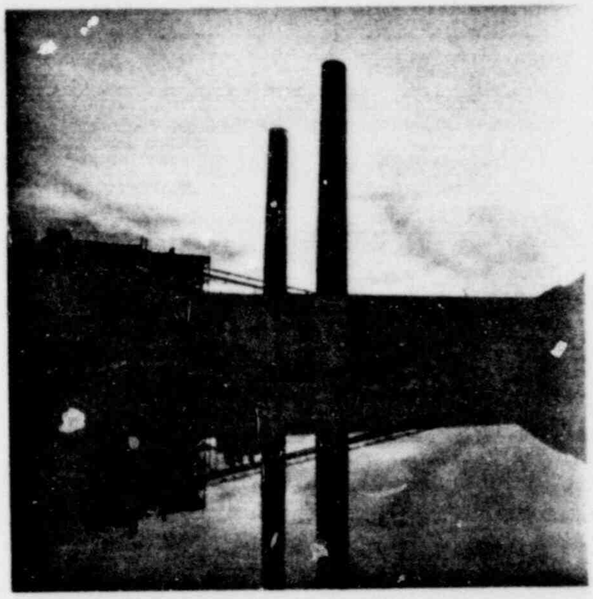


Our service area encompasses 24 counties in South Carolina, covering over 12,000 square miles and serves over 320,000 electric customers and 161,000 gas customers. Total population of the territory is estimated to be about 1.1 million. Electricity is served at retail to more than 127 towns and communities and natural gas to 70 of these towns. Also, the Company has two wholly-owned subsidiaries, Energy Subsidiary, Inc., engaged in real estate development and South Carolina LNG Company, Inc., organized to construct and operate LNG storage facilities. Urban bus service is ...ndered in the cities of Columbia and Charleston. In addition to the power plants indicated on the ...ap, the Company's system is interconnected by a network of high voltage transmission lines with electric utility systems throughout South Carolina and the Southeast.

1066 067

South Carolina Electric & Gas Company
328 Main Street
Post Office Box 764
Columbia, South Carolina 29218

South Carolina Electric & Gas Company



1978 Annual Report

1066 069

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Contents

POOR ORIGINAL

About the cover: a winter sunset at McMeekin Station.

1066 070

Financial Highlights

South Carolina Electric
& Gas Company

	1978	1977	% Increase or (Decrease) Over 1977
	(Thousands of Dollars except statistics and per share amounts)		
Operating Revenues			
Electric	$ 382,370	$ 337,927	13.2
Gas	101,804	78,405	29.8
Transportation (coach)	1,927	2,023	(4.7)
Total operating revenues	$ 486,101	$ 418,355	16.2
Operation and Maintenance Expenses (Excluding Taxes and Depreciation)			
Fuel used in electric generation	$ 184,047	$ 155,132	18.6
Gas purchased for resale	73,455	51,321	43.1
Other operation	34,144	32,417	5.3
Maintenance	21,208	17,727	19.6
Total	$ 312,854	$ 256,597	21.9
Earnings Available for Common Stock			
Amount	$ 49,747	$ 43,999	13.1
Per average common share	2.26	2.22	1.8
Dividends			
Declared on common	$ 35,908	$ 31,525	13.9
Per common share	1.62	1.56	3.8
Stockholders' Equity			
Amount	$ 413,788	$ 363,130	14.0
Per common share (book value)	18.44	17.84	3.4
Common Stock Outstanding:			
Average — thousands	22,029	19,833	11.1
Year end — thousands	22,440	20,359	10.2
Plant and Construction Costs			
Total utility plant (includes nuclear fuel in trust)	$1,661,881	$1,489,111	11.6
Construction (includes nuclear fuel in trust)	176,846	191,759	(7.8)
Allowance for funds used during construction (equity and borrowed)	29,188	24,488	19.2
Electric Statistics			
Customers — year end	328,797	320,476	2.6
Total sales (million kwh)	11,621	11,155	4.2
System peak load — kw	2,469,000	2,459,000	.4
Per residential customer:			
Average use (kwh)	12,269	12,146	1.0
Average rate (cents per kwh)	4.37	4.02	8.7
Gas Statistics			
Customers — year end	162,412	161,850	.3
Total sales (thousands mcf)	48,586	45,669	6.4
Per residential customer:			
Average use (mcf)	72.8	71.5	1.8
Average rate (dollars per mcf)	$ 3.19	$ 2.65	20.4

POOR ORIGINAL

1066 071

Report to the Shareholders

Virgil C. Summer   Arthur M. Williams

When a utility completes construction of a generating station, it is a significant event in the history of that company. We are, therefore, proud to announce that our Fairfield Pumped Storage Hydro Plant was placed into commercial operation during 1978.

This plant, capable of producing 512 megawatts, for system peaking and emergency generation, was completed at a cost of $201.5 million. Four of the plant's eight units began commercial operation in June with the remaining four going commercial in December. The Fairfield Plant is a unique generating station to our system because of its pumped storage capabilities.

Our earnings per average common share increased to $2.26 in 1978, up from the $2.22 per share reported the previous year. Earnings available for common stockholders increased 13.1% in 1978, growing from $44.0 million to $49.7 million.

We were pleased to announce that the Board of Directors, at the January 1979 meeting, increased the annual dividend rate from $1.62 to $1.68 per share. The Board also declared that the new quarterly dividend of 42¢ be paid April 1979 to stockholders of record on March 12, 1979.

Although total operating revenues were up 16.2% for the year, inflation continued to have an upward trend as reflected in the increase of 21.9% in total operating expenses (excluding depreciation and taxes). The Company is well aware of the perils of inflation, and we are continuing our efforts to curb its effects. There is still some uncertainty associated with President Carter's voluntary program of wage and price guidelines but SCE&G believes it is in compliance at present.

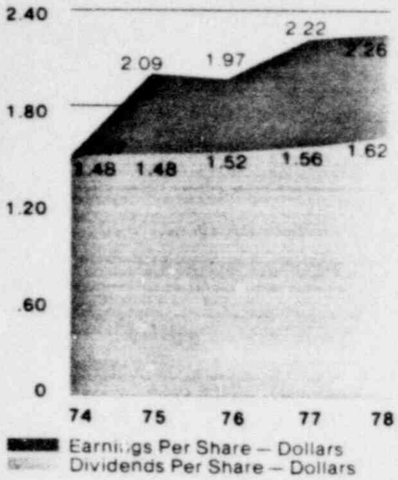
Total electric KWH sales continued to grow in 1978. In 1976, there was a 7.9% increase in total electric sales followed by an 8.1% rise in 1977. For 1978, we experienced a growth of 4.2%.

Sales, in all classes, continued to increase in 1978. Residential sales were up 3.7%; commercial sales increased 6.3%; and industrial sales rose 4.4%.

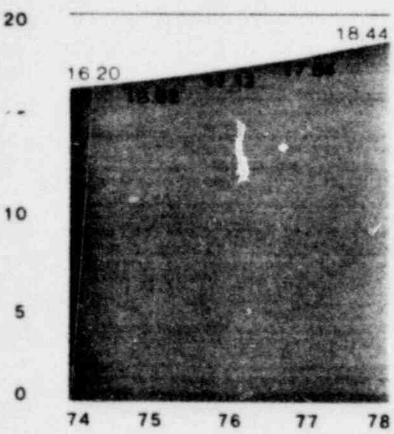
The Company continues to set records in both winter and summer electric sales. A summer territorial peak of 2,271 megawatts was recorded in June 1978. This compares with 2,216 in July 1977. A winter territorial peak was set at 1,91[illegible] megawatts in February 1978 and was surpassed on January 25, 1979 at 1,932. As problems proliferate with regard to supplies of other fuels and more homeowners switch to electric heat, the Company expects to continue this trend of setting winter peaks each year. Reaching summer records, however, has always been expected during the hot months because of the large number of air conditioners used in our service area.

1066 072

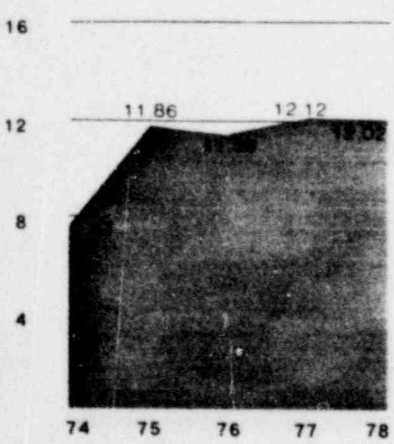
Earnings and Dividends
(PER COMMON SHARE)



Shareholders' Equity
(PER COMMON SHARE) DOLLARS



Return on Common Equity
(PER CENT)



During 1978 the Company implemented two experiments to determine if electricity consumption can be controlled. The Company will study effects of peak demand, consumption patterns of consumers, customer acceptance and cost effectiveness.

Construction is continuing on our first nuclear unit, V.C. Summer Station, which is scheduled for commercial operation in late 1980. Located in the northern section of our service area, it is adjacent to the Fairfield Pumped Storage Hydro Plant.

In 1979, we will use coal to generate approximately 73% of our electricity. Residual oil is scheduled to be used for 22%. The remainder of our requirements will be met with hydro facilities and distillate fuel oil.

SCE&G, like the rest of the utility industry, continues to be concerned about the availability and price of the fuel used in the generation of electricity. Following an increase of 32.7% in 1977, our fuel costs rose 18.6% in 1978. Strikes and shortages of railway equipment have also become factors in the increased cost of coal.

The Company received a favorable ruling in October 1978 in its law suit against Westinghouse Electric Corporation concerning nuclear fuel. The Court ruled that Westinghouse had breached its contract to supply the Company with uranium. However, the case is not expected to be closed until sometime after May 1979 when a trial on damages and performance of the remainder of the contract is scheduled. Until the Court has rendered a final judgment, the Company cannot estimate the amount of damages to be recovered.

SCE&G's gas supplier, Southern Natural Gas Company, began supplementing its domestic supply of natural gas in 1978 by importing liquefied natural gas (LNG) at Elba Island, Georgia from Algeria. We are receiving some of this gas from our supplier as part of our normal allocation. Our own LNG plant, located near Charleston, was filled to capacity at the beginning of the heating season and our propane storage facilities were also readied for service. Using these facilities, we can increase our supply by 118,000 MCF on peak-usage days to back up our normal supply.

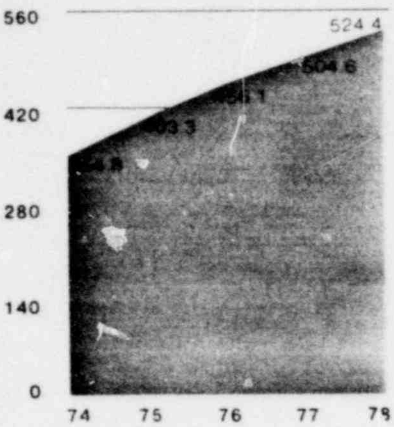
Primarily because of increased availability from our supplier, natural gas sales increased in 1978 by 6.4%. This compares with a 4.3% decrease in 1977. By class, residential sales increased 2.7% and commercial sales increased 4.3%. The largest increase was in sales for resale which jumped 16.6% while industrial sales were up 7.5%.

Because the Company has increased its supplemental gas supplies, the South Carolina Public Service Commission gave us permission in 1978 to extend our mains to serve additional customers where it is economically feasible according to guidelines of the Commission. Previously, the Company could add new customers only from existing mains.

Because it is necessary for us to build for the future, projected construction costs continue to be significant. For 1979, we have budgeted $160 million for construction, excluding purchases of nuclear fuel. Through 1983, we expect our construction costs to be approximately $870 million, excluding purchases of nuclear fuel.

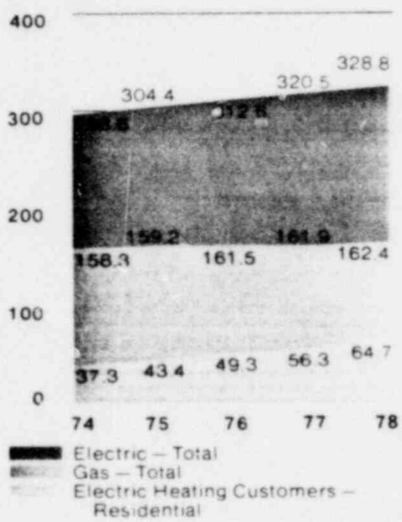
1066 073

Investment Per Employee*
(THOUSANDS OF DOLLARS)



*Based on Gross Utility Plant Excluding Nuclear Fuel in Trust

Number of Customers
(THOUSANDS)



SCE&G's last approved retail electric rate increase of 9.54% was placed in effect in January 1978. This increase was the result of a petition filed November 12, 1976 with the South Carolina Public Service Commission, requesting a 13.25% increase. Since the Commission granted only 72% of the initial request and the Company had placed 80% of the request in effect unde bond in December 1976, it was necessary for the Company to refund $2.8 million to our customers. This was done by applying a credit to customer bills in February 1978. The Commission also instructed the Company to refund $7 million, a net amount resulting from power exchanges between SCE&G ar other utilities. Taking exception to this, the Company filed an appeal in January 1978 with the Court of Common Pleas. On January 29, 1979 the South Carolina Supreme Court ruled in favor of the Company on a procedural matter and remanded the action to the Court of Common Pleas for a decision on the merits of the $7 million refund. At this time, the case is pending.

A change to the Company's electric rate structure that will affect future periods occurred in January 1979 when the South Carolina Public Service Commission suspended the automatic feature of the fuel adjustment clause that was being used to recover fuel costs above base rates. Because of this change, fuel costs must now be recovered through the base rate. To assure th the Company will recover actual fuel costs, a hearing will be held every six months to determine any base rate adjustments, taking into account any previous over or under collection. It is our opinion that this change will not adversely affect the Company's operations.

We were saddened by the death in 1978 of George Lott, Jr. who served faithfully on our Board of Directors for over 11 years. In August, this vacancy on the Board was filled by the election of William R. Bruce, Sr. of Columbia. Mr. Bruce is president of Seibels, Bruce Group, Inc., a holding company for corporate subsidiaries in the insurance industry.

We have proven once again in 1978 that good service, at reasonable rates, and good earnings go hand in hand. As we have stated in the past, we are committed to the pursuit of both goals. We are confident that through carefu planning we will be able to continue supplying our customers with quality service at a reasonable cost and, at the same time, providing our investors with a fair return on their investments.

For the Board of Directors,

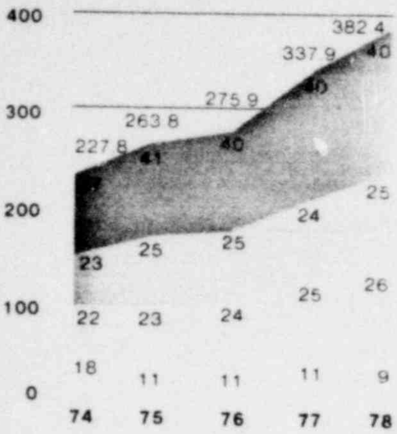
Arthur M. Williams

Arthur M. Williams
Chairman of the Board
and Chief Executive Officer

Virgil C. Summer

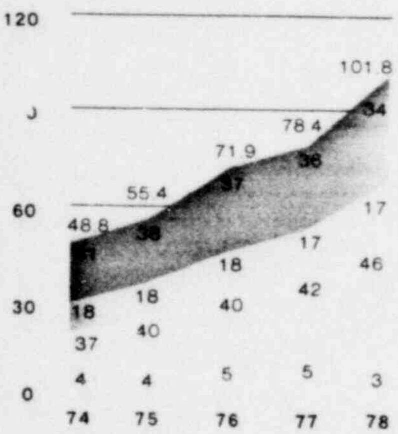
Virgil C. Summer
President and
Chief Operating Officer

Electric Revenues
(MILLIONS OF DOLLARS)



Breakdown by classes — Per cent
Residential
Commercial
Industrial
Other

Gas Revenues
(MILLIONS OF DOLLARS)



Breakdown by classes — Per cent
Residential
Commercial
Industrial
Other

Earnings and Dividends

Earnings per share of Common Stock increased to $2.26 for 1978 from $2.22 in 1977. The average number of shares of common stock rose to 22,029,481 in 1978 as compared to 19,833,002 for 1977.

The Board of Directors on January 24, 1979 declared a quarterly dividend of 42¢ per share. The dividends are payable April 1, 1979 to shareholders of record as of March 12, 1979. The Company's indicated annual dividend rate is $1.68 per share, representing a 6¢ per share increase in the annual dividend rate in 1978. The Company is dedicated to providing investors with a fair return on their investment and is proud that it has been able to raise the annual dividend rate 26 times during the last 27 years.

Operating Revenues

Total operating revenues for 1978 increased by 16.2% or $67.7 million over 1977, to $486.1 million. Electric operations contributed $44.4 million or 65.6% to this overall increase, and gas operations added $23.4 million or 34.5%. Coach operations lost $96 thousand or .1% of the total increase.

Electric revenues increased 13.2% over 1977 to $382.4 million. This increase was primarily due to increased costs of fuel which were recovered through fuel adjustment clauses and a 4.2% increase in sales. Gas revenues increased 29.8% over 1977 to $101.8 million. This increase was primarily due to a 6.4% increase in sales and recovery of increased purchased gas costs from our supplier through gas cost adjustment clauses. Revenues from the transportation division (coach), which provides bus service in metropolitan Columbia and Charleston, decreased by $96 thousand or 4.7% under 1977. This was caused principally by a decrease in revenue passengers carried of 313 thousand or 3.5% when compared to 1977.

Operation and Maintenance

In 1978, total operation and maintenance expenses, excluding taxes and depreciation, rose by 21.9% or $56.3 million. This compares with the 19.8% increase experienced in 1977. Fuel costs for electric generation continue to be a major factor contributing to these increases, up 18.6% or $28.9 million for the year 1978. However, this rate of increase is down considerably compared with 1977 when there was an increase of 32.7% in fuel costs. Maintenance expenses were up 19.6% or $3.5 million while other operation expenses, excluding power purchased, net, showed an increase of 4.9% or $1.9 million. Power purchased, net continued a downward trend, decreasing $120 thousand or 2.3%. Gas purchased for resale showed a sizable increase of 43.1% or $22.1 million reflecting higher costs passed on by our supplier and increased availability during 1978.

Payroll

The Company manages labor costs through union negotiations and a salary administration program. Total labor costs, including construction, increased $6.2 million or 14.8% over 1977 to $48.2 million. This increase was due to wage increases granted and an increased number of employees due to normal Company growth.

On October 24, 1978, President Carter initiated a program of voluntary wage and price guidelines. While there is still a degree of uncertainty associated with the guidelines that have been issued, the Company is of the opinion that it is in compliance at the present time.

Taxes

Total tax provisions for 1978 were $56.1 million. Of this amount, federal taxes totaled $30.7 million, state taxes totaled $10.2 million and counties, municipalities and school districts totaled $15.2 million.

Financing — 1978

The Company began its 1978 financing in February with the sale of $30 million of 8.90% thirty-year first mortgage bonds and the sale of 1.5 million shares of common stock at a price of $18.25 per share. In June, $40 million of 8.45% three-year bonds were sold. The Company concluded its 1978 financing in December with the issuance of $20 million of preferred stock at a rate of 8.72%.

As previously reported, the Company sold $5.2 million of pollution control bonds in December 1977 with withdrawals permitted as qualified expenditures were made. Of the balance of $1.8 million available for future years, withdrawals totaled $1.0 million during the year leaving a balance of $.8 million available for future expenditures.

1066 075

POOR ORIGINAL

ENERGY REPORT 1

An introduction to electricity

How SCE&G makes electricity

Electricity, very simply stated is the motion of electrons – tiny particles of atoms with a slight negative charge.

It occurs naturally as lightning, static electricity and even in some animals, like the electric eel.

Electricity has been known to man since the ancient Greeks studied the results of static electricity. However, it was not until the 1800s that the most productive progress with electricity was made. In 1831, Michael Faraday discovered how to produce an electric current – the same process that is used today – by rotating a magnet inside coils of wire.

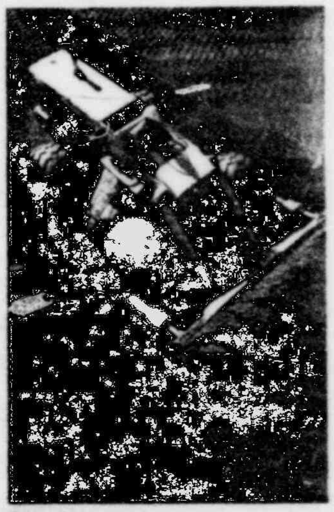
The event that did the most for the advancement of electricity was the invention of the incandescent light bulb by Thomas Edison in 1879. This gave the general public a broad practical use for electricity.

Shortly after Edison's invention of the light bulb, the Charleston Electric Light Company was organized in 1886. One year later, the Congaree Gas & Electric Company was incorporated, the first electric company in Columbia. Both of these companies are part of SCE&G's corporate ancestry.

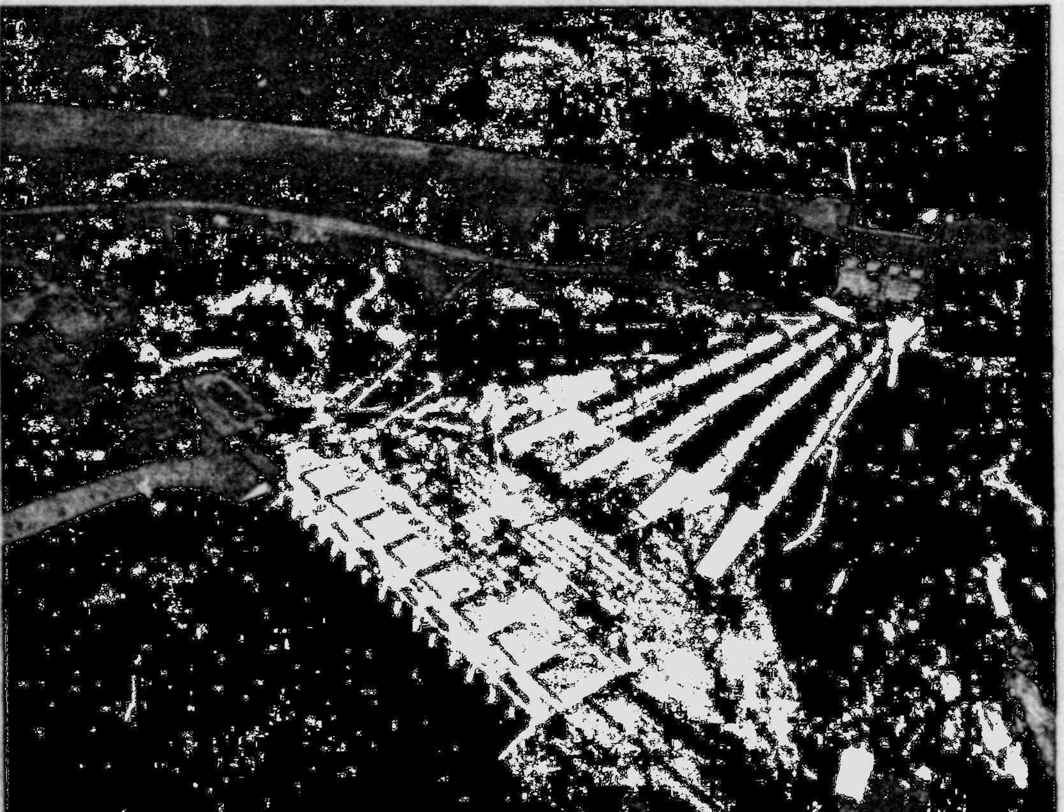
From these early beginnings, SCE&G has become a 1.5 billion-dollar corporation, serving a large portion of South Carolina with reliable electric and gas service.

To produce electricity, all SCE&G systems use turbine generators which are turned either by steam or water. By burning fossil fuel (coal or residual oil), SCE&G is able to convert water to steam which is piped under pressure to drive the turbine blades and turn the magnet. With hydro power, the water itself is released from a dam or holding reservoir, to flow down through the turbine blades, thus rotating the magnet.

When the V.C. Summer Nuclear Station is completed in 1980, SCE&G will have another method of producing electricity. In a nuclear plant, steam is also used to turn the turbine generator, but the steam is produced with uranium instead of fossil fuel.



Extensive coal handling is required at McMeekin Station where 90 tons of coal is burned per hour.



The Fairfield Pumped Storage Hydro Plant was completed in 1978, increasing SCE&G's generating capacity by 512 megawatts.

Hydro plant completed

The Fairfield Pumped Storage Hydro Plant that was completed in 1978 is a first for the SCE&G system.

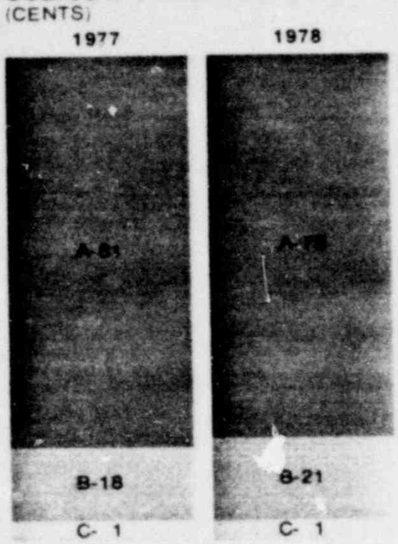
The pumped storage plant has eight reversible turbine generators, which can function in both a generating and pumping mode. During periods when the demand for electricity is greatest, the plant will operate as a conventional hydro plant. At night, however, when the demand diminishes, the turbines are reversed to pump water from the lower reservoir – the Broad River – to Monticello Reservoir which is 150 feet above the power house.

By using the pumped storage plant, SCE&G can more economically operate its system by using the off-peak capacity of its steam generating plants to pump water into the reservoir. It also represents the only way large quantities of electricity (in the form of water) can be stored.

Energy Report 2 follows on page 11

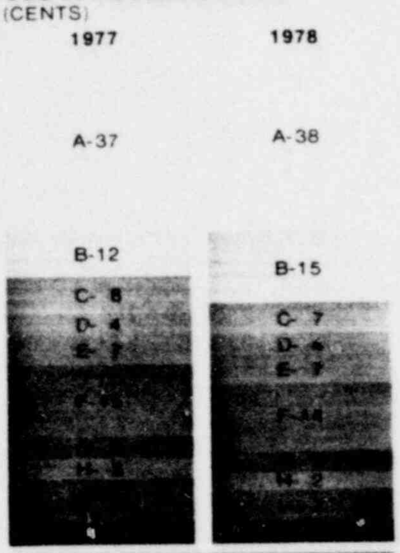
1066 070

Source of Revenue Dollar
(CENTS)



A-Electric Revenue
B-Gas Revenue
C-Coach Revenue

Use of Revenue Dollar
(CENTS)



A-Fuel Used in Electric Generation
B-Gas Purchased for Resale
C-Other Operation
D-Maintenance
E-Depreciation
F-Taxes
G-Interest Charges and Other Income, Net
H-Preferred Dividends
I- Dividends to Common Shareholders
J- Retained Earnings

To finance the nuclear fuel for the V. C. Summer Nuclear Station, the Company entered into a Trust Agreement with several banks in September 1976, amended in August 1977. As previously reported, this agreement encompasses up to $42 million, including interest and other financing costs, for the purchase of the initial fuel for the reactor. This agreement requires the Company to repurchase the fuel from the Trust either prior to initial loading of fuel into the reactor or no later than June 30, 1980.

The remaining cash requirements were met through internally generated funds, short-term borrowings, the Stock Purchase-Savings Program for Employees, the Dividend Reinvestment and Stock Purchase Plan and the Employee Stock Ownership Plan (ESOP).

Over $10.3 million was raised internally in 1978 through these various programs. Estimates indicate that they will continue to provide a substantial portion of the Company's total equity requirements in the years ahead.

Financing — 1979

The Company's 1979 cash requirements of approximately $142.5 million for construction and $54 million for refunding and retiring outstanding securities will be met through the sale of long-term debt and equity securities, internally generated cash funds, short-term borrowings, sales of common stock through the various programs available to employees and shareholders, and the withdrawal of the proceeds of the pollution control bonds.

A portion of the Company's 1979 financing was completed January 31, 1979 by the sale of $15 million of 8% preferred stock through private placement. The new $15 million issue replaces a 6⅞% preferred issue in a like amount which was retired January 31, 1979.

Rates

SCE&G received its last increase in electric retail rates on December 13, 1977. The new rates, an increase of 9.54%, were placed into effect in January 1978.

The change in rates was the result of a petition filed November 12, 1976 by the Company with the South Carolina Public Service Commission (PSC). At that time, the Company requested an increase of 13.25%. Thirty days later, on December 13, 1976, the Company placed approximately 80% of the request into effect under bond, subject to refund.

It was necessary for the Company to refund approximately $2.8 million with 9% interest, the difference between the bonded rates and the 72% approved by the PSC. This was done in February 1978.

As reported last year, the PSC also instructed the Company to refund $7 million, with 6% interest. This represented the difference between the net amount paid out by SCE&G in the first six months of 1976 for purchase of electricity and the net amount received by SCE&G in the first six months of 1977 for electricity sold to other utilities. The Company took exception to this unprecedented move by the PSC and, after a denial of the Company's application for rehearing by the PSC, filed an appeal on January 17, 1978 with the Court of Common Pleas.

On January 20, 1978, the Court issued an order staying the Company's requirement to make the $7 million refund until the Company's appeal could be heard by the Court.

Certain parties objected to the stay and the Company's appeal claiming that the Company had not timely filed a petition for rehearing with the PSC on the $7 million refund. The Supreme Court issued its order affirming the Court of Common Pleas and held that the Company's petition for rehearing was timely filed. The issue of whether the PSC properly ordered the Company to refund the $7 million to its customers is now before the Court of Common Pleas.

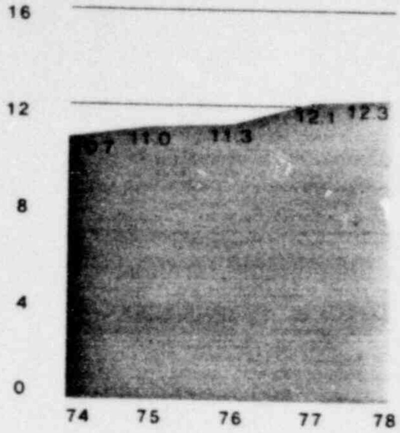
While SCE&G cannot predict the final disposition of this matter, the Company's financial statements reflect the effect of the refund. For this reason, an adverse ruling would not have a negative impact on the Company's financial condition.

In an Order dated January 15, 1979, the PSC suspended the automatic feature of the Company's fuel adjustment clause. Instead, through formal hearings, the PSC will set the fuel component in base rates at a level which should recover projected fuel costs for the next six months.

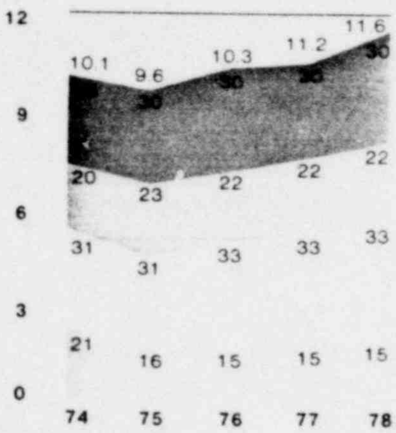
The new fuel cost recovery procedures require the Commission staff to review actual fuel costs monthly and the PSC to evaluate the effectiveness of the new procedures every three months. Every six months the PSC will hold hearings to make any necessary changes to the fuel component in base rates for the succeeding six months, including any over or under collection experienced during the preceding six-month period.

1066 077

Average Use Per Electric Residential Customer
(THOUSANDS KWH)



Electric Sales
(BILLIONS KWH)



Breakdown by classes — Per cent
Residential
Commercial
Industrial
Other

While the first hearing is presently scheduled for July 1979, it is important to note that the Company can request or the PSC can convene a hearing at any time circumstances warrant a reconsideration of the fuel component of base rates.

In this Order, the PSC increased the fuel component in base rates from 1.5¢ to 1.625¢ per KWH effective with the first billing cycle in February 1979. SCE&G does not believe that these changes in the Company's fuel cost recovery procedures will have a material adverse effect on the Company, financially or otherwise.

A rate increase to wholesale electric customers of approximately 14% was filed March 31, 1978 with the Federal Energy Regulatory Commission (FERC). Based on a projected 1978 test year, this rate increase would produce an additional $2.3 million annually in revenues. The FERC allowed the request to go into effect November 15, 1978, subject to refund.

The FERC has presently scheduled hearings for this proceeding to begin on March 27, 1979; however, the Company is unable to predict when a final determination will be made.

Following requests by the Company, certain changes affecting the Gas Department were ordered by the PSC in October 1978. One of these changes liberalized the Company's gas operating policies (see Gas Operations) and another changed the billing of usage to customers. This latter change shifted 8.4¢ per hundred cubic feet (ccf) from the gas cost adjustment clause to the base rate schedule. The change will not increase revenue to the Company nor will it increase a customer's bill. It was done to more accurately reflect in base rates the increased cost of gas to the Company resulting from higher prices charged by SCE&G's supplier.

Another change became effective in November 1978 when SCE&G began billing gas according to heat value instead of cubic feet. The new method of calculation is called therm billing and is being used by most gas distribution companies.

The need for therm billing was brought about by the introduction of imported liquefied natural gas entering the Company's system. This imported gas has a higher heat value than domestic natural gas which means that a given volume will generate more heat then an equal volume of domestic natural gas. Therefore, the charges billed are for the actual heat value used by customers. The switch to therm billing does not increase revenue to SCE&G.

Stockholders

Outstanding shares of common stock tota 22,439,871 as of December 31, 1978. This represents an increase over the previous year of 2,081,259 shares. SCE&G had 54,924 stockholders as of December 31, 1978. The 10,940 South Carolina stockholders continue to represent the largest number of stockholders in any one state. Their 3,747,806 shares are the seco largest holding in any single state.

The Company's Dividend Reinvestment and Stock Purchase Plan continues to gro in popularity with approximately 9,000 stockholders presently participating. This is an increase of about 2,200 over last yea Under this plan the stockholders' dividenc are automatically reinvested in additional shares of common stock at a discount and without any payment of brokerage fees.

Electric Sales

During 1978, SCE&G added 8,321 electric customers, giving the Company a total of 328,797 at the end of the year. Of this total 287,289 were residential; 38,840 commercial; 772 industrial and 1,896 in other classifications. For the past five year the compound rate of growth for electric customers was 2.5%.

SCE&G's residential electric heating customers continued to increase. In 1978 8,455 joined this classification, an increase of 15% over 1977, for a total of 64,714 at year end.

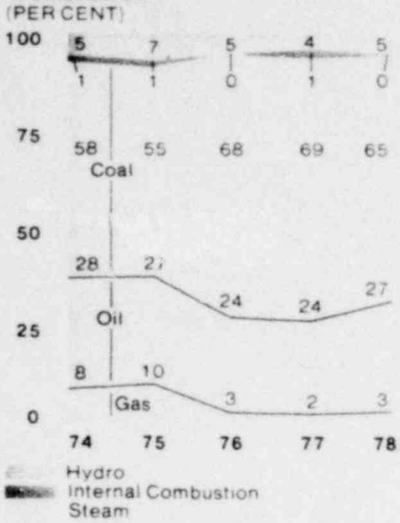
In 1978, energy sales were 11.6 billion kilowatt hours, as compared to 11.2 billion kilowatt hours in 1977, an increase of 4.2%. Sales to ultimate consumers in 1978 increased 4.7%, climbing to 10.2 billion kilowatt hours. The compound growth rate for the five-year period of 1974-78 was 4.8

In the residential classification, 7,110 customers were added in 1978, an increase of 2.5%. The average consumption per residential customer was 12,269 kilowatt hours, up slightly from 1977. This ranks SCE&G 12th in the nation in average customer consumption.

Adding to the Company's growth prospec were the new industries locating in South Carolina. Of the 79 industries that located in South Carolina in 1978, 27 were in the SCE&G service area. Also, 128 industries being served by the Company expanded their operations in 1978.

1066 078

Source of Electric Generation
(PER CENT)



Electric Operations

Electric system generation for 1978 totaled 12.8 billion kilowatt hours, which was .7 billion kilowatt hours or 5.8% higher than 1977.

In July 1978, a system peak load of 2,469 megawatts was recorded. A territorial peak, energy demand by SCE&G consumers, was experienced in June 1978 at 2,271 megawatts. This represents an increase of 2.5%. The territorial load factor for 1978 was 58.1% as opposed to 57.4% for 1977.

On January 25, 1979, a new winter territorial peak was established at 1,932 megawatts. For the past five years, the winter peak has been growing at a compound rate of 7.3%. With more and more customers using electricity for heating purposes, SCE&G expects this trend to continue. Since SCE&G has traditionally been a summer peaking utility, a continuation of this winter growth will allow the Company to utilize its generating equipment more efficiently.

Electric Light and Power magazine published a story in 1978 that placed the Company sixth in 1977 in thermal generating efficiency (heat rate) when compared with the nation's top 100 electric utilities. SCE&G moved up in the ratings, having placed seventh in 1976 and 12th in 1975. Heat rate, expressed as BTU per net kilowatt hour, is computed by dividing the total BTU content of fuel burned for electric generation by the resulting net kilowatt hour generation.

Fuel

Although fuel costs did not accelerate in 1978 as rapidly as in 1977, fuel costs for electric generation continued to be the major expense in the utility industry. During 1978, fuel costs for SCE&G increased $28.9 million, an 18.6% increase over the previous year. This compares to the $38.2 million increase or 32.7% that was recorded in 1977. This rise in total fuel expenses in 1978 can be attributed primarily to escalating fuel prices and an increase in steam generation.

In 1978, coal was used to provide 65% of the electricity for the system. Residual oil provided 27% and hydro facilities accounted for 5%. Natural gas and distillate oil provided the remaining 3%.

SCE&G plans to continue using coal to produce the majority of its electricity in 1979. For the needed generation, coal is projected to produce 73% while residual oil is expected to provide 22%. Hydroelectric facilities and distillate fuel oil will provide the balance.

The majority of the coal used by SCE&G comes from long-term contracts with companies in Virginia and Kentucky. The Company normally maintains a 75-day supply of coal. However, in anticipation of strikes in the coal and railroad industries and shortages of locomotives and coal hoppers, the Company increased its supply to over 100 days during the latter part of 1978. The Company, however, burned less coal than anticipated during the last quarter of 1978 due to milder than expected weather and maintenance on coal-fired generating units during this period.

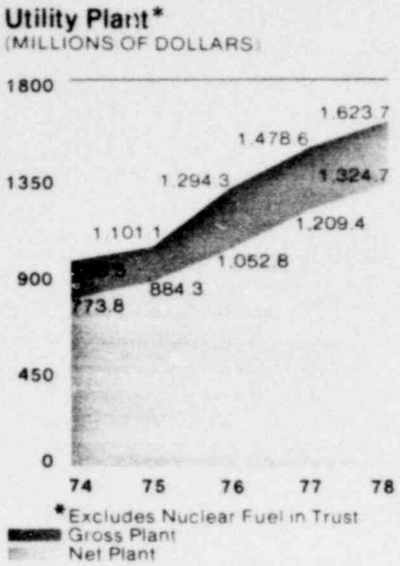
The Company has contracts for the Number 6 fuel oil burned at Williams Station and Plant Hagood with the Exxon Company. Oil for Williams Station is under a contract expiring in 1992, subject to renegotiation of price in 1982 and 1987. The contract for Plant Hagood expires in 1982.

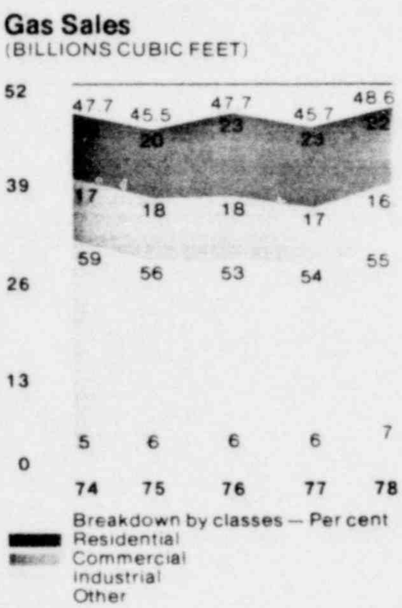
To supply Williams Station, oil is barged up the Cooper River from Charleston and stored in tanks. At year end, there was approximately a 55-day supply. Fuel for Plant Hagood is shipped through a pipeline from the supplier's terminal in Charleston.

To supply the uranium concentrate, conversion and fabrication for V. C. Summer Nuclear Station, the Company has a contract with Westinghouse Electric Corporation. The contract covers the initial core loading of three regions and eight yearly reload regions for a total of 11 regions of fuel (a region representing approximately one-third of the nuclear cores in the reactor at any time) which should cover a period of approximately ten years. The Company also has a contract with the Energy Research and Development Administration (ERDA) for supply of enriching services.

In September 1975, Westinghouse notified the Company that it could not meet the uranium supply requirements of its contract because of market conditions. The Company filed an action in October 1975 against Westinghouse seeking specific performance of the uranium supply provisions of the contract and damages for its breach.

1066 079





On October 27, 1978, the United States District Court for the Eastern District of Virginia ruled from the bench that Westinghouse had breached its contract to supply the Company with uranium. A trial to determine whether the Company is entitled to an order requiring Westinghouse to perform the remainder of the contract and to determine the amount of damages due the Company is scheduled for May 1979. Until the trial is concluded and the Court renders a final judgment, the Company cannot estimate how much in damages it will receive or whether it will be required to purchase additional uranium on the open market in the near future.

By supplementing a delivery of uranium concentrates that was received from Westinghouse with purchases on the open market, the Company has sufficient quantities of uranium to meet the fuel requirements of the initial core. For future requirements the Company is continuing discussions with various suppliers. The problems with Westinghouse are not expected to delay the completion or operations of V. C. Summer Nuclear Station.

The Company will have to enter into future contracts to cover the difference between its total requirements and those covered by its present contract; however, the contract with ERDA is a "requirements" contract whereby ERDA will supply total enriching requirements for the unit through the year 2002.

Presently, there are no reprocessing facilities in operation in the United States available to utilities for the reprocessing of spent fuel. Additionally, President Carter has announced his opposition to reprocessing.

Construction

Construction of Fairfield Pumped Storage Hydro Plant was completed in 1978. Four of the plant's eight units were placed in commercial operation in June and the remaining four entered commercial operation in December. The plant has a total generating capacity of 512 megawatts and will be used as a system peaking or emergency generating station. The plant was completed at a cost of approximately $201.5 million ($394 per kilowatt).

The plant, which is part of the power complex that will include the V. C. Summer Nuclear Station, draws water from Lake Monticello, a 6,800-acre man-made reservoir constructed by SCE&G. During periods when the demand for electricity is greatest, the plant will operate as a conventional hydro station. When the demand for electricity diminishes, the turbines will be reversed, operating as pumps to move water from the Broad River back into Lake Monticello to be used again, as needed, to produce electricity.

Located adjacent to the Fairfield Plant is the V. C. Summer Nuclear Station which is still under construction with commercial operation scheduled for 1980. It will have a capacity of 900 megawatts and now has an estimated cost of $756.2 million. With the plant being a joint venture between SCE&G and the South Carolina Public Service Authority (a public corporation of the State of South Carolina), the Company will own and receive two-thirds of the plant's output. The remaining one-third will be owned and received by the Authority.

Excluding purchases of nuclear fuel, the Company's 1979 total construction costs are expected to be approximately $160 million, the fourth largest annual construction budget in SCE&G's history. For 1979 through 1983, construction requirements are projected to be $870 million excluding purchases of nuclear fuel.

To meet the anticipated growth of the SCE&G system, two additional coal-fired units are expected to be needed during the 1980's. Presently, plans call for construction of the first unit to begin in early 1980.

Gas Sales

As of December 31, 1978, the Company was providing natural gas service to 162,412 customers, having added 562 during the year. SCE&G serves natural gas to customers in over 70 towns and communities.

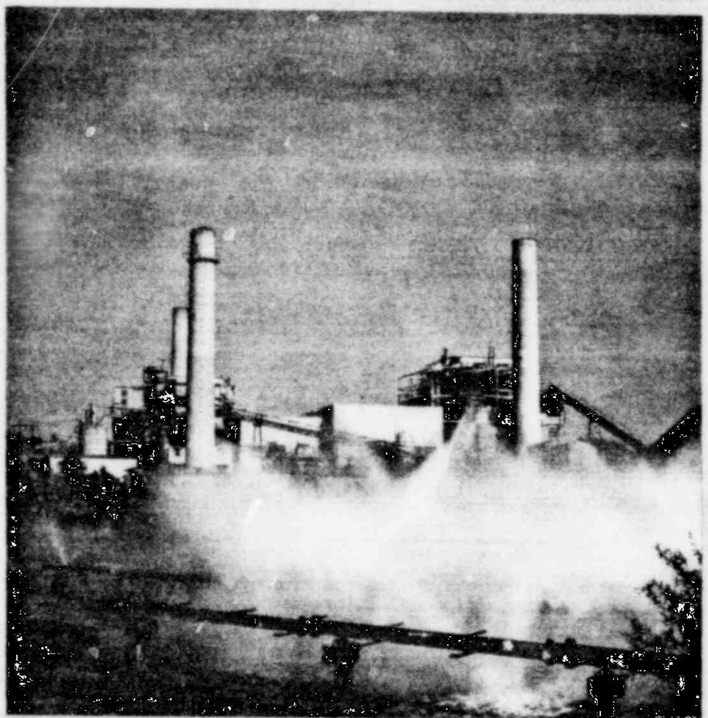
Sales for the year increased 6.4% to a total of 48.6 billion cubic feet. Sales to firm customers recorded a 5.3% increase. Residential customers, who constitute 44% of all firm sales and use gas primarily for heating, increased their consumption by 2.7%. Firm sales to commercial establishments increased 3.1% and firm industrial customers increased their consumption by 6.8%. Interruptible customers, which include commercial and industrial users, increased their use by 7.5%. These increases in sales were made possible by a greater availability of gas to SCE&G from its supplier, Southern Natural Gas Company.

1066 080

ENERGY REPORT 2

POOR ORIGINAL

Electricity is best choice for the future



This spray pond at Canadys Station is used to cool circulating water prior to discharge into the Edisto River.

$42 Million in environmental protection

SCE&G is proud of the fact that before the various federal and state agencies demanded that certain guidelines be followed to protect the environment, it was doing what was necessary to live with nature.

Although it is no secret that protecting the environment costs a lot, SCE&G wants to be a good neighbor and feels that it is money well spent. To date, SCE&G has spent over $42 million for pollution control and environmental protection.

Part of it was spent to install electronic filtering on steam plants that removes 99 per cent of soot and ashes which result from burning coal.

Another part went for spray ponds and cooling towers to make sure the water borrowed from rivers and lakes to condense the steam from turbines won't harm acquatic life when it's returned to its source.

The various agencies require SCE&G to burn low sulphur coal and oil that is far more costly than high sulphur types. This also adds to our environmental expenses.

The potential of Solar Energy

With the supply of fossil fuel dwindling, the nation is looking ahead for other possible sources of energy to supplement electricity in the future.

Solar energy is a popular potential source of energy that is being investigated by researchers and utilities.

There are two ways to use it: as direct heat energy; or convert the solar energy to electricity. At this time, converting the sun's energy to electricity is expensive and just not very practical. However, scientists believe solar energy could be helpful in heating buildings and water, using its direct heat energy.

To gain practical and first-hand experience with this, SCE&G built a commercial office building in 1978 in Columbia that is heated primarily with solar energy. The building uses energy from the sun for heat during the winter months. The solar system is assisted by a conventional heat pump which also provides air conditioning in the summer months.

SCE&G built this solar-heated office building in 1978 to gain practical knowledge about utilizing energy from the sun.

Future of electricity

Even with conservation, natural gas and oil supplies are being depleted and electricity will have to take up the slack.

Almost all the energy forms we now use are best used when converted to electricity.

For instance, nuclear power can essentially be used only when converted to electricity. Coal is also more efficient when used in the generation of electricity.

Today, only about a fourth of America's energy is used in the form of electricity, but in fewer than 20 years, it is predicted that more than half of the country's energy will be used in this form.

Today, SCE&G has plenty of electricity to serve its customers. However, SCE&G planners are looking ahead to determine what facilities will be needed to serve its customers in the future.

SCE&G has an obligation to supply the energy demands of its customers, and the Company intends to fulfill that duty.

Energy Report 3 follows on page 27

1066 081

The Company received refunds of approximately $7.1 million during 1978 from its supplier for rate increases that had been placed into effect but were later denied by the Federal Energy Regulatory Commission. These refunds cover a number of years, going back to 1956. While the total amount of the refunds was recorded during 1978, a portion of the refunds remains to be passed on to customers during 1979. The effect of the refunds on 1978 net income was an increase of $.8 million or 3.6¢ per average common share.

Gas Operations

In 1974, the PSC ordered the Company to cease extending gas mains because of sharply curtailed supplies. Under these guidelines, the Company added new customers only when they were located on an existing main. However, since the Company has increased its supplemental gas supply, as described below, it can now serve additional customers. After taking this into consideration, the PSC, in September 1978, changed its rules so the Company can now extend mains if it is economically feasible to to do so according to guidelines approved by the PSC. At the same time the Company was directed to realign its gas curtailment plan by the establishment of "end use" priorities, but to maintain a distinction between firm and interruptible categories of service.

Under a contract that extends to 1989, the Company is entitled to receive 165,000 MCF of natural gas per day from Southern Natural Gas Company. Due to the establishment of curtailment priorities by the FERC, the Company does not always receive its full contract demand. Because of these priorities, Southern Natural allocates gas to its customers based upon "end use" categories.

Since the Company cannot always receive its full contract, it has taken several steps to help supplement its supply. In 1977, a liquefied natural gas (LNG) facility was completed near Charleston. The facility is operated by South Carolina LNG Company, Inc., a wholly-owned subsidiary. During off-peak periods, the plant can liquefy up to 6,000 MCF per day and store one million MCF of natural gas. When necessary to meet peak demands, the plant can regasify up to 60,000 MCF per day.

SCE&G also has propane storage facilities which can supplement its supply of natural gas by approximately 58,200 MCF per day. This propane can be placed into the gas system from several locations when necessary on peak days.

In addition, Southern Natural is now supplementing its domestic natural gas supplies with purchases of LNG that are being imported at Elba Island, Georgia, from Algeria. SCE&G is receiving some of this imported LNG as part of its normal allocation.

During the winter of 1978-79, the Company expects to be able to meet the demands of its firm customers through its conventional purchases and with the utilization of these supplemental sources.

Environmental Matters

The Company is making every effort to continue to insure that its plants meet the various environmental control requirements that have been imposed by federal and state authorities. These standards relate primarily to airborne and liquid discharge of pollutants including heat, into waters in the vicinity of generating stations. The Company's expenditures for environmental control facilities amounted to approximately $15.1 million for the years 1970 through 1978. For 1979 the Company expects to spend approximately $1.7 million with an additional $96.3 million for the years 1980 to 1983, inclusive. The large increase in environmental expenditures for the 1980 through 1983 period is primarily due to expenditures related to the proposed new electric generating plant construction with $6.6 million, $33.5 million and $53.2 million projected for 1981, 1982 and 1983, respectively, with the remainder being attributable to other facilities.

1066 082

Litigation

As reported last year, the Company was named as a codefendant in an action, filed on August 17, 1977 in the United States District Court for the Middle District of North Carolina in Greensboro, N.C., by certain North Carolina electric cooperative utilities as plaintiffs. The complaint alleges that the Company and Carolina Power & Light Company have maintained an unlawful monopoly in power exchange services, firm bulk power, and firm retail power in areas of North and South Carolina and seeks an order requiring the Company to negotiate with the plaintiffs and to pay $50,400,000 damages trebled against both defendants. The Company filed a motion to dismiss the action against the Company on the grounds that the court lacks jurisdiction over it. The Court denied the motion with leave to renew it. Pretrial procedures have commenced. The Company does not anticipate any change in the status in the foreseeable future. The General Counsel of the Company is of the opinion that the Company has meritorious defenses to the action and should be able to successfully defend it.

On December 6, 1978 Central Electric Power Cooperative ("Central"), a customer of South Carolina Public Service Authority and of the Company (the licensees), petitioned NRC to make a finding of significant change in the licensees' activities and to refer the matter to the Attorney General of the United States for an anti-trust review and his advice as to any conditions relating to the anti-trust laws that should be placed in the operating license for the V.C. Summer Nuclear Station. The petition as amended alleges that the licensees agreed to restrict competition between themselves in the sale of electric power, that Central is almost entirely dependent upon the Authority for bulk power supply, and that the Authority's dual rates to Central unfairly restrict Central's constituent members from competing with the Authority for large power loads. The Company has opposed such petition. While the ultimate relief sought by Central in its petition is not clear, the NRC has no direct jurisdiction over the Company's rates, and Central's petition states that "Central notes that it is dependent on [the Authority] for almost all of its power supply and would suffer serious injury if there were to be any delay in granting an operating license for said Summer unit." The Company does not believe, even if the petition were granted that any such anti-trust review would result in delay in issuance of the operating license.

A petition to intervene on environmental and safety grounds by a resident of Fairfield County in the Application for an operating license for V.C. Summer Nuclear Station has been granted by the NRC. Such interventions are frequently encountered in licensing applications before the NRC and may result in delays in the issuance of licenses. This proceeding is in its preliminary stages and it is not possible to determine whether there will be a delay in the issuance of the license for V.C. Summer Nuclear Station as a result of this intervention.

Transportation (Coach)

Due to a strike in February 1978 by the Amalgamated Transit Union, it was necessary for the Company to discontinue its bus service for 10 days both in Charleston and Columbia. The strike ended when the Company and the coach operators agreed to a contract.

As previously reported, the Company has entered into discussions with the Charleston Area Transit Committee with the possibility of transferring the Company's transit facilities in Charleston to a public body. Negotiations are still proceeding and some progress has been made but it is impossible to predict an outcome. If an agreement is made between the Company and the Transit Committee, it would have to be approved by the Board of Directors, the South Carolina Public Service Commission and the local governments involved.

1066 083

Consolidated Balance Sheets

December 31, 1978 and 1977

Assets	1978	1977
Utility Plant (including construction work in progress; 1978—$399,038,998; 1977—$505,554,271) (Notes 1, 3 and 4):		
Electric	$1,473,819,533	$1,330,820,210
Gas	132,915,190	130,816,589
Transportation (coach)	3,648,829	3,643,670
Common	13,277,544	13,338,687
Total	1,623,661,096	1,478,619,156
Less accumulated depreciation and amortization	298,928,379	269,228,397
Utility Plant, net (excluding nuclear fuel in trust)	1,324,732,717	1,209,390,759
Nuclear fuel in trust	38,219,693	10,491,895
Utility Plant, net	1,362,952,410	1,219,882,654
Other Property and Investments:		
Nonutility property (substantially at cost)	10,125,869	2,447,715
Investment in, notes receivable and advances to subsidiary (Note 1)	11,695,275	17,026,432
Other investments and special funds (at cost or less)	86,375	145,591
Total Other Property and Investments	21,907,519	19,619,738
Current Assets:		
Cash (Note 7)	4,017,495	1,9[illegible]0,115
Special deposits	15,521	103,287
Receivables	46,890,305	44,486,088
Materials and supplies (at average cost or less):		
Fuel	61,409,242	50,848,340
Other	6,342,57[illegible]	6,106,672
Prepayments	2,565,359	2,099,919
Total Current Assets	121,240,499	105,634,421
Deferred Debits:		
Unamortized debt expense	4,174,909	3,882,493
Other	12,431,536	12,202,823
Total Deferred Debits	16,606,445	16,085,316
Total	$1,522,706,873	$1,361,222,129

See notes to consolidated financial statements.

1066 084

Liabilities	1978	1977
Stockholders' Investment (Notes 5 and 8):		
Preferred stock	$ 154,281,000	$ 136,056,000
Common stock (Authorized 30,000,000 shares; Outstanding 1978 — 22,439,871 shares; 1977 — 20,358,612 shares)	100,979,420	91,613,754
Premium on common stock	192,014,223	164,466,509
Other paid-in capital	4,197,992	4,182,117
Capital stock expense (debit)	(5,531,084)	(5,029,857)
Retained earnings:		
Unappropriated	121,735,947	107,897,373
Appropriated	391,858	—
Total Stockholders' Investment	568,069,356	499,185,896
Long-Term Debt (Note 3):		
Principal amounts	603,890,737	575,518,281
Less unamortized discount and premium, net	653,060	703,154
Long-Term Debt, net	603,237,677	574,815,127
Total Capitalization	1,171,307,033	1,074,001,023
Nuclear Fuel Trust (Note 4)	38,219,693	10,491,895
Current Liabilities:		
Short-term borrowings (Note 7):		
Banks	1,993,300	1,750,900
Other	8,337,107	39,019,725
Accounts payable and customer rate refunds (Note 2)	46,710,138	48,083,170
Customer deposits	5,296,246	6,002,282
Taxes accrued	13,948,913	11,945,589
Interest accrued	14,345,620	12,445,450
Dividends declared	11,769,529	10,594,820
Current portion of long-term debt (Note 3)	48,002,645	9,268,192
Tax collections payable	1,104,561	563,296
Other	1,787,706	5,102,924
Total Current Liabilities	153,295,765	144,776,348
Deferred Credits:		
Accumulated deferred investment tax credits (Note 1)	55,485,636	36,906,085
Accumulated deferred income taxes (Note 1)	101,804,700	92,497,000
Other	2,594,046	2,549,778
Total Deferred Credits	159,884,382	131,952,863
Commitments and Contingencies (Note 8)		
Total	$1,522,706,873	$1,361,222,129

See notes to consolidated financial statements.

1066 085

Consolidated Statements of Income

For the Years Ended December 31, 1978 and 1977

	1978	1977
Operating Revenues (Notes 1 and 2):		
Electric	$382,370,236	$337,926,832
Gas	101,804,405	78,405,485
Transportation (coach)	1,926,781	2,023,009
Total Operating Revenues	486,101,422	418,355,326
Operating Expenses:		
Fuel used in electric generation	184,047,404	155,132,324
Power purchased, net (credit)	(5,424,101)	(5,304,083)
Gas purchased for resale	73,455,335	51,321,499
Other operation	39,568,015	37,720,633
Maintenance	21,207,707	17,726,553
Depreciation and amortization (Note 1)	32,643,300	30,338,900
Taxes (Notes 1 and 6):		
Other than income	23,417,742	22,454,847
State income	4,186,200	4,270,300
Federal income	10,150,400	9,988,900
Provision for deferred income	14,742,231	15,880,636
Deferred taxes (credit)	(7,378,370)	(5,135,564)
Investment tax credit adjustments:		
Amount deferred	21,527,229	16,289,894
Amortization of amounts deferred (credit)	(793,037)	(594,816)
Total Operating Expenses	411,350,055	350,090,023
Operating Income	74,751,367	68,265,303
Other Income (Notes 1 and 6):		
Allowance for funds used during construction — equity	18,340,131	16,610,026
Income tax — credit	10,212,000	9,182,700
Other income (deductions), net, less income tax effects	722,732	(184,703)
Total Other Income	29,274,863	25,608,023
Income Before Interest Charges	104,026,230	93,873,326
Interest Charges (Note 4):		
Interest on long-term debt	51,457,415	43,994,962
Amortization of debt premium, discount and expense, net	570,836	548,156
Other interest expense	2,498,948	2,556,277
Allowance for borrowed funds used during construction — (credit) (Note 1)	(10,847,723)	(7,877,997)
Total Interest Charges	43,679,476	39,221,398
Net Income	60,346,754	54,651,928
Dividends on Preferred Stock	10,600,202	10,653,247
Earnings Available for Common Stock	$ 49,746,552	$ 43,998,681
Average Common Shares Outstanding	22,029,481	19,833,002
Earnings Per Average Share of Common Stock	$2.26	$2.22

See notes to consolidated financial statements.

1066 086

Consolidated Statements of Changes in Financial Position

For the Years Ended December 31, 1978 and 1977

	1978	1977
Working Capital Provided:		
Net income	$ 60,346,754	$ 54,651,928
Charges (credits) to income not providing or requiring working capital:		
Depreciation and amortization	32,643,300	30,338,900
Deferred income taxes, net	7,363,861	10,745,072
Investment tax credit, net	20,734,192	15,695,078
Allowance for funds used during construction (AFC)	(29,187,854)	(24,488,023)
Total from Operations	91,900,253	86,942,955
Nuclear fuel trust	27,727,798	3,991,028
Sale of securities:		
Mortgage bonds	69,497,500	79,130,600
Pollution control revenue bonds	—	5,155,000
Preferred stock	20,000,000	—
Common stock	36,913,380	46,177,157
Decrease in:		
Other property and investments	—	951,576
Other non-current funds	854,516	—
Total Working Capital Provided	246,893,447	222,348,316
Working Capital Applied:		
Utility plant additions (excluding AFC but including Nuclear Fuel Trust)	147,658,375	167,270,861
Cash dividends:		
Preferred stock	10,600,202	10,653,247
Common stock	35,907,978	31,524,395
Reduction of long-term debt	41,577,450	32,488,698
Retirement of preferred stock	1,775,000	1,715,000
Increase in:		
Other property and investments	2,287,781	—
Other non-current funds	—	6,657,751
Total Working Capital Applied	239,806,786	250,309,952
Increase (Decrease) in Working Capital	$ 7,086,661	$ (27,961,636)
Increase (Decrease) in Working Capital by Component:		
Cash	$ 2,027,380	$ (3,021,161)
Temporary cash investments	—	(1,500,000)
Receivables	2,404,217	7,714,075
Materials and supplies	10,796,807	20,429,355
Short-term borrowings	30,440,218	(23,517,110)
Current portion of long-term debt	(38,734,453)	3,231,663
Accounts payable and accruals	(225,182)	(31,334,038)
Other, net	377,674	35,580
Increase (Decrease) in Working Capital	$ 7,086,661	$ (27,961,636)

See notes to consolidated financial statements.

1066 087

Consolidated Statements of Retained Earnings

For the Years Ended December 31, 1978 and 1977	1978	1977
Unappropriated:		
Balance at beginning of year	$107,897,373	$ 95,423,08
Add — Net income	60,346,754	54,651,92
Total	168,244,127	150,075,01
Deduct —		
Cash dividends declared:		
Preferred stock	10,600,202	10,653,24
Common stock (at an annual rate of $1.62 per share and $1.56 per share for 1978 and 1977, respectively)	35,907,978	31,524,39
Total Deductions	46,508,180	42,177,64
Unappropriated retained earnings at end of year (Note 5)	121,735,947	107,897,37
Appropriated (Note 8):		
Balance at beginning of year	—	—
Transfer from amortization reserve	359,010	—
Current provision	32,848	—
Appropriated retained earnings at end of year	391,858	—
Total Retained Earnings at End of Year	$122,127,805	$107,897,37

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. System of Accounts

The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the South Carolina Public Service Commission (PSC).

B. Principles of Consolidation

The accounts of the Company's wholly-owned subsidiary, South Carolina LNG Company, Inc., are consolidated in the accompanying Consolidated Financial Statemer

The Company's investment in its wholly-owned subsidiary, Energy Subsidiary, Inc is reported in the accompanying Consolidated Financial Statements using the equity method of accounting.

C. Utility Plant

Utility plant is stated at original cost. The cost of additions, renewals and bettermer to utility plant, including direct labor, material and indirect charges for engineering, supervision, and an allowance for funds used during construction, are added to utility plant accounts. The original cost of utility property retired or otherwise disposed of is removed from utility plant accounts and along with the cost of removal, less salvage, is charged to accumulated depreciation. The cost of repairs, replacements and renewals of items of property determined to be less than a unit of property is charged to maintenance expense.

D. Allowance for Funds Used During Construction

Allowance for funds used during construction (AFC), a non-cash item, reflects the cost for the period of capital devoted to plant under construction. This cost represents interest charges on borrowed funds and a reasonable rate of return on equity funds so used. This accounting practice results in the inclusion, as a component of construction cost (construction work in progress), of amounts of AFC which will ultimately be includ in rate base in establishing rates for utility charges. AFC was calculated using a 6.5% rate in 1978 and 1977 except for AFC related to nuclear fuel in trust which was capitalized at the actual amount thereof. (See Note 4—Nuclear Fuel Trust)

E. Depreciation

The Company provides for depreciation for financial reporting purposes on a straight-line basis over the estimated useful lives of utility plant. Annual rates average 3.17% for 1978 and 3.30% for 1977.

F. Income Taxes

Deferred income taxes, arising from the use of accelerated amortization and depreciation rather than straight-line tax depreciation, are charged to income currentl with corresponding credits to accumulated deferred income taxes and are credited to income in appropriate amounts when subsequent income tax liabilities are greater as result of this practice.

1066 088

Income taxes are allocated to "Operating Expenses" or "Other Income". The income tax-credit under "Other Income" results from tax deductions related to interest expense arising principally from investments in construction work in progress.

Investment tax credits on eligible property as provided by the Revenue Act of 1971 and the Tax Reduction Act of 1975 are being amortized over the lives of the respective assets.

During 1978 the Company and the Internal Revenue Service reached tentative agreement regarding an examination of the Company's 1973, 1974 and 1975 income tax returns and appropriate provisions, which were not material, have been made and are included in the accompanying Consolidated Financial Statements.

G. Pension Plan

The Company has a pension plan covering all employees. Total pension contributions including amortization of unfunded prior service cost, were approximately $4.1 million and $3.5 million for 1978 and 1977, respectively. Unfunded prior service cost of approximately $642 thousand, based on the latest actuarial valuation effective January 1, 1978, is being amortized over a twenty-year period ending in 1997.

The Company's policy is to fund pension costs accrued. There was an excess of approximately $2.8 million of actuarially computed value of vested benefits over total plan assets based on the latest actuarial valuation.

H. Revenue Recognition

Customers' meters are read and bills are rendered on a monthly cycle basis. Base rate revenue is recorded during the accounting period when the meters are read. Revenue attributable to electric fuel and gas costs (to the extent collectible through adjustment clauses) is recorded in the month during which the fuel and gas are used rather than when the revenue is billed. (See Note 13 — Subsequent Events)

I. Debt Premium, Discount and Expense

Long-term debt premium, discount and expense are being amortized over the terms of the respective debt issues.

2. RATE MATTERS:

On December 13, 1977, the PSC granted an electric retail rate increase approximating 72% of the amount requested in an application filed by the Company on November 12, 1976. The order also required refunds to the Company's retail customers of approximately $2.8 million of revenues collected under bond plus interest (such refunds were made during February 1978) and approximately $7 million from net interchange sales to other utility companies during 1977, plus interest. The rates directed by the PSC order were placed into effect with bills rendered during January 1978.

Certain parties, including the Attorney General of South Carolina, appealed the portion of the PSC order which granted the rate increase. The Court of Common Pleas upheld that portion of the order of the PSC on September 21, 1978 and the decision was appealed to the South Carolina Supreme Court. The adverse parties withdrew their appeals and the South Carolina Supreme Court issued orders dismissing them on November 3, 1978 and November 10, 1978.

During January 1978, the Company appealed to and was granted a stay by the Court of Common Pleas for that portion of the PSC order requiring refund of the $7 million, until the Company's appeal of the PSC order could be heard by the Court. Certain parties opposed the Company's appeal of the $7 million refund and the stay granted by the Court of Common Pleas and appealed the grant of the stay to the South Carolina Supreme Court. On January 29, 1979, the Supreme Court upheld the Court of Common Pleas' determination and remanded the case to the Court of Common Pleas to determine the substantive issue of whether or not the PSC had correctly ordered the Company to refund the $7 million.

Since the $7 million refund ordered by the PSC was eliminated from 1977 revenues and the amount thereof recorded as a liability, an adverse determination of the Company's appeal with respect thereto would not have a negative effect on the Company's Consolidated Financial Statements.

On March 31, 1978, the Company filed an application with the FERC for a rate increase of approximately 14.0% of revenues to wholesale electric customers. This rate increase would produce additional revenues of approximately $2.3 million annually based on a projected 1978 test year. On July 14, 1978 the FERC issued an order allowing the rates to be placed into effect on November 15, 1978, subject to refund. The amount collected subject to refund was approximately $160 thousand at December 31, 1978. (See Note 13 — Subsequent Events)

1066 089

3. LONG-TERM DEBT:

	1978	1977
	(Thousands of Dollars)	
First and Refunding Mortgage Bonds:		
3⅛% Series, due 1979	$ 4,000	$ 4,000
10½% Series, due 1979	35,000	35,000
3% Series, due 1980	22,200	22,200
3% Series A, due 1980	4,000	4,000
8.45% Series, due 1981	40,000	—
3¾% Series, due 1981	3,930	4,020
7% Series, due 1982	50,000	50,000
4⅛% Series, due 1983	2,740	2,800
9⅜% Series, due 1984	25,000	25,000
3½% Series, due 1985	3,575	3,650
5½% Series, due 1987	7,450	7,600
4⅞% Series, due 1988	10,000	10,000
10½% Series, due 1990	13,200	13,800
5% Series, due 1990	10,000	10,000
5% Series, due 1991	8,000	8,000
4⅞% Series, due 1995	16,000	16,000
5.45% Series, due 1996	15,000	15,000
6% Series, due 1997	15,000	15,000
6½% Series, due 1998	20,000	20,000
8% Series, due 1999	35,000	35,000
9⅛% Series, due 1999	15,000	15,000
8% Series, due 2001	35,000	35,000
7¼% Series, due 2002	30,000	30,000
9⅛% Series, due 2006	50,000	50,000
8.40% Series, due 2006	50,000	50,000
8⅜% Series, due 2007	30,000	30,000
8.90% Series, due 2008	30,000	—
Pollution Control Facilities Revenue Bonds:		
4½% Series, until October 1, 1979, thereafter 70% of applicable prime rate until October 1, 1981 and 75% of such prime rate until maturity, due 1987	5,155	5,155
5.95% Series, due 2003	7,500	7,500
First Mortgage Bonds:		
3⅞% Series, due 1979	182	1,620
4% Series, due 1981	620	1,121
5% Consolidated Mortgage Gold Bonds, due 1999 (non-callable)	1,075	1,087
Unsecured Notes — Banks, due 1980 with interest not to exceed 7.625% over the term of the notes	45,000	45,000
First Mortgage Bonds — South Carolina LNG Company, Inc., 10½% Series, due 1990	10,120	10,810
Capitalized lease obligations — vehicles	2,147	1,423
Total	651,894	584,786
Less current portion of long-term debt	48,003	9,268
Total	$603,891	$575,518

Substantially all utility plant is mortgaged in connection with the various issues of long-term debt. Approximately $6.1 million of the current portion of long-term debt for 1979 may be satisfied by deposit and cancellation of bonds issued upon the basis of property additions.

The annual amounts of long-term maturities, including sinking fund requirements, for the calendar years 1979 through 1983 are summarized as follows:

Year	Amount	Year	Amount
	(Thousands of Dollars)		
1979	$48,003	1982	$56,537
1980 (See Note 4)	79,025	1983	8,907
1981	51,265		

4. NUCLEAR FUEL TRUST:

A Trust Agreement dated September 30, 1976 and amended August 1, 1977 between the Company and The Citizens & Southern National Bank of South Carolina as Trustee provides for the financing of the Company's two-thirds ownership share (see Note 8) of the cost of nuclear fuel related to the initial core requirement of the V.C. Summer Nuclear Station. Pursuant to terms of the Agreement, the Company has assigned to the

1066 090

Trust certain contracts for purchase of nuclear fuel and the Trustee will borrow necessary funds up to an aggregate amount of $42 million to purchase the fuel and to make interest payments (at 109% of prime rate plus ¼ of 1%) when due. The Company is unconditionally obligated to repurchase the fuel from the Trust either prior to initial loading of fuel into the reactor or no later than June 30, 1980. For financial reporting purposes, purchases by the Trust are assumed to have been made on behalf of the Company and the amounts expended by the Trustee (approximately $37.0 million and $10.2 million through December 31, 1978 and 1977, respectively) and certain fees, etc. accrued by the Company (approximately $1.2 million and $300 thousand at December 31, 1978 and 1977, respectively) are included in the accompanying Consolidated Financial Statements.

Pursuant to Staff (of the Securities and Exchange Commission) Accounting Bulletin No. 28, the Company has included in its 1978 Consolidated Statement of Income and has restated its 1977 Consolidated Statement of Income to include approximately $3.2 million in 1978 and $1.0 million in 1977 representing interest and related fees in Interest on long-term debt. Such amounts were offset by a like increase in Allowance for borrowed funds used during construction — credit. This change had no effect on Net Income.

5. STOCKHOLDERS' INVESTMENT:

	1978	1977
Common Stock:	(Thousands of Dollars)	
$4.50 par value; Authorized 30,000,000 shares:		
Outstanding,		
1978 — 22,439,871 shares;		
1977 — 20,358,612 shares	**$100,979**	$ 91,614
Preferred Stock:		
Cumulative $100 par value;		
Authorized 1,000,000 shares:		
6⅞% Series (Outstanding 150,000 shares)	**$ 15,000**	$ 15,000
7.70% Series (Outstanding,		
1978 — 137,400 shares;		
1977 — 141,000 shares)	**13,740**	14,100
8.12% Series (Outstanding,		
1978 — 198,000 shares;		
1977 — 202,400 shares)	**19,800**	20,240
8.40% Series (Outstanding 200,000 shares)	**20,000**	20,000
10¾% Series (Outstanding 200,000 shares)	**20,000**	20,000
Cumulative $50 par value;		
Authorized,		
1978 — 1,955,620 shares;		
1977 — 1,968,320 shares:		
4.50% Series (Outstanding,		
1978 — 44,800 shares;		
1977 — 46,400 shares)	**2,240**	2,320
4.60% Series (Outstanding,		
1978 — 26,334 shares;		
1977 — 27,834 shares)	**1,317**	1,392
4.60% Series A (Outstanding,		
1978 — 60,052 shares;		
1977 — 62,052 shares)	**3,002**	3,102
4.60% Series B (Outstanding,		
1978 — 132,600 shares;		
1977 — 136,000 shares)	**6,630**	6,800
5% Series (Outstanding 125,234 shares)	**6,262**	6,262
5.125% Series (Outstanding,		
1978 — 89,000 shares;		
1977 — 90,000 shares)	**4,450**	4,500
6% Series (Outstanding,		
1978 — 137,600 shares;		
1977 — 140,800 shares)	**6,880**	7,040
9.40% Series (Outstanding,		
1978 — 299,200 shares;		
1977 — 306,000 shares)	**14,960**	15,300
8.72% Series (Outstanding 400,000 shares)	**20,000**	—
Cumulative $25 par value;		
Authorized 2,000,000 shares:		
Outstanding — None	—	—
Total	**$154,281**	$136,056

The call premium of the respective series of preferred stock in no case exceeds the amount of the annual dividend.

1066 091

Notes to Consolidated Financial Statements
(continued)

The annual amounts of purchase fund or sinking fund requirements for preferred stock for the calendar years 1979 through 1983 are summarized as follows:

Year	Amount	Year	Amount
	(Thousands of Dollars)		
1979 (See Note 13)	$16,655	1982	$3,015
1980	1,715	1983	3,015
1981	3,015		

Increases in "Premium on common stock" for 1978 (approximately $27.5 million) and 1977 (approximately $34.8 million) represent the premium on issuance of additiona shares of stock as follows:

	1978	1977
Common stock — public sale	**1,500,000**	2,200,0C
Stock Purchase — Savings Program for Employees	**149,304**	125,01
Dividend Reinvestment and Stock Purchase Plan	**311,807**	145,4C
Employee Stock Ownership Plan (ESOP)	**120,148**	54,02
Total	**2,081,259**	2,524,43

Increases in "Other paid in capital" for 1978 (approximately $16 thousand) and 1977 (approximately $5 thousand) consist of gains on the reacquisition of 8,000 and 7,400 shares of preferred stock, respectively.

Increases in "Capital stock expense" for 1978 and 1977 are summarized as follows:

	1978	197
	(Thousands of Dollar	
Charges in connection with issuance of stock:		
Common	**$280**	$48
Preferred	**249**	13
Retirement of preferred stock through purchase or sinking funds	**(28)**	(2
Net Increase	**$501**	$59

The Restated Articles of Incorporation of the Company and the indentures underlying certain bond issues contain certain provisions that limit the payment of cash dividends on common stock. The most restrictive of these provisions would have permitted the payment of approximately $120.1 million and $106.3 million of cash dividends on common stock at December 31, 1978 and 1977, respectively.

6. INCOME TAX EXPENSE:

The Company's income taxes differ from amounts computed by applying the Feder income statutory rate of 48% to pre-tax income as follows:

	1978	1977
	(Thousands of Dollar	
Net income	**$60,347**	$54,6
Add (deduct) components of income tax expense:		
Income tax expense charged to operating expenses (income taxes and credits and investment tax credits, net)	**42,435**	40,6
Income tax credited to other income	**(10,212)**	(9,1
Income tax expense charged to other income, net	**420**	3
Total income tax expense	**32,643**	31,9
Total pre-tax income	**$92,990**	$86,5
Income taxes on above at statutory Federal income tax rate	**$44,635**	$41,5
Increases (decreases) attributable to:		
Allowance for funds used during construction (excluding nuclear fuel trust)	**(12,466)**	(11,2
Depreciation differences	**943**	9
Amortization of investment tax credits	**(794)**	(5
State income taxes (less Federal income tax effect)	**2,253**	2,2
Taxes, pensions and other items capitalized on books	**(1,491)**	(2,0
Other differences, net	**(437)**	1,0
Income tax expense	**$32,643**	$31
Income tax expense is composed of:		
Provision for currently payable taxes:		
Federal	**$ (206)**	$ 1,7
State	**2,809**	3,1
Total currently payable	**2,603**	4,9
Deferred taxes (net):		
Federal	**8,385**	10,7
State	**922**	5
Total deferred taxes	**9,307**	11,2
Investment tax credits (net)	**20,733**	15,6
Total income tax expense	**$32,643**	$31,9

1066 092

Provision for net deferred taxes results from timing differences in recognition of the following items:

	1978	1977
	(Thousands of Dollars)	
Excess of accelerated depreciation and amortization deductions over straight-line depreciation otherwise deductible for income tax purposes	$ 8,185	$ 7,399
Interest on nuclear fuel trust	1,645	498
Other, net	(523)	3,400
Provision for net deferred income taxes	$ 9,307	$11,297

7. LINES OF CREDIT, COMPENSATING BALANCES AND NOTES PAYABLE:

The Company has lines of credit which may be reduced or withdrawn at the banks' option and maintains without formal agreement average bank balances of approximately 10% of such lines of credit with all such balances available for use as general operating funds. Bank loans are for 270 days or less. Detail of lines of credit and short-term borrowings at December 31, 1978 and 1977 and for the years then ended are as follows:

	December 31, 1978	December 31, 1977
	(Dollars in Millions)	
Lines of credit at end of year	$84.4	$82.9
Borrowings against credit line at end of year	—	—
Average bank balances during the year	$ 5.2	$ 6.6
Short-term borrowings (including commercial paper) during the year:		
Maximum outstanding	$73.4	$43.3
Average outstanding	$22.3	$21.9
Weighted daily average interest rates:		
Bank loans	7.94%	6.12%
Commercial paper	7.57%	5.90%
Notes payable at end of year:		
Bank loans	$ 2.0	$ 1.8
Interest rate	10.11%	6.72%
Commercial paper	$ 7.7	$38.0
Interest rate	10.26%	6.72%

8. COMMITMENTS AND CONTINGENCIES:

A. Construction

In addition to routine commitments of approximately $12.8 million for operating materials and supplies, the Company at December 31, 1978 had commitments for major construction (including nuclear fuel) of approximately $80.8 million (includes one-third interest of South Carolina Public Service Authority) for construction of the V.C. Summer Nuclear Station.

The Company and the South Carolina Public Service Authority (a public corporation of the State of South Carolina) have contracted to become joint owners at the V.C. Summer Nuclear Station on the basis of two-thirds by the Company and one-third by the Authority and to participate, on a like basis, in the costs of construction, costs of operation and in the energy output thereof. The Company's share (approximately $375.3 million and approximately $288.7 million at December 31, 1978 and 1977, respectively) of costs of construction of the nuclear station, which is scheduled for completion in 1980, are included in construction work in progress. Each owner is responsible for financing its own share of the nuclear station.

The Company has made a timely application for an operating license for the V.C. Summer Nuclear Station and the Nuclear Regulatory Commission has granted a petition to intervene in such proceeding. The Company is unable to predict at this time whether proceedings by regulatory and governmental bodies would delay the issuance of such license beyond the date of scheduled operation.

B. Litigation

The Company is involved in litigation with Westinghouse Electric Corporation concerning contracts for the supply of nuclear fuel for the V.C. Summer Nuclear Station. (Reference is made to "Corporate and Financial Review" beginning with the seventh paragraph under "Fuel.")

Additionally, the Company is involved as a codefendant with Carolina Power & Light Company in litigation brought by certain North Carolina electric cooperatives. (Reference is made to "Corporate and Financial Review" under "Litigation.")

C. Leases

Minimum lease commitments as of December 31, 1978 under all noncancellable non-capitalized leases are not material. The present value of minimum lease commitments at December 31, 1978 with respect to non-capitalized financing leases (as defined by the Securities and Exchange Commission) is less than five per cent of the total capitalization of the Company. The impact on net income if non-capitalized financing leases were capitalized, related assets amortized on a straight-line basis and interest cost accrued on the basis of the outstanding lease liability is less than three per cent of the average net income for the most recent three years.

1066 093

Notes to Consolidated Financial Statements
(continued)

D. Retained Earnings and Licensed Projects

In accordance with a FERC order, beginning January 1, 1978, the Company reclassified amortization reserves from "Deferred Credits, Other" to "Retained Earnings Appropriated."

Licenses granted by the FERC with respect to the hydroelectric projects of the Company provide that after an initial twenty-year period a portion of the earnings on such projects in excess of a specified rate of return is to be set aside in an amortization reserve.

At the termination of a license under the Federal Water Power Act or Federal Power Act, the Federal government may take over the related project, or the FERC may extend the license or issue a license to another applicant. If the Federal government takes over a project or the FERC issues a license to another, the original licensee shall be paid its "net investment" in the project not to exceed fair value, plus severance damages.

The Company is licensee for five hydroelectric projects. The initial license for two of the projects (Columbia and Saluda) expired in 1970 and 1977, respectively, with the Company continuing operations under annual licenses.

9. SEGMENT OF BUSINESS INFORMATION:

Segment information at December 31, 1978 and 1977 and for the years then ended is as follows:

1978	Electric	Gas	Trans-portation (coach)	Total
		(Thousands of Dollars)		
Operating revenues	$ 382,370	$101,804	$ 1,927	$ 486,1
Operating expenses, excluding depreciation	285,652	89,811	3,244	378,7
Depreciation	27,457	5,016	170	32,6
Total operating expenses	313,109	94,827	3,414	411,3
Operating income	$ 69,261	$ 6,977	$(1,487)	74,7
Add — Other income, net				29,2
Less — Interest charges				43,6
Net income				$ 60,3
Capital expenditures:				
Identifiable	$ 172,784	$ 3,171	$ 12	$ 175,9
Utilized for overall Company operations				8
Total				$ 176,8
Identifiable assets at December 31, 1978:				
Utility plant, net	$1,256,794	$ 94,076	$ 1,141	$1,352,0
Materials and supplies	61,257	5,526	51	66,8
Total	$1,318,051	$ 99,602	$ 1,192	1,418,8
Assets utilized for overall Company operations				103,8
Total assets				$1,522,7

1977	Electric	Gas	Trans-portation (coach)	Total
		(Thousands of Dollars)		
Operating revenues	$ 337,927	$ 78,405	$ 2,023	$ 418,
Operating expenses, excluding depreciation	249,609	67,075	3,067	319,
Depreciation	25,255	4,902	182	30,
Total operating expenses	274,864	71,977	3,249	350,
Operating income	$ 63,063	$ 6,428	$(1,226)	68,
Add — Other income, net				25,
Less — Interest charges				39,
Net income				$ 54,
Capital expenditures:				
Identifiable	$ 186,240	$ 3,094	$ 28	$ 189,
Utilized for overall Company operations				2,
Total				$ 191,
Identifiable assets at December 31, 1977:				
Utility plant, net	$1,112,014	$ 95,974	$ 1,291	$1,209,
Materials and supplies	51,943	4,784	63	56,
Total	$1,163,957	$100,758	$ 1,354	1,266
Assets utilized for overall Company operations				95
Total assets				$1,361

1066 094

10. QUARTERLY FINANCIAL DATA (UNAUDITED):

The following data have not been audited but, in the opinion of the Company, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of such amounts.

1978

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total operating revenues (000)	$126,414	$109,432	$137,899	$112,356	$486,101
Operating income (000)	21,577	15,437	22,275	15,462	74,751
Net income (000)	18,949	12,896	[illegible]	10,795	60,347
Earnings available for common stock (000)	16,296	10,262	15,075	8,114	49,747
Per common share:					
Earnings	.76	.47	.68	.36	2.26
Dividends paid	.39	.405	.405	.405	1.605
Price range:					
High	18¾	18⅜	19	18⅜	
Low	17½	17⅛	17⅜	16	

1977

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total operating revenues (000)	$101,740	$ 89,920	$123,040	$103,655	$418,355
Operating income (000)	18,010	14,550	19,842	15,863	68,265
Net income (000)	14,147	11,230	16,182	13,093	54,652
Earnings available for common stock (000)	11,469	8,573	13,519	10,438	43,999
Per common share:					
Earnings	.62	.42	.67	.51	2.22
Dividends paid	.38	.39	.39	.39	1.55
Price range:					
High	19⅜	20	21	19⅛	
Low	18¼	[illegible]	18⅜	17⅜	

11. REPLACEMENT COSTS (UNAUDITED):

The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity that are significantly greater than the historical costs of such assets reported in the Company's Consolidated Financial Statements. The Company's ability to replace plant in the future as well as to expand will be contingent upon its ability to finance the needed additions. This, in turn, will depend on the Company's ability to obtain adequate and timely rate relief. In compliance with reporting requirements, estimated replacement cost information will be disclosed in the Company's annual report to the Securities and Exchange Commission on Form 10-K.

12. RECLASSIFICATIONS:

Certain reclassifications, related to the Nuclear Fuel Trust, have been made in the accompanying Consolidated Financial Statements for 1977 to conform to 1978 classifications. (See Note 4—Nuclear Fuel Trust)

13. SUBSEQUENT EVENTS:

On January 15, 1979, the PSC issued an order that suspended the Company's application of the monthly automatic fuel adjustment clause and increased the fuel component in base rates. This Order requires that semi-annual hearings be held to review and change, as necessary, the fuel component in base rates to enable the Company to recover projected fuel costs over the ensuing six-month period.

The Company was further directed to account for over or under collections of fuel costs through unbilled revenues with any resultant balance to be included during the next PSC hearing to consider any change in the fuel component of base rates.

The Company does not anticipate that this Order will have a material adverse affect on its future financial condition.

On January 31, 1979, the Company issued through a private placement $15,000,000 of $50 par value, 8% preferred stock. The proceeds from the new preferred stock were used to retire the Company's $15,000,000, $100 par value, 6⅞% Series of preferred stock.

1066 095

Report of Independent Certified Public Accountants

Deloitte Haskins+Sells

1250 First National Bank Building
Main at Washington Street
Columbia, South Carolina 29201
(803) 771-7575
Cable DEHANDS

South Carolina Electric & Gas Company:

We have examined the Consolidated Balance Sheets of South Carolina Electric & Gas Company and consolidated subsidiary as of December 31, 1978 and 1977 and the related Consolidated Statements of Income, Retained Earnings and Changes in Financial Position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 6, 1978, our opinion on the 1977 Consolidated Financial Statements was qualified as being subject to the effects, if any, of final determination of (i) court appeals of a Public Service Commission (PSC) order granting the Company a rate increase which increased 1977 operating revenues by approximately $17,000,000 and (ii) a Company appeal of that portion of the PSC order which required it to refund approximately $7,000,000. As explained in Note (2) to the Consolidated Financial Statements, the appeals mentioned in (i) were dismissed by court orders dated November 3 and November 10, 1978 without effect on the Company's Consolidated Financial Statements; the appeal mentioned in (ii) will not have a negative effect on the Company's Consolidated Financial Statements. Accordingly, our present opinion on the 1977 Consolidated Financial Statements, as presented herein, is different from that expressed in our previous report.

In our opinion, such Consolidated Financial Statements present fairly the financial position of the companies at December 31, 1978 and 1977 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

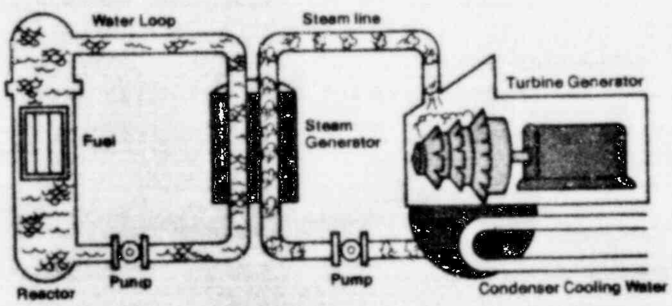
DELOITTE HASKINS & SELLS

February 7, 1979

ENERGY REPORT 3

Providing reliable energy is our job

How a typical Nuclear Generating Plant works



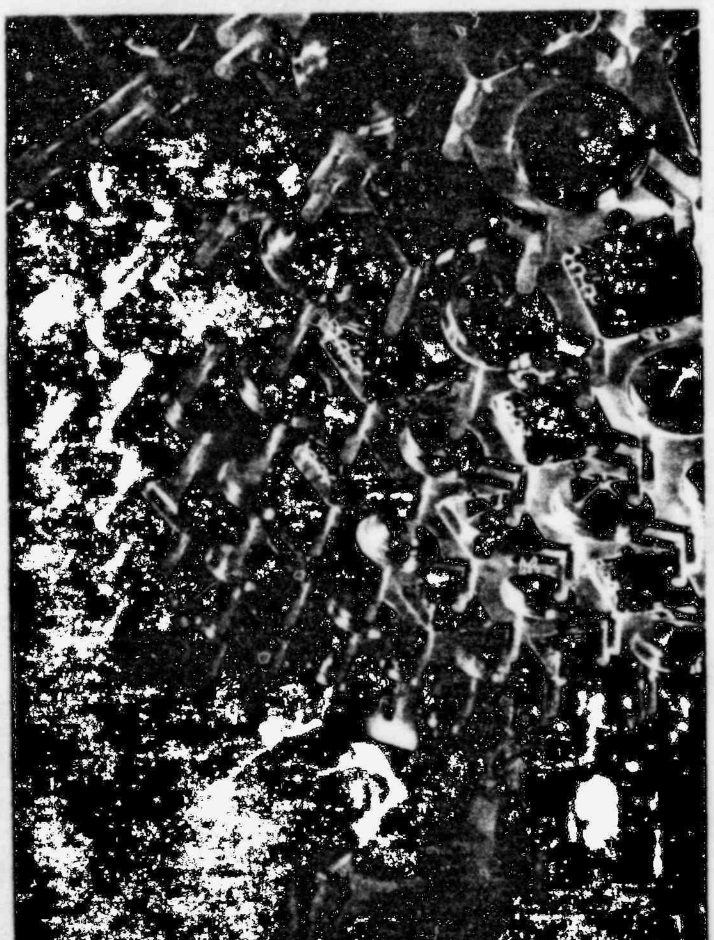
With the exception of how the steam is produced, the operation of a nuclear generating plant is almost the same as a conventionally-fueled power plant.

Nuclear fission occurs when a tiny particle called a neutron hits a uranium atom and splits it into smaller atoms, emitting energy in the form of heat and other free particles. A closely controlled atomic reaction occurs as more and more particles split more and more atoms, producing more heat.

In a nuclear station, this chain reaction takes place in a heavily shielded chamber called a reactor. Control rods regulate the speed of the reaction, and when fully inserted in the fuel core, stop it completely.

The heat energy produced is used to boil water into steam, and from this point on, electricity is generated exactly the same way as in fossil fuel plants.

A thick concrete outer shield and a massive metal inner container guard against radiation leaks. Water heated by the reactor is recirculated inside shielded pipes and never released.



A workman examines an internal part of the reactor vessel at the V.C. Summer Nuclear Station which is scheduled for completion in 1980.

Investor ownership provides for future

SCE&G has an obligation to supply reliable service to its customers, now and in the future.

This is a commitment that SCE&G's management does not take lightly. Through careful planning and a progressive construction program, SCE&G can now meet the demands of its customers. And for the future, SCE&G is thinking ahead because it cannot wait until the power is needed to build the necessary generating equipment. It must build now because it takes four to six years to complete a conventional fossil fuel plant and eight to 12 years for a nuclear facility.

Obviously, a construction program of the magnitude required to meet the needs of SCE&G's customers requires a lot of money. To meet these needs, much of the capital must come from investors.

Therefore, SCE&G has a dual responsibility – to the customer and to the investor. One cannot exist without the other. To attract investors, SCE&G realizes it must make enough money to pay its bills and have enough left over to pay a dividend to its shareholders. During this period of spiraling inflation, this requires a very efficient operation – something SCE&G is dedicated to.

For the investor, stability is an important word. And SCE&G is proud of the fact that since it became an independent operating company in 1946, it has not missed paying a dividend on its common stock.

Following a motion by a shareholder at SCE&G's annual meeting in April, 1978, the Association of South Carolina Electric & Gas Company Investors was formed to represent and protect the interest of SCE&G investors. Thus far, over 1400 stockholders, representing 41 states, Canada and the Bahamas, have joined the Association. It will represent the stockholders at all public hearings and further the understanding of basic economics as related to free enterprise and investor-owned utilities.

Energy Report 4 follows on page 33

Summary of Operations

	1978	1977	1976	1975	1974	1973	1968
INCOME DATA — Thousands							
Operating Revenues:							
Electric	**$382,370**	$337,927	$275,892	$263,773	$227,803	$162,650	$ 80,78
Gas	**101,804**	78,405	71,948	55,379	48,750	39,693	22,72
Transportation (coach)	**1,927**	2,023	1,996	1,979	2,024	1,898	1,61
Total Operating Revenues	**486,101**	418,355	349,836	321,131	278,577	204,241	105,12
Operating Expenses:							
Fuel Used in Electric Generation	**184,047**	155,132	116,892	109,649	104,993	52,015	18,52
Gas Purchased for Resale	**73,455**	51,321	44,789	31,061	26,517	21,748	10,70
Other Operation	**34,144**	32,417	36,613	36,255	32,272	33,105	14,26
Maintenance	**21,208**	17,727	15,860	13,189	12,538	11,598	5,00
Depreciation and Amortization	**32,643**	30,339	27,825	26,703	23,544	20,450	11,22
Taxes:							
Other Taxes	**23,418**	22,455	20,112	17,874	17,150	15,486	7,97
Income Taxes	**42,435**	40,699	28,612	27,662	13,878	8,561	14,26
Total Operating Expenses	**411,350**	350,090	290,703	262,393	230,892	162,963	81,96
Operating Income	**74,751**	68,265	59,133	58,738	47,685	41,278	23,15
Other Income:							
Allowance for Funds Used During Construction:							
Borrowed and Equity — prior to January 1, 1977	**—**	—	18,317	9,668	4,105	6,320	1,08
Equity — since January 1, 1977	**18,340**	16,610	—	—	—	—	—
Income Tax — Credit	**10,212**	9,183	5,860	3,317	1,590	1,891	—
Other Income (Deductions), Net, Less Income Tax Effects	**723**	(185)	345	376	507	1,047	38
Total Other Income	**29,275**	25,608	24,522	13,361	6,202	9,258	1,45
Income Before Interest Charges	**104,026**	93,873	83,655	72,099	53,887	50,536	24,60
Interest Charges:							
Interest	**54,527**	47,099	39,839	33,677	29,309	23,820	8,14
Allowance for Borrowed Funds Used During Construction — since January 1, 1977 — (credit)	**(10,848)**	(7,878)	—	—	—	—	—
Total Interest Charges	**43,679**	39,221	39,839	33,677	29,309	23,820	8,14
Net Income	**60,347**	54,652	43,816	38,422	24,578	26,716	16,46
Dividends on Preferred Stock	**10,600**	10,653	9,169	7,060	7,117	6,259	1,85
Earnings Available for Common Stock	**$ 49,747**	$ 43,999	$ 34,647	$ 31,362	$ 17,461	$ 20,457	$ 14,60

1066 098

	1978	1977	1976	1975	1974	1973	1968
GENERAL							
Earnings Per Average Share of Common Stock	**$2.26**	$2.22	$1.97	$2.09	$1.47	$1.75	$1.78
Dividends Per Share of Common Stock	**$1.62**	$1.56	$1.52	$1.48	$1.48	$1.43	$1.12
Average Common Shares Outstanding — Thousands	**22,029**	19,833	17,547	15,023	11,890	11,714	8,201
Year-End Common Shares Outstanding — Thousands	**22,440**	20,359	17,834	15,905	14,236	11,746	8,211
Book Value Per Share of Common Stock — Year End	**$18.44**	$17.84	$17.11	$16.62	$16.20	$17.61	$12.37
Operating Income — Before Income Taxes (%)							
Electric	**94**	93	88	88	84	87	84
Gas	**9**	9	15	14	18	15	17
Transportation (coach)	**(3)**	(2)	(3)	(2)	(2)	(2)	(1)
BALANCE SHEET DATA — Thousands							
Total Utility Plant (excluding nuclear fuel in trust)	**$[illegible]3,661**	$1,478,619	$1,294,279	$1,101,086	$966,492	$870,731	$467,468
Capitalization							
Common Equity	**$ 413,788**	$ 363,130	$ 305,072	$ 264,331	$230,572	$206,882	$101,603
Preferred Stock	**154,281**	136,056	137,771	119,486	101,201	87,616	36,651
Long-Term Debt	**603,238**	574,815	522,149	451,695	403,494	357,972	173,797
Total Capitalization	**$1,171,307**	$1,074,001	$ 964,992	$ 835,512	$735,267	$652,470	$312,051
OTHER STATISTICS							
Electric							
Customers — Year End	**328,797**	320,476	312,617	304,366	298,585	290,180	243,306
Sales — (Thousands KWH)	**11,620,938**	11,155,095	10,318,150	9,563,369	10,092,501	10,492,078	6,499,795
Residential							
Annual KWH per Customer	**12,269**	12,146	11,320	10,970	10,745	11,291	8,615
Annual Rate per KWH — Cents	**4.37**	4.02	3.61	3.69	3.04	2.29	1.90
Generating Capability — Net KW — Year End	**3,364,000**	2,852,000	2,852,000	2,851,000	2,883,000	2,918,000	1,422,500
Peak Demand — Net KW							
System	**2,469,000**	2,459,000	2,304,000	2,422,000	2,195,000	2,523,000	1,405,000
Territorial	**2,271,000**	2,216,000	1,994,000	1,931,000	1,819,000	1,762,000	1,212,000
Gas							
Customers — Year End	**162,412**	161,850	161,473	159,241	158,253	154,348	111,568
Sales (Thousands MCF)	**48,586**	45,669	47,721	45,534	47,722	44,225	31,907
Gas Produced and Purchased for Resale (Thousands MCF)	**51,597**	48,745	50,374	49,273	51,241	48,427	35,087
Residential							
Annual MCF per Customer	**72.8**	71.5	74.6	61.5	[illegible]1.7	72.1	81.2
Annual Rate per MCF — Dollars	**$3.19**	$2.65	$2.41	$2.33	$2.24	$1.78	$1.36
Transportation (coach)							
Number of Coaches	**96**	96	96	96	100	96	82
Revenue Passengers Carried (000)	**8,658**	8,971	8,915	8,937	9,310	8,978	10,562

1066 099

Management's Discussion and Analysis of the Summary of Operations and Statements of Income

Operating Revenues — Total operating revenues increased approximately $67.7 million or 16.2% for 1978 and $68.5 million or 19.6% for 1977.

The increase during 1978 was primarily attributable to a 4.2% increase in the total sales volume of electricity, a 6.4% increase in the sales volume of natural gas and the recovery of increased costs through the fuel and purchased gas adjustment clauses.

The increase in electric operating revenues during 1977 was primarily attributable to an 8.1% increase in the sales volume of electricity, a rate increase effective December 13, 1976 (in effect for the entire 1978 and 1977 periods) and recovery of increased fuel costs through fuel adjustment clauses. Due to curtailments by the Company's supplier (Southern Natural Gas Company), gas sales volume during 1977 decreased by 4.3% from 1976. Accordingly the increase in gas operating revenues in such period was primarily due to the recovery of increased prices charged by our supplier through the purchased gas adjustment clause.

Electric Sales — Electric energy sales to ultimate consumers increased 4.7% and 8.3% during 1978 and 1977, respectively, due primarily to a 2.6% and a 2.5% increase in the number of customers in 1978 and 1977, respectively. While there was an increase in consumption for all classes of customers during 1978, the rate of increase was less than in 1977, which the Company believes was due primarily to a cooler summer and a milder late fall and early winter.

Gas Sales — The Company was able to increase its MCF sales by 6.4% in 1978 primarily because of increased quantities made available by its supplier (Southern Natural Gas Company) as opposed to curtailment of supplies during 1977. Such increased supply of gas was available to the Company because of, among other things, a supplemental source of LNG being imported from Algeria by its supplier. The shortage of natural gas and resultant curtailments in 1977 resulted in a 4.3% decrease in total MCF sales as compared with 1976.

Fuel Used in Electric Generation — The cost of all primary fuels used in electric generation continued to rise in both 1978 and 1977. The increases of approximately $28.9 million or 18.6% and $38.2 million or 32.7% for 1978 and 1977, respectively, were due to rising fuel prices and increases in electric generation of 4.2% and 11.8%, respectively.

Power Purchased, Net — This account fluctuates with the net interchange sales and purchases between the Company and other utilities. The decreases in this expense of approximately $.1 million and $8.4 million for 1978 and 1977, respectively, were primarily attributable to the expiration of a purchase power contract in 1977 and increased sales to other utilities. The selling of more power to, rather than purchasing from, other utilities is expected to continue during 1979.

Gas Purchased for Resale — The increase in the cost of gas purchased for resale of approximately $22.1 million or 43.1% during 1978 ($6.5 million or 14.6% during 1977) was due primarily to the continuing increased gas prices charged by the Company's supplier and, in 1978, to a 5.3% increase in the volume of gas purchased for resale.

Other Operation — While inflationary pressures on wages, material costs and supplies continue to be the prime cause for increases in almost all other items of electric and gas operating expenses, the increase in these expenses was only 4.9% for 1978 due primarily to the continuing cost management efforts of the Company.

Maintenance — The increase in maintenance expense of approximately $3.5 million or 19.6% during 1978 was primarily attributable to major maintenance for turbine and generator repairs and boiler tubing replacement at the Company's Canadys Station, structural modification of the main cooling tower at the Wateree Station and boiler repairs at the McMeekin and Hagood Stations. The increase was also caused by expenses related to repairs on electric distribution overhead lines and repairs to gas distribution mains and services. The increase of approximately $1.9 million or 11.8% during 1977 was due primarily to repairs on electric distribution overhead lines, repairs to gas distribution mains, major maintenance for generator inspection and repairs and air preheater basket replacement at the Company's Williams Station, high pressure turbine overhaul at the McMeekin Station, turbine repairs at the Canadys Station and generator repairs at the Saluda Hydroelectric Station.

1066 100

Depreciation — Depreciation expense continued to increase as additional facilities were placed in service. During 1978, with the Fairfield Pumped Storage Hydro Plant beginning commercial operation this expense increased by approximately $2.3 million (approximately $1.1 million being attributable to the Fairfield Plant) or 7.6% as compared to an increase of approximately $2.5 million or 9.0% for 1977. Approximately $1.8 million of the 1977 increase was caused by a change, during 1976, in the gas composite depreciation rate from 2.71% to 3.48% and the establishment of a depreciation rate of 6.67% for the Company's LNG facility. In 1979 depreciation expense is estimated to increase by approximately $1.5 million due to the commercial operation of the Fairfield Plant.

Taxes Other Than Income — Taxes other than income increased approximately $1.0 million or 4.3% and $2.3 million or 11.6% for 1978 and 1977, respectively. These taxes consist primarily of property taxes, electric generation tax, franchise taxes, gross receipts tax and payroll taxes. Such taxes continually fluctuate due to changes in plant in service, millage as determined by statutory bodies, electric generation, operating revenues and payroll costs.

Income Taxes — While State and Federal income taxes increased by approximately $.1 million and $6.5 million in 1978 and 1977, respectively, it should be noted that these taxes vary with fluctuations in pre-tax income and investment tax credits. In addition, current and deferred Federal income taxes and allowance for funds used during construction (which is not a cash item and although credited to Interest Charges or Other Income is not taxable income) fluctuate with the level of plant construction and its ultimate placement into service. For a more detailed analysis of income tax expense for 1978 and 1977, see Note 6 of the Notes to Consolidated Financial Statements.

Investment Tax Credits — Increases in investment tax credits were due primarily to the Tax Reduction Act of 1975 which allowed increased rates and investment tax credits on certain qualified progress expenditures. The increases also reflect an additional 1% investment tax credit as provided by the Tax Reduction Act of 1975 which the Company used to establish an Employee Stock Ownership Plan effective in 1977.

Stock Price Range and Dividends Paid Per Share

Common Stock	**1978**				1977			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Price Range:*								
High	18¾	18⅜	19	18⅝	19⅝	20	21	19⅞
Low	17½	17⅛	17⅝	16	18¼	18⅜	18⅝	17⅜
Dividends Paid Per Share	$.39	$.405	$.405	$.405	$.38	$.39	$.39	$.39

Preferred Stock	**Series of Stock**						
	7.70%	8.12%	8.40%	4.50%	5%	9.40%	8.72%
Valuation Price — Year End 1978	$89.534	$90.222	$90.81	$25.00	$25.00	$50.80	$47.125

*The principal market for SCE&G common stock (SCG) is the New York Stock Exchange.

1066 101

Allowance for Funds Used During Construction — The capitalization of an allowance for funds used during construction (AFC) is a utility accounting practice whereby the cost of the interest component of borrowed funds and a reasonable rate of return on equity funds so used are credited to Interest Charges or Other Income and capitalized to construction work in progress as a part of the cost of construction. While AFC is a non-cash item and does not contribute to the current cash flow of the Company, the Company does expect to recover such costs through utility rates after the completion of the related construction. (See Note 1 of the Notes to Consolidated Financial Statements)

AFC (both debt and equity portion) increased by approximately $4.7 million or 19.2% and $6.2 million or 33.7% in 1978 and 1977, respectively, as construction activity continued at the Company's V.C. Summer Nuclear Station. Construction was completed and the Fairfield Pumped Storage Hydro Plant was placed into commercial operation during 1978. Approximately $6.8 million of AFC generated during 1978 related to the Fairfield Plant as compared to approximately $9.2 million during 1977. Had this plant been classified as construction work in progress for all of 1978, it would have contributed approximately $11 million instead of $6.8 million of AFC. Additionally the increases for 1978 and 1977 reflect approximately $2.2 million and $.8 million, respectively, due to the recording of AFC applicable to the Nuclear Fuel Trust. (See Note 4 of the Notes to Consolidated Financial Statements) The increase during 1977, despite a reduction in the Company's composite AFC rate from 8% to 6.5% effective January 1, 1977, was primarily attributable to increased construction work in progress. It should be noted that the amount of AFC capitalized fluctuates in direct proportion to construction activity.

Interest Charges — Increases in total interest charges (exclusive of allowance for borrowed funds used during construction) of approximately $7.4 million or 15.8% and $7.3 million or 18.2% during 1978 and 1977, respectively, were due primarily to additional long-term debt financing required for the Company's construction program. Of the above increases, approximately $2.2 million and $.8 million for 1978 and 1977, respectively, were attributable to interest on the Nuclear Fuel Trust. (See Note 4 of the Notes to Consolidated Financial Statements)

Preferred Stock Dividends — The decrease of .5% in preferred stock dividends during 1978 was due to stock redemptions during this period. The increase in preferred stock dividends of approximately $1.5 million or 16.2% during 1977 was the result of a preferred stock issue of 200,000 shares in December 1976.

Earnings Available for Common Stock — Earnings available for common stock increased approximately $5.7 million or 13.1% during 1978 as compared to an increase of approximately $9.4 million or 27.0% during 1977. Both years benefited from rate relief placed into effect during December 1976. (See Note 2 of the Notes to Consolidated Financial Statements) Earnings per average share (EPS) increased in 1978 by $.04 per average share or 1.8% whereas EPS increased in 1977 by $.25 per average share or 12.7%. EPS in 1978 and 1977 were diluted by the increase of 2,196,479 shares or 11.1% and 2,285,674 shares or 13.0%, respectively.

The increase in EPS for 1978 was also due to increased sales volumes of electricity and gas and the effect of (3.6¢ per average share) refunds from its supplier, Southern Natural Gas Company. The declining rate of increase in EPS experienced during 1978 was caused primarily by the slower growth in sales volume of electricity as discussed above, increased depreciation and reduction of associated AFC related to the placing in service of the Fairfield Plant, increased interest costs resulting from financing the Company's continuing construction program and the 11.1% increase in the average number of common shares outstanding.

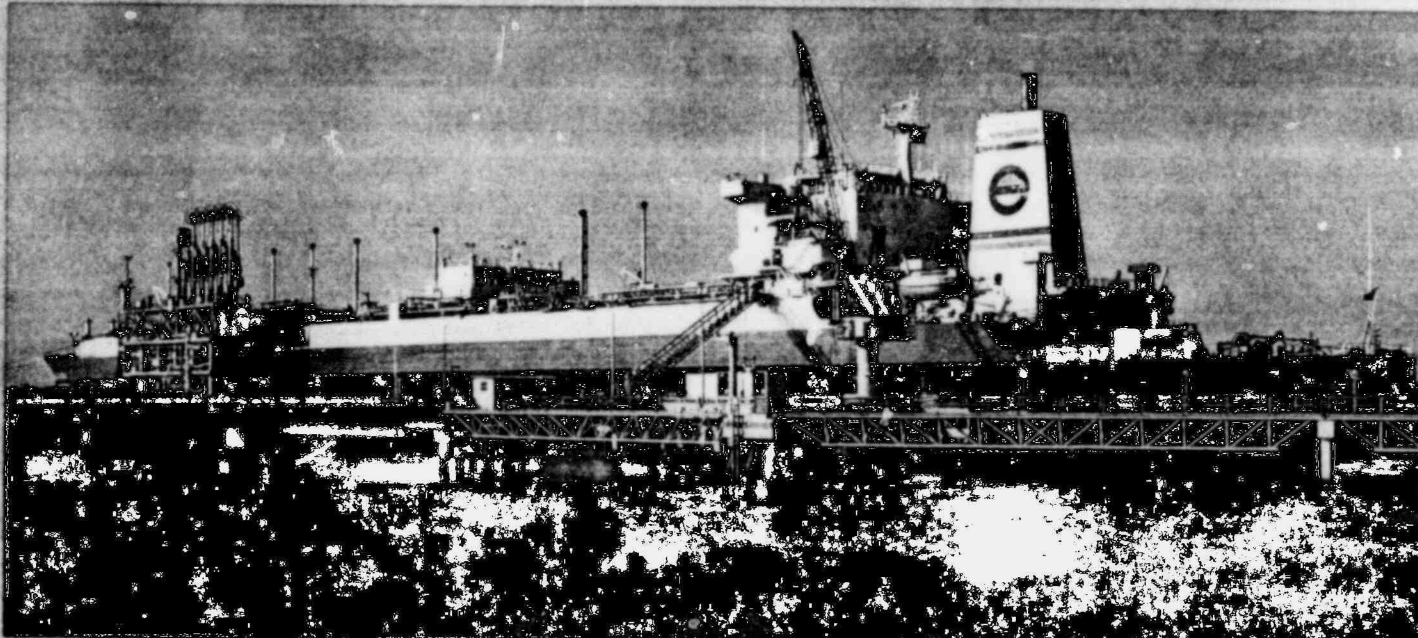
While this trend is expected to continue during 1979, the Company will continue to monitor its earnings picture and intends to seek adequate rate relief as may be deemed necessary to continue its construction program, to offset rising operating costs, maintain earnings at acceptable levels and provide a fair return to investors.

1066 102

POOR ORIGINAL

ENERGY REPORT 4

Natural gas The story at SCE&G



SCE&G is receiving some of the LNG that Southern Natural Gas Company is now importing at Elba Island, Georgia from Algeria.

Natural gas was a curiosity to man

Long before its tremendous potential as a natural resource was discovered, natural gas was a curiosity to man.

History tells us about an "eternal flame" that burned on the shores of the Caspian Sea in 1000 B.C. A temple was erected on the site and worshippers traveled from as far away as Persia and India.

The first evidence of natural gas in the United States was in Virginia, on land owned by George Washington. A remarkable "burning spring" was discovered on it which was actually bubbles of natural gas rising through the water and burning in the open air.

Once man discovered this valuable resource, a means of transporting it had to be developed.

There are reports of how the Chinese built the first natural gas pipelines centuries ago from bamboo. In America in the 1800s, hollow logs were used to carry natural gas. Later, wrought iron lines were used, but it was not until 1935 that the age of natural gas truly began with the development of long-distance, high pressure pipelines.

Although SCE&G had been selling manufactured gas for many years, it was not until 1954 that the first natural gas was purchased for resale to customers. Today, SCE&G has 4200 miles of pipelines to serve approximately 162,000 customers in over 70 towns and communities.

SCE&G, like all utilities in recent years, has felt the effects of the national shortage of natural gas. Every year, during the cold weather months, demand by customers can exceed the amount that SCE&G receives from its supplier.

To compensate for this, SCE&G stores propane gas to mix into its system as a supplemental supply. It also has a liquefied natural gas facility near Charleston where it liquefies and stores natural gas until it is needed on peak usage days. SCE&G is also receiving some of the LNG that is being imported by its supplier, Southern Natural Gas Company, from Algeria.

By planning ahead and taking steps such as these, SCE&G anticipates being able to continue providing natural gas to all of its firm gas customers.

Predecessor companies sold gas

Many years before SCE&G began selling natural gas, its predecessor companies were selling manufactured gas.

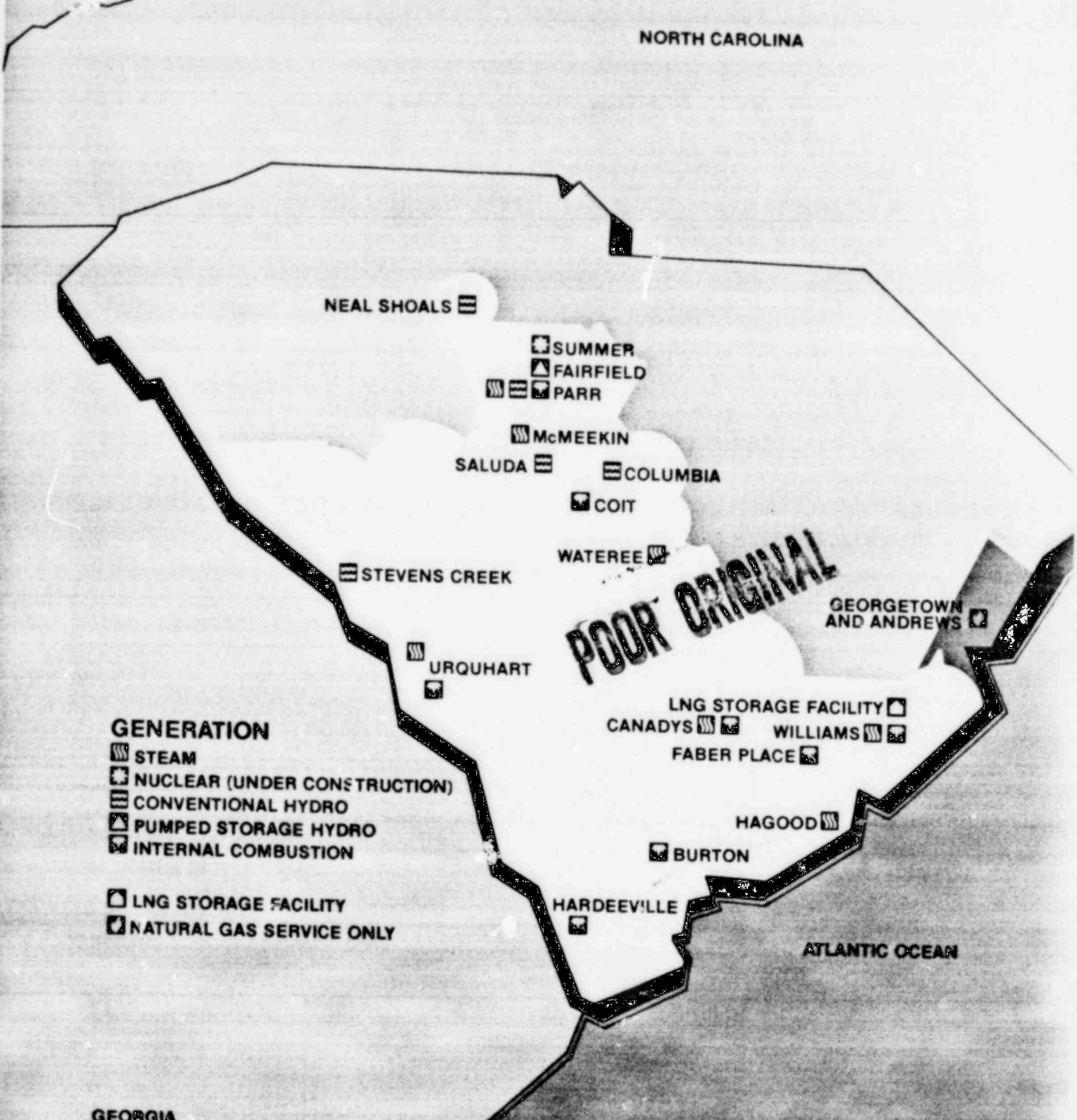
The Charleston Gas Light Company was formed in 1846, and two years later, amid curiosity and excitement, gas lights were put in use on Charleston streets.

In 1852, a young and growing Columbia was anxious for the improved method of lighting which had come to Charleston a few years before. So in December of that year, the Columbia Gas Light Company was chartered to manufacture and sell gas.

Through a variety of corporate mergers and acquisitions, these two gas companies have become the present-day South Carolina Electric & Gas Company.

1066 103

SCE&G Service Area



Our service area encompasses 24 counties in South Carolina, covering over 12,000 square miles and serves over 328,000 electric customers and 182,000 gas customers. Total population of the territory is estimated to about 1.2 million. Electricity is served at retail to more than 127 towns and communities and natural gas to 70 of these towns. Also, the Company has two wholly-owned subsidiaries, Energy Subsidiary, Inc., engaged in real estate development and South Carolina LNG Company, Inc., organized to own and operate LNG storage facilities. Urban bus service is rendered in the cities of Columbia and Charleston. In addition to the power plants indicated on the map, the Company's system is interconnected by a network of high voltage transmission lines with electric utility systems throughout South Carolina and the Southeast.

Directors and Officers

Directors

J.K. Addy
President, Addy Dodge, Inc.
Lexington, South Carolina

W.B. Bookhart
Owner, W.B. Bookhart Farms
Elloree, South Carolina

W.R. Bruce, Sr. (1)
President, Seibels, Bruce Group, Inc.
Columbia, South Carolina

K.W. French
Retired Plant Manager
E.I. duPont de Nemours and Company
Savannah River Plant
Aiken, South Carolina

J.B. Guess, III
Owner, Edisto Farms
Denmark, South Carolina

B.A. Hagood
President, Wm. M. Bird and Co., Inc.
Charleston, South Carolina

J.F. Hassell, Jr.
President and Chairman of the Board
Pre-Stress Concrete Co., Inc.
Charleston, South Carolina

Avram Kronsberg
President, Edward's, Inc.
Charleston, South Carolina

J.H. Lumpkin*
Chairman of the Board
and Chief Executive Officer
South Carolina National Corporation
Columbia, South Carolina

F.C. McMaster
President and Manager
Winnsboro Petroleum Company
Winnsboro, South Carolina

E.W. Pike, Jr.
President, Colonial Development Co.
Beaufort, South Carolina

J.B. Rhodes*
President, Rhodes Oil Company, Inc.
Walterboro, South Carolina

J.E. Schachte, Jr.
President, Schachte Agency, Inc.
Real Estate and Insurance
Charleston, South Carolina

Virgil C. Summer*
President and Chief Operating Officer
of the Company
Columbia, South Carolina

W.H. Taylor
President and Chairman of the Board
Twin City Motor Company, Inc.
Batesburg, South Carolina

Arthur M. Williams*
Chairman of the Board
and Chief Executive Officer
of the Company
Columbia, South Carolina

Oscar S. Wooten*
Executive Vice President-Finance
of the Company
Columbia, South Carolina

Directors Emeriti

D.H. Banks
W.J. Keenan, Jr.
Edward Kronsberg
S.R. McMaster
F.R. McMeekin
A.C. Mustard
W.J. Ready
John C.B. Smith

*Member of the Executive Committee
(1) Elected Effective August 1, 1978

Officers

Arthur M. Williams
Chairman of the Board and
Chief Executive Officer

Virgil C. Summer
President and
Chief Operating Officer

Oscar S. Wooten
Executive Vice President-
Finance

C. Joseph Fritz
Senior Vice President-
Administration

Grayson C. Meetze
Senior Vice President and
General Manager-Operations

William N. Ackerman
Vice President-
Gas Operations

Harry G. Boylston, Jr.
Vice President-
Marketing and Area Development

Esca (Ed) H. Crews, Jr.
Vice President and
Group Executive-
Engineering Services and
Construction

Frank C. Davis
Vice President-
Corporate Communications

George H. Fischer
Vice President and
General Counsel

Thomas M. Groetzinger
Vice President
and Controller

D. Ellis Hay, Jr.
Vice President-
Customer Operations,
Districts

Malcolm C. Johnson
Vice President and
Group Executive-
Special Services
and Purchasing

Thomas C. Nichols, Jr.
Vice President
and Group Executive-
Power Production
and System Operations

Curtis L. Rye
Vice President-
Customer Operations,
Metro Columbia

B. Marion Smith, Jr.
Vice President-
Governmental Affairs

Herman B. Speissegger, Jr.
Vice President-
Customer Operations,
Metro Charleston

Donald R. Tomlin
Vice President
and Group Executive-
Customer Operations

James W. Wedding
Vice President-
Computer Services

Hugh W. Weldon
Vice President
and Group Executive-
Administrative Services

Harold M. Bryant
Secretary

Henry H. Gaddis
Treasurer

J. Gary Black II
Assistant Treasurer

S. Jane Dent
Assistant Secretary

Samuel B. Harrington, Jr.
Assistant Controller

George C. How
Assistant Controller

T. Roland Lide
Assistant Treasurer

Edward C. Roberts
Assistant Secretary

Robert W. Stedman
Assistant Controller

1066 105

Supplemental Corporate Information

Annual Meeting and Solicitation of Proxies

The annual meeting of stockholders will be held at the office of the Company, 328 Main Street, Columbia, South Carolina on Wednesday, April 25, 1979. Proxies will be requested for such meeting and will be sent to stockholders on or about March 16, 1979.

This report is issued solely for the purpose of providing information. It is not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, any securities.

Form 10-K

A copy of the Company's 1978 Form 10-K filing with the Securities and Exchange Commission will be made available to stockholders upon written request. It will be necessary to charge a fee to reimburse the Company for the actual cost of reproduction and mailing.

A copy of the Statistical Supplement to this report, or information concerning financial and operating data is available without charge. Please call or address your request to B. Tate Horton, Jr., Executive Assistant-Finance, South Carolina Electric & Gas Company, Post Office Box 764, Columbia, South Carolina 29218, Telephone (803) 799-1234.

POOR ORIGINAL

Corporate Information

Transfer Agents

COMMON STOCK:

Manufacturers Hanover Trust Company
New York, New York

The South Carolina National Bank
Columbia, South Carolina

CUMULATIVE PREFERRED STOCK:

Irving Trust Company
New York, New York

The South Carolina National Bank
Columbia, South Carolina

Registrars

COMMON STOCK:

Manufacturers Hanover Trust Company
New York, New York

The Citizens and Southern National Bank of South Carolina
Columbia, South Carolina

CUMULATIVE PREFERRED STOCK:

The Chase Manhattan Bank, N.A.
New York, New York

The Citizens and Southern National Bank of South Carolina
Columbia, South Carolina

Trustee and Paying Agent

FIRST AND REFUNDING MORTGAGE BONDS:

Manufacturers Hanover Trust Company
New York, New York

Dividend Reinvestment Agent

South Carolina Electric & Gas Company
Stockholder Records
328 Main Street
Post Office Box 764
Columbia, South Carolina 29218

Common stock and 5% cumulative preferred stock listed on the New York Stock Exchange

South Carolina Electric & Gas Company
328 Main Street
Post Office Box 764, Columbia, South Carolina 29218

1066 107

POOR ORIGINAL

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Consolidated Statements of Income

	3 Months Ended May 31, 1979	3 Months Ended May 31, 1978	12 Months Ended May 31, 1979	12 Months Ended May 31, 1978
	(Thousands)			
Operating Revenues				
Electric	$ 83 634	$ 82 730	$384 116	$362 554
Gas	33 262	25 776	111 939	93 031
Transportation (coach)	523	489	2 006	1 942
Total Operating Revenues	117 419	108 995	498 061	457 527
Operating Expenses				
Operation	74 542	65 207	306 348	269 848
Maintenance	6 242	5 417	22 269	18 610
Depreciation and amortization	8 935	7 905	34 362	30 800
Taxes				
Other than income	8 464	5 792	24 609	23 286
Income	5 193	8 341	36 775	42 621
Total Operating Expenses	101 376	92 662	424 363	385 165
Operating Income	16 043	16 333	73 698	72 362
Other Income, Net	6 294	7 908	26 869	28 602
Income Before Interest Charges	22 337	24 241	100 567	100 964
Interest Charges	12 498	10 227	47 119	40 267
Net Income	9 839	14 014	53 448	60 697
Dividends on Cumulative Preferred Stock	3 079	2 640	11 326	10 607
Earnings for Common Stock	$ 6 760	$ 11 374	$ 42 122	$ 50 090
Average Common Shares Outstanding (Thousands)	23 080	22 022	22 525	20 860
Earnings Per Average Common Share	$ 29	$ 52	$1 87	$2 40

Consolidated Condensed Balance Sheets

May 31, 1979 and May 31, 1978

(Thousands)

	1979	1978
ASSETS		
Utility Plant		
Electric	$1 528 769	$1 389 543
Gas	134 528	131 696
Other (including nuclear fuel in trust)	57 184	38 177
Total	1 720 481	1 559 416
Less accumulated provision for depreciation and amortization	313 166	280 677
Utility Plant, Net	1 407 315	1 278 739
Other Property and Investments	21 522	20 196
Current Assets	127 132	100 779
Deferred Debits	19 066	15 119
Total	$1 575 035	$1 414 833
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common equity	$ 429 713	$ 397 556
Preferred stock	153 231	134 876
Long-term debt	569 208	603 989
Total Capitalization	1 152 152	1 136 421
Nuclear Fuel Trust	39 787	21 867
Liabilities		
Short-term borrowings	14 656	26 171
Other current liabilities	196 757	87 087
Deferred credits	67 404	47 545
Accumulated deferred income taxes	104 279	95 742
Total Liabilities	383 096	256 545
Total	$1 575 035	$1 414 833

Note: 1979 figures are preliminary and subject to verification by independent auditors.

GENERAL INFORMATION

Dividend Reinvestment Plan. South Carolina Electric & Gas Company has a Dividend Reinvestment and Stock Purchase Plan which enables stockholders to reinvest their dividends and to make optional cash purchases of additional shares of common stock of the Company. No fee or commission is charged. As of June, 1979, almost 17 per cent of the Company's stockholders were participants. If you would like more information about the Plan, please address your request to the attention of Stockholder Relations, and send it to the address listed below.

Annual Meeting of Stockholders. A report on the items of business conducted at the April 25th meeting has been sent to all stockholders. If you did not receive a copy, please write to the Company, Attention: Investor Relations.

Association of SCE&G Investors. For information concerning the Association's activities, and to obtain a membership application, please write to this address: Mr. Paul Quattlebaum, Assoc. of SCE&G Investors, 15 Broad St., Charleston, S. C. 29401.

Change of Address. Please inform the Company ... you move. Direct your letter to Stockholder Relations, and please be sure to mention ... the security you hold (e.g., common stock, ... 2% preferred, etc.)

... Information. To obtain additional information about the material contained in this report, ... your letter to B. Tate Horton, Jr. ... —Finance, at the Company.

... solely for the purpose of providing ... intended for use in connection with ... of, or any offer or solicitation of offers ... securities.

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SOUTH CAROLINA ELECTRIC & GAS COMPANY SPRING 1979 REPORT TO STOCKHOLDERS

Highlights

	3 Months Ended May 31, 1979	3 Months Ended May 31, 1978
Net Income (Millions)	$9.8	$14.0
Per Average Common Share:		
Earnings	$.29	$.52
Dividends Paid	$.42	$.405
Total Sales:		
Electric (Millions of KWH)	2,531.0	2,589.1
Gas (Millions of Therms)	143.5	130.2

1066 108

POOR ORIGINAL

TO OUR STOCKHOLDERS:

DIVIDEND DECLARED

The Company is pleased to enclose a check representing your quarterly dividend, or a statement of the amount of your dividend being reinvested through the Company's Dividend Reinvestment and Stock Purchase Plan.

For the quarter ending June 30, 1979, the Board of Directors declared a dividend of 42 cents per common share, payable July 1, 1979 to stockholders of record on June 11, 1979. This action marks the 122nd consecutive quarterly cash dividend on common stock paid by your Company. The Board of Directors also declared the regular dividends on all outstanding series of preferred stock.

NEW DIRECTOR ELECTED

At the Annual Meeting of Stockholders held in April, Mr. W. B. Bookhart, Jr. was elected to serve as a Director of the Company. Mr. Bookhart is a graduate of Clemson University and is a partner in W. B. Bookhart Farms in Elloree, South Carolina. He succeeds his father, W. B. Bookhart, who has been elected a Director Emeritus following 10 years of dedicated service as a Director of the Company.

OPERATING RESULTS

Earnings available for common dividends for the three months ended May 31, 1979 were $6.8 million or 29 cents per average share, compared to $11.4 million or 52 cents per average share for the same period last year. For the 12 months ended May 31, 1979, earnings available for common dividends were $42.1 million or $1.87 per average share compared to $50.1 million or $2.40 per average share for the same period in 1978.

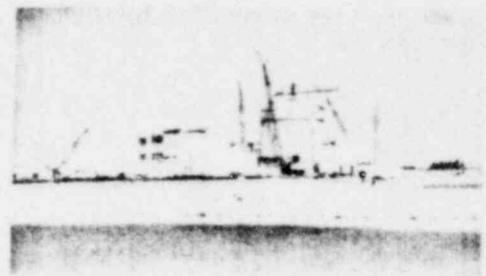
The declines in earnings are primarily the result of the impact of inflation on financing costs related to our construction program and on operating expenses.

The South Carolina Public Service Commission has directed that roughly $2.3 million in extraordinary expenses associated with the two ice storms referred to in our last Interim Report be charged to net income over a three year period beginning June 1, 1979. The Company believes that this accounting treatment is fair and equitable to both its customers and its stockholders.

The expiration of a large contract for the sale of power to a neighboring utility is the principal factor contributing to a 2.2% decline in total sales of electricity for the three months ended May 31, 1979 versus the same period last year. However, sales to ultimate consumers, which exclude such sales to other utilities, are up by 2.9% for the same comparative period. Total therm sales of natural gas are up by 10.2% for the three months ended May 31, 1979 versus the same period in 1978, primarily because of an increase in the availability of gas from our supplier.

RATE RELIEF REQUESTED

In response to the continued decline in earnings that has occurred since the fall of 1978, the Company filed an application on June 1, 1979 with the South Carolina Public Service Commission requesting increases in its electric and natural gas rates. The proposed rates represent increases of 10.77 per cent, or $38.9 million annually in retail electric revenues and 6.05 per cent, or $6.7 million annually in retail natural gas revenues. The new electric rates will become effective on July 1, 1979, and the new gas rates will go into effect on November 1, 1979, subject to refund with interest for any portions not approved by the Commission. The decision to seek higher electric and gas rates will insure that SCE&G will continue to be able to provide reliable service to its customers and a fair and reasonable return on investment to its stockholders.



[illegible] of the V. C. Summer Nuclear Station will lessen the Company's dependence on coal and oil as fuels for the generation of electricity.

FUTURE GENERATING FACILITIES

A recent generation expansion study indicates that, following completion of the V. C. Summer Nuclear Station in late 1980, additional base load generating facilities will not be required until the latter part of the 1980's. However, the Company does plan to supplement its peak generating facilities in the mid 1980's by adding 300 MW of internal combustion turbines. The addition of these turbines, which can be fueled by either natural gas or #2 oil, will enable the Company to meet the needs of our present and future customers without incurring the higher capital costs associated with larger base load generating plants.

The management of your Company has been closely following the developments within the nuclear industry arising out of the March incident at the Three Mile Island Nuclear Plant near Harrisburg, Pennsylvania. At this time, we are unable to predict what, if any, impact the event will have on the cost and operation of our own V. C. Summer Nuclear Station. The Summer Nuclear Station, which employs systems designed and furnished by Westinghouse, is presently scheduled to begin commercial operations in late 1980.

1979 FINANCING PROGRAM COMPLETED

In April, the Company sold one million shares of common stock at $16.875 per share and raised $35 million by selling thirty-year bonds carrying an interest rate of 10 1/8%.

The Company completed its 1979 public financing schedule in June by selling $50 million of 9 3/4% thirty-year bonds. The proceeds from this part of our 1979 financing program were used to retire maturing bonds and to fund our construction program.

Arthur M. Williams
Chairman of the Board

Virgil C. Summer
President

June 15, 1979

BILL INTRODUCED TO DEFER TAXES ON REINVESTED DIVIDENDS

A bill introduced in the U.S. House of Representatives proposes a change in our tax laws that would provide a significant benefit to participants in the Company's dividend reinvestment plan as well as in similar plans of other companies.

As it now stands, the [illegible] would give participants the option of deferring the Federal income taxes on dividends up to $1,500 per taxpayer or $3,000 on a joint return reinvested in original issue stock. These dividends [illegible] taxed after [illegible] year paid. [illegible] be paid when the stock [illegible] with the reinvested dividends is sold. At that time, if the stock were held for more than one year, the [illegible] would be treated as a long-term capital gain, and only 40% would be subject to tax.

The adoption of H.R. 654 [illegible] step toward encouraging capital formation [illegible] during the impact of [illegible] taxes [illegible] distributed as dividends.

Front Cover: The Citadel, located in historic Charleston, is the state's official military college and one of three remaining state-supported military colleges in our nation. Established in 1842, The Citadel is one of your Company's oldest customers with service dating back to 1904.

SOUTH CAROLINA ELECTRIC & GAS COMPANY

P. O. BOX 764, COLUMBIA, SOUTH CAROLINA 29218

QUARTERLY REPORT

2ND QUARTER

ENDED

JUNE 30, 1979

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED BALANCE SHEETS

June 30, 1979 and 1978

(Unaudited)

ASSETS

	1979	1978
UTILITY PLANT (including construction work in progress; 1979 — $467,855,852; 1978 — $422,844,661) (Notes 1, 3 and 4):		
Electric	$1,539,567,513	$1,403,653,267
Gas	134,882,770	131,960,746
Transportation (coach)	3,651,782	3,644,930
Common	14,061,218	12,836,980
Total	1,692,163,283	1,552,095,923
Less accumulated depreciation and amortization	315,831,874	283,591,227
Utility Plant, net (excluding nuclear fuel in trust)	1,376,331,409	1,268,504,696
Nuclear fuel in trust	40,237,565	32,915,004
Utility Plant, net	1,416,568,974	1,301,419,700
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property (substantially at cost)	9,690,327	2,447,421
Investment in, notes receivable and advances to subsidiary (Note 1)	11,802,285	17,754,851
Other investments and special funds (at cost or less)	86,471	145,721
Total Other Property and Investments	21,579,083	20,347,993
CURRENT ASSETS:		
Cash	2,365,811	4,222,261
Temporary cash investments	3,750,000	2,500,000
Special deposits	41,671,394	767,981
Receivables	44,667,172	43,454,093
Materials and supplies (at average cost or less):		
Fuel	69,208,682	48,882,194
Other	6,415,455	5,609,053
Prepayments	4,874,935	3,095,799
Total Current Assets	172,953,449	108,531,281
DEFERRED DEBITS:		
Unamortized debt expense	3,934,595	4,059,510
Other	15,707,493	11,426,275
Total Deferred Debits	19,642,088	15,485,785
TOTAL	$1,630,743,594	$1,445,784,859

See notes to consolidated financial statements

1066 111

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED BALANCE SHEETS

June 30, 1979 and 1978

(Unaudited)

LIABILITIES

	1979	1978
STOCKHOLDERS' INVESTMENT (Notes 5 and 6):		
Preferred stock	$ 153,036,000	$ 134,696,000
Common stock (Authorized 30,000,000 shares; Outstanding, 1979 — 23,758,299 shares; 1978 — 22,070,467 shares)	106,912,346	99,317,102
Premium on common stock	207,688,426	187,115,767
Other paid-in capital	4,243,848	4,197,992
Capital stock expense (debit)	(5,729,717)	(5,252,987)
Retained earnings:		
Unappropriated	119,352,036	116,625,085
Appropriated	391,858	391,858
Total Stockholders' Investment	585,894,797	537,090,817
LONG-TERM DEBT (Note 3):		
Principal amounts	620,564,279	644,026,383
Less unamortized discount and premium, net	1,026,415	678,107
Long-Term Debt,	619,537,864	643,348,276
Total Capitalization	1,205,432,661	1,180,439,093
NUCLEAR FUEL TRUST (Note 4)	40,237,565	32,915,004
CURRENT LIABILITIES:		
Short-term borrowings:		
Banks	1,757,300	2,321,900
Other	15,620,369	436,076
Accounts payable and customer rate refunds (Note 2)	32,435,899	33,258,360
Customer deposits	5,782,042	5,580,195
Taxes accrued	6,377,120	7,357,688
Interest accrued	15,720,212	13,954,642
Dividends declared	13,061,135	11,572,614
Current portion of long-term debt (Note 3)	115,634,817	9,537,790
Tax collections payable	847,072	803,962
Other	1,450,068	1,6[illegible]102
Total Current Liabilities	208,686,034	86,453,629
DEFERRED CREDITS:		
Accumulated deferred investment tax credits (Note 1)	61,862,372	46,771,987
Accumulated deferred income taxes (Note 1)	104,989,200	96,911,300
Other	9,535,762	2,293,846
Total Deferred Credits	176,387,334	145,977,133
COMMITMENTS AND CONTINGENCIES (Note 6)		
TOTAL	$1,630,743,594	$1,445,784,859

See notes to consolidated financial statements

1066 112

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

For The Periods Ended June 30, 1979 and 1978

(Unaudited)

	3 Mos. Ended June 30, 1979	3 Mos. Ended June 30, 1978	6 Mos. Ended June 30, 1979	6 Mos. Ended June 30, 1978	12 Mos. Ended June 30, 1979	12 Mos. Ended June 30, 1978
OPERATING REVENUES (Notes 1 and 2):						
Electric	$ 85,369,383	$ 86,352,830	$178,688,122	$179,291,480	$381,766,879	$365,688,137
Gas	29,575,454	22,594,830	67,875,051	55,650,159	114,029,298	94,910,564
Transportation (coach)	533,597	484,490	1,001,653	904,433	2,024,000	1,941,958
Total Operating Revenues	115,478,434	109,432,150	247,564,826	235,846,072	497,820,177	462,540,659
OPERATING EXPENSES:						
Fuel used in electric generation	41,113,761	41,634,328	83,841,901	88,599,774	179,289,531	174,977,906
Power purchased, net (credit)	(2,262,813)	(655,411)	(2,178,506)	(5,136,282)	(2,466,325)	(6,245,803)
Gas purchased for resale	23,058,053	16,471,637	50,192,737	37,478,764	86,169,308	67,340,711
Other operation	11,877,655	9,784,366	23,521,830	18,970,501	44,119,344	38,178,163
Maintenance	6,464,656	5,892,022	11,272,883	10,161,554	22,319,037	18,867,129
Depreciation and amortization (Note 1)	8,932,464	7,996,200	17,882,164	15,913,800	34,611,664	30,994,000
Amortization of storm damage expenses (Note 7)	64,833	—	64,833	—	64,833	—
Taxes (Note 1):						
Other than income	6,445,819	5,737,170	13,237,583	11,804,715	24,850,609	22,956,170
State income	394,600	638,800	1,201,300	2,062,100	3,325,400	4,563,600
Federal income (credit)	424,800	(1,547,400)	4,627,900	4,300,200	10,478,100	10,963,400
Provision for deferred income	2,980,700	3,656,000	7,272,700	7,277,800	14,737,131	14,817,536
Deferred taxes (credit)	(2,631,800)	(1,059,400)	(5,376,300)	(3,494,600)	(9,260,070)	(5,984,164)
Investment tax credit adjustments:						
Amount deferred	3,456,000	5,646,300	6,912,000	11,292,600	17,146,630	19,114,694
Amortization of amounts deferred (credit)	(266,944)	(199,444)	(533,889)	(398,889)	(928,037)	(722,537)
Total Operating Expenses	100,051,784	93,995,168	211,939,136	198,832,037	424,457,155	389,820,805
OPERATING INCOME	15,426,650	15,436,982	35,625,690	37,014,035	73,363,022	72,719,854
OTHER INCOME (Note 1):						
Allowance for funds used during construction—equity	4,073,363	5,246,925	7,972,264	10,188,021	16,124,374	19,353,253
Income tax-credit	2,338,700	2,561,700	4,660,400	5,080,600	9,791,800	9,789,400
Other income, net, less income tax effects (debit)	(67,349)	17,400	63,731	214,027	572,435	(148,398)
Total Other Income	6,344,714	7,826,025	12,696,395	15,482,648	26,488,609	28,994,255
INCOME BEFORE INTEREST CHARGES	21,771,364	23,263,007	48,322,085	52,496,683	99,851,631	101,714,109
INTEREST CHARGES (Note 4):						
Interest on long-term debt	14,612,971	12,516,303	28,333,907	24,282,800	55,508,523	46,752,263
Amortization of debt premium, discount and expense, net	152,509	136,831	303,837	252,120	622,552	605,733
Other interest expense	1,246,314	535,308	2,524,769	1,391,854	3,631,663	2,677,786
Allowance for borrowed funds used during construction — (credit) (Note 1)	(3,119,481)	(2,821,972)	(6,088,215)	(5,275,241)	(11,660,698)	(9,441,801)
Total Interest Charges	12,892,313	10,366,470	25,074,298	20,651,533	48,102,240	40,593,981
NET INCOME	8,879,051	12,896,537	23,247,787	31,845,150	51,749,391	61,120,128
DIVIDENDS ON PREFERRED STOCK	3,073,711	2,634,029	6,162,483	5,287,103	11,475,582	10,605,590
EARNINGS AVAILABLE FOR COMMON STOCK	$ 5,805,340	$ 10,262,508	$ 17,085,304	$ 26,558,047	$ 40,273,809	$ 50,514,538
AVERAGE COMMON SHARES OUTSTANDING	23,466,664	22,060,656	23,025,148	21,752,819	22,665,646	21,019,557
EARNINGS PER AVERAGE SHARE OF COMMON STOCK	$ .25	$ .47	$ .74	$1.22	$1.78	$2.40

See notes to consolidated financial statements

1066 113

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For The Periods Ended June 30, 1979 and 1978

(Unaudited)

	6 Months Ended June 30, 1979	6 Months Ended June 30, 1978	12 Months Ended June 30, 1979	12 Months Ended June 30, 1978
UNAPPROPRIATED:				
Balance at beginning of period	$121,735,947	$107,897,373	$116,625,085	$ 99,770,551
Add — Net income	23,247,787	31,845,150	51,749,391	61,120,128
Total	144,983,734	139,742,523	168,374,476	160,890,679
Deduct				
Cash dividends declared:				
Preferred stock	6,162,483	5,287,103	11,475,582	10,605,590
Common stock	19,469,215	17,830,335	37,546,858	33,660,004
Total Deductions	25,631,698	23,117,438	49,022,440	44,265,594
Unappropriated retained earnings at end of period (Note 5)	119,352,036	116,625,085	119,352,036	116,625,085
APPROPRIATED (Note 6):				
Balance at beginning of period	391,858	—	391,858	—
Transfer from amortization reserve	—	359,010	—	359,010
Current provision	—	32,848	—	32,848
Appropriated retained earnings at end of period	391,858	391,858	391,858	391,858
TOTAL RETAINED EARNINGS AT END OF PERIOD	$119,743,894	$117,016,943	$119,743,894	$117,016,943

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For The Periods Ended June 30, 1979 and 1978

(Unaudited)

	6 Months Ended June 30, 1979	6 Months Ended June 30, 1978	12 Months Ended June 30, 1979	12 Months Ended June 30, 1978
WORKING CAPITAL PROVIDED:				
Net income	$ 23,247,787	$ 31,845,150	$ 51,749,391	$ 61,120,128
Charges (credits) to income not providing or requiring working capital:				
Depreciation and amortization	17,882,164	15,913,800	34,611,664	30,994,000
Deferred income taxes, net	1,896,400	3,783,200	5,477,061	8,833,372
Investment tax credit, net	6,378,111	10,893,711	16,218,593	18,392,157
Allowance for funds used during construction (AFC)	(14,060,479)	(15,463,262)	(27,785,072)	(28,795,054)
Total from Operations	35,343,983	46,972,599	80,271,637	90,544,603
Nuclear fuel trust	2,017,872	22,423,109	7,322,561	25,982,694
Sale of Securities:				
Mortgage bonds	83,856,250	69,497,500	83,856,250	69,497,500
Pollution control revenue bonds	—	—	—	5,155,000
Preferred stock	15,000,000	—	35,000,000	—
Common stock	21,607,129	30,352,606	28,167,903	34,222,874
Decrease in:				
Other property and investments	328,436	—	—	27,386
Other non-current funds	6,993,761	1,170,286	6,677,990	—
Total Working Capital Provided	165,147,431	170,416,100	241,296,341	225,430,057
WORKING CAPITAL APPLIED:				
Utility plant additions (excluding AFC but including nuclear fuel trust)	58,248,239	82,523,877	123,382,736	161,280,373
Cash dividends:				
Preferred stock	6,162,483	5,287,103	11,475,582	10,605,590
Common stock	19,469,215	17,830,335	37,546,858	33,660,004
Reduction of long-term debt	68,699,813	1,466,851	108,810,412	3,496,330
Retirement of preferred stock	16,245,000	1,360,000	16,660,000	1,775,000
Increase in:				
Other property and investments	—	728,255	1,231,090	—
Other non-current funds	—	—	—	1,858,098
Total Working Capital Applied	168,824,750	109,196,421	299,106,678	212,675,395
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,677,319)	$ 61,219,679	$ (57,810,337)	$ 12,754,662
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT:				
Cash	$ (1,651,684)	$ 2,232,146	$ (1,856,450)	$ (2,386,290)
Temporary cash investments	3,750,000	2,500,000	1,250,000	(6,500,000)
Receivables	(2,223,133)	(1,031,995)	1,213,079	4,061,081
Materials and supplies	7,872,318	(2,463,765)	21,132,890	16,074,254
Short-term borrowings	(7,047,262)	38,012,649	(14,619,693)	814,292
Current portion of long-term debt	(67,632,172)	(269,598)	(106,097,027)	(446,523)
Accounts payable and accruals	19,289,165	20,579,668	(1,515,685)	1,155,515
Other, net	43,965,449	1,660,574	42,682,549	(17,667)
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,677,319)	$ 61,219,679	$ (57,810,337)	$ 12,754,662

See notes to consolidated financial statements

1066 114

SOUTH CAROLINA ELECTRIC & GAS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1979

1. Summary of Significant Accounting Policies:

A. System of Accounts

The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the South Carolina Public Service Commission (PSC).

B. Principles of Consolidation

The accounts of the Company's wholly-owned subsidiary, South Carolina LNG Company, Inc., are consolidated in the accompanying Consolidated Financial Statements.

The Company's investment in its wholly-owned subsidiary, Energy Subsidiary, Inc., is reported in the accompanying Consolidated Financial Statements using the equity method of accounting.

C. Utility Plant

Utility plant is stated at original cost. The cost of additions, renewals and betterments to utility plant, including direct labor, material and indirect charges for engineering, supervision, and an allowance for funds used during construction, are added to utility plant accounts. The original cost of utility property retired or otherwise disposed of is removed from utility plant accounts and along with the cost of removal, less salvage, is charged to accumulated depreciation. The cost of repairs, replacements and renewals of items of property determined to be less than a unit of property is charged to maintenance expense.

D. Allowance for Funds Used During Construction

Allowance for funds used during construction (AFC), a non-cash item, reflects the cost for the period of capital devoted to plant under construction. This cost represents interest charges on borrowed funds and a reasonable rate of return on equity funds so used. This accounting practice results in the inclusion, as a component of construction cost (construction work in progress), of amounts of AFC which will ultimately be included in rate base in establishing rates for utility charges. AFC was calculated using a 6.5% rate in 1979, 1978 and 1977 except for AFC related to nuclear fuel in trust which was capitalized at the actual amount thereof. (See Note 4—Nuclear Fuel Trust)

E. Depreciation

The Company provides for depreciation for financial reporting purposes on a straight-line basis over the estimated useful lives of utility plant. Annual rates averaged 3.09% and 3.29% for the twelve months ended June 30, 1979 and 1978, respectively.

F. Income Taxes

Deferred income taxes, arising from the use of accelerated amortization and depreciation rather than straight-line tax depreciation, are charged to income currently with corresponding credits to accumulated deferred income taxes and are credited to income in appropriate amounts when subsequent income tax liabilities are greater as a result of this practice.

Income taxes are allocated to "Operating Expenses" or "Other Income." The income tax-credit under "Other Income" results from tax deductions related to interest expense arising principally from investments in construction work in progress.

Investment tax credits on eligible property as provided by the Revenue Act of 1971 and the Tax Reduction Act of 1975 are being amortized over the lives of the respective assets.

The Company's Federal income tax returns have been examined through 19[illegible]5.

G. Pension Plan

The Company has a pension plan covering all employees. Total pension contributions, including amortization of unfunded prior service cost, were approximately $4.5 million and $3.7 million for the twelve months ended June 30, 1979 and 1978, respectively. Unfunded prior service cost of approximately $600 thousand, based on the latest actuarial valuation effective January 1, 1979, is being amortized over a twenty-year period ending in 1997.

The Company's policy is to fund pension costs accrued. There was an excess of approximately $9.6 million of actuarially computed value of vested benefits over total plan assets based on the latest actuarial valuation.

H. Revenue Recognition

Customers' meters are read and bills are rendered on a monthly cycle basis. Base rate revenue is recorded during the accounting period when the meters are read. Revenue attributable to gas costs (to the extent collectible through adjustment clauses) is recorded in the month during which the gas is used rather than when the revenue is billed. Revenue attributable to any over or under collections of electric fuel costs in the base rates is recorded in current month revenues.

I. Debt Premium, Discount and Expense

Long-term debt premium, discount and expense are being amortized over the terms of the respective debt issues.

2. Rate Matters:

On December 13, 1977, the PSC issued an order which granted a portion of a requested electric retail rate increase and which required a refund of approximately $7 million from net interchange sales to other utility companies, plus interest.

During January 1978, the Company appealed to and was granted a stay by the Court of Common Pleas for that portion of the PSC order requiring refund of the $7 million. On January 29, 1979, the Supreme Court upheld the Court of Common Pleas' determination and remanded the case to the Court of Common Pleas to determine the substantive issue of whether or not the PSC had correctly ordered the Company to refund the $7 million.

Since the refund ordered by the PSC has been eliminated from revenues and the amount thereof recorded as a liability, an adverse determination of the Company's appeal with respect thereto would not have a negative effect on the Company's Consolidated Financial Statements.

On June 15, 1979 the FERC approved a settlement agreement between the Company and its wholesale electric customers which increased revenues by $1.45 million annually effective November 15, 1978 based on the test year ended December 31, 1978. This settlement resulted in a refund with interest of approximately $417 thousand which was made in June 1979.

On June 1, 1979 the Company filed an application with the PSC to increase retail rates by 10.77% for electric and 6.05% for gas operations. Annually, these new rates would produce increases of approximately $38.9 million in electric revenues and $6.7 million in gas revenues, based on the test year ended March 31, 1979. The Company placed the new electric rates into effect on July 1, 1979 and plans to place the new gas rates into effect on November 1, 1979 with the revenues collected from both being subject to refund with interest to the extent not finally allowed.

3. Long-Term Debt:

	June 30, 1979	June 30, 1978
	(Thousands of Dollars)	
First & Refunding Mortgage Bonds:		
3⅛% Series, due 1979	$ 4,000	$ 4,000
10½% Series, due 1979	35,000	35,000
3% Series, due 1980	22,200	22,20[illegible]
3% Series A, due 1980	4,000	4,0[illegible]
8.45% Series, due 1981	40,000	40,000
3¾% Series, due 1981	3,930	4,020
7% Series, due 1982	50,000	50,000
4⅛% Series, due 1983	2,740	2,800
9⅝% Series, due 1984	25,000	25,000
3½% Series, due 1985	3,500	3,575
5½% Series, due 1987	7,300	7,450
4⅞% Series, due 1988	10,000	10,000
10½% Series, due 1990	13,200	13,800
5% Series, due 1990	10,000	10,000
5% Series, due 1991	8,000	8,000
4⅞% Series, due 1995	16,000	16,000
5.45% Series, due 1996	15,000	15,000
6% Series, due 1997	15,000	15,000
6½% Series due 1998	20,000	20,000
8% Series, due 1999	35,000	35,000
9⅛% Series, due 1999	15,000	15,000
8% Series, due 2001	35,000	35,000
7¼% Series, due 2002	30,000	30,000
9⅛% Series, due 2006	50,000	50,000
8.40% Series, due 2006	50,000	50,000
8⅝% Series, due 2007	30,000	30,000
8.90% Series, due 2008	30,000	30,000
10⅛% Series, due 2009	35,000	—
9⅞% Series, due 2009	50,000	—
Pollution Control Facilities Revenue Bonds:		
4½% Series, until October 1, 1979, thereafter 70% of applicable prime rate until October 1, 1981 and 75% of such prime rate until maturity, due 1987	5,155	5,155
5.95% Series, due 2003	7,500	7,500
First Mortgage Bonds:		
3⅞% Series, due 1979	—	908
4% Series, due 1981	362	87[illegible]
5% Consolidated Mortgage Gold Bonds, due 1999 (non-callable)	1,063	1,075
Unsecured Notes — Banks, due 1980 with interest not to exceed 7.625% over the term of the notes	45,000	45,000
First Mortgage Bonds — South Carolina LNG Co., Inc., 10½% Series, due 1990	10,120	10,810

1066 115

	June 30, 1979	June 30, 1978
	(Thousands of Dollars)	
Capitalized lease obligations — vehicles	2,129	1,398
Total	736,199	653,564
Less current portion of long-term debt	115,635	9,538
Total	$620,564	$644,026

Substantially all utility plant is mortgaged in connection with the various issues of long-term debt. Approximately $6.8 million of the current portion of long-term debt at June 30, 1979 may be satisfied by deposit and cancellation of bonds issued upon the basis of bond retirement credits.

4. Nuclear Fuel Trust:

A Trust Agreement dated September 30, 1976 and amended August 1, 1977 between the Company and The Citizens & Southern National Bank of South Carolina as Trustee provides for the financing of the Company's two-thirds ownership share (see Note 6) of the cost of nuclear fuel related to the initial core requirement of the V.C. Summer Nuclear Station. Pursuant to terms of the Agreement, the Company has assigned to the Trust certain contracts for purchase of nuclear fuel and the Trustee will borrow necessary funds up to an aggregate amount of $42 million to purchase the fuel and to make interest payments (at 109% of prime rate plus 1/4 of 1%) when due. The Company is unconditionally obligated to repurchase the fuel from the Trust either prior to initial loading of fuel into the reactor or no later than June 30, 1980. For financial reporting purposes, purchases by the Trust are assumed to have been made on behalf of the Company and the amounts expended by the Trustee (approximately $38.9 million and $32.9 million through June 30, 1979 and 1978, respectively) and certain fees, etc. accrued by the Company (approximately $1.3 million at June 30, 1979 and none at June 30, 1978) are included in the accompanying Consolidated Financial Statements.

Pursuant to Staff (of the Securities and Exchange Commission) Accounting Bulletin No. 28, the Company has included in its 1979 Consolidated Statement of Income and has restated its 1978 Consolidated Statement of Income to include approximately $4.8 million and $1.6 million for the twelve months ended June 30, 1979 and 1978, respectively, representing interest and related fees in "Interest on long-term debt." Such amounts were offset by a like increase in "Allowance for borrowed funds used during construction—credit." This change had no effect on "Net Income."

5. Stockholders' Investment:

	June 30, 1979	June 30, 1978
	(Thousands of Dollars)	
Common Stock:		
$4.50 par value; Authorized — 30,000,000 shares; Outstanding, 1979 — 23,758,299 shares; 1978 — 22,070,467 shares	$106,912	$ 99,317
Preferred Stock:		
Cumulative $100 par value; Authorized, 1979 — 1,750,000 shares; 1978 — 1,000,000 shares:		
6⅞% Series (Outstanding 150,000 shares)	—	$ 15,000
7.70% Series (Outstanding, 1979 — 135,000 shares; 1978 — 137,400 shares)	$ 13,500	13,740
8.12% Series (Outstanding, 1979 — 193,600 shares; 1978 — 198,000 shares)	19,360	19,800
8.40% Series (Outstanding 200,000 shares)	20,000	20,000
10¾% Series (Outstanding 200,000 shares)	20,000	20,000
Cumulative $50 par value; Authorized, 1979 — 1,944,420 shares; 1978 — 1,957,120 shares:		
4.50% Series (Outstanding, 1979 — 43,200 shares; 1978 — 44,800 shares)	2,160	2,240
4.60% Series (Outstanding, 1979 — 26,334 shares; 1978 — 27,834 shares)	1,317	1,392
4.60% Series A (Outstanding, 1979 — 58,052 shares; 1978 — 60,052 shares)	2,902	3,002
4.60% Series B (Outstanding, 1979 — 129,200 shares; 1978 — 132,600 shares)	6,460	6,630
5% Series (Outstanding 125,234 shares)	6,262	6,262
5.125% Series (Outstanding, 1979 — 88,000 shares; 1978 — 89,000 shares)	4,400	4,450
6% Series (Outstanding, 1979 — 134,400 shares; 1978 — 137,600 shares)	6,720	6,880
8% Series (Outstanding 300,000 shares)	15,000	—
8.72% Series (Outstanding 400,000 shares)	20,000	—
9.40% Series (Outstanding, 1979 — 299,100 shares; 1978 — 306,000 shares)	14,955	15,300
Cumulative $25 par value; Authorized 2,000,000 shares; Outstanding — None	—	—
Total	$153,036	$134,696

The call premium of the respective series of preferred stock in no case exceeds the amount of the annual dividend.

The amount of purchase fund or sinking fund requirements for preferred stock for the succeeding twelve months is approximately $1.7 million at June 30, 1979.

Increases in "Premium on common stock" for the twelve months ended June 30, 1979 ($20.6 million) and June 30, 1978 ($25.6 million) represent the premium on issuance of 1,687,832 and 1,914,117 shares of stock, respectively.

Increases in "Other paid-in capital" for the twelve months ended June 30, 1979 ($46 thousand) and June 30, 1978 ($16 thousand) consist of gains on the reacquisition of 6,800 and 8,000 shares of preferred stock, respectively.

Increases in "Capital stock expense" for the twelve months ended June 30, 1979 ($477 thousand) and June 30, 1978 ($223 thousand) represent expenses in connection with the issuance of common stock ($38 thousand and $251 thousand for the twelve months ended June 30, 1979 and 1978, respectively) and preferred stock ($467 thousand for the twelve months ended June 30, 1979 and none for the twelve months ended June 30, 1978) less $28 thousand for each of the twelve month periods ended June 30, 1979 and 1978, due to retirement of preferred stock through purchase funds and sinking funds.

The Restated Articles of Incorporation of the Company and the indentures underlying certain bond issues contain certain provisions that limit the payment of cash dividends on common stock. The most restrictive of these provisions would have permitted the payment of approximately $116.9 million of cash dividends on common stock at June 30, 1979.

6. Commitments and Contingencies:

A. Construction

In addition to routine commitments of approximately $14.0 million for operating materials and supplies, the Company at June 30, 1979 had commitments for major construction (including nuclear fuel) of approximately $81.7 million (includes one-third interest of South Carolina Public Service Authority) for construction of the V.C. Summer Nuclear Station.

The Company and the South Carolina Public Service Authority (a public corporation of the State of South Carolina) have contracted to become joint owners at the V.C. Summer Nuclear Station on the basis of two-thirds by the Company and one-third by the Authority and to participate, on a like basis, in the costs of construction, costs of operation and in the energy output thereof. The Company's share (approximately $418.2 million and $329.9 million at June 30, 1979 and 1978, respectively) of costs of construction of the nuclear station, which is scheduled for completion in 1980, is included in construction work in progress. Each owner is responsible for financing its own share of the nuclear station.

The Company has made a timely application for an operating license for the V.C. Summer Nuclear Station and the Nuclear Regulatory Commission has granted a petition to intervene in such proceeding. The Company is unable to predict at this time whether proceedings by regulatory and governmental bodies would delay the issuance of such license beyond the date of scheduled operation.

B. Licensed Projects

Licenses granted by the FERC with respect to the hydroelectric projects of the Company provide that after an initial twenty-year period a portion of the earnings on such projects in excess of a specified rate of return is to be set aside in appropriated retained earnings.

The Company is licensee for five hydroelectric projects. The initial license for two of the projects (Columbia and Saluda) expired in 1970 and 1977, respectively, with the Company continuing operations under annual licenses.

7. Amortization of Storm Damage Expenses:

During February 1979 the Company encountered two severe ice storms in its service area resulting in approximately $2.3 million in storm related expenses. On May 31, 1979 the PSC authorized the Company to amortize these expenses over a three-year period beginning in June 1979.

8. Reclassifications:

Certain reclassifications, related to the Nuclear Fuel Trust, have been made in the accompanying Consolidated Financial Statements for 1978. (See Note 4 — Nuclear Fuel Trust)

1066 116

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED SYSTEM STATISTICS

	6 Months Ended June 30, 1979	6 Months Ended June 30, 1978	12 Months Ended June 30, 1979	12 Months Ended June 30, 1978	Calendar Year 1978	Calendar Year 1968
ELECTRIC DEPARTMENT:						
Produced and Purchased—(Million of KWH):						
Steam	5,485	5,932	11,655	11,870	12,102	6,382
Internal combustion turbine	12	31	44	128	63	46
Hydro	461	307	762	497	608	472
Energy (credit) pumped storage plant	(186)	(107)	(416)	(124)	(338)	—
Purchased and Interchange, net (credit)	(13)	(179)	(1)	(221)	(166)	54
Total output	5,759	5,984	12,044	12,150	12,269	6,954
Sales—(Million of KWH):						
Residential	1,597	1,651	3,427	3,470	3,481	1,793
Commercial	1,246	1,244	2,610	2,543	2,608	1,201
Industrial—ERDA, contract	285	287	592	585	593	526
—ERDA, special	9	8	29	11	29	3
—Other	1,653	1,554	3,303	3,128	3,204	1,576
Miscellaneous	156	147	320	302	311	116
Total ultimate consumers	4,946	4,891	10,281	10,039	10,226	5,215
Sales for resale	503	708	1,190	1,429	1,395	1,285
Total sales	5,449	5,599	11,471	11,468	11,621	6,500
Total Customers (End of Period)	—	—	332,163	324,215	328,797	243,306
Residential Service—Per Customer:						
Average annual energy use—KWH	—	—	11,938	12,386	12,269	8,615
Average annual rate (Cents per KWH)	—	—	4.46	4.20	4.37	1.90
Generating Capability, Net KW (000):						
Steam	—	—	2,402	2,359	2,359	1,155
Internal combustion turbine	—	—	249	249	249	83
Hydro	—	—	756	500	756	185
Peak Demand, Net KW—Total (000)	2,796	2,410	2,796	2,410	2,469	1,405
Peak Demand, Net KW—Territorial (000)	2,144	2,271	2,244	2,271	2,271	1,212
GAS DEPARTMENT:						
Produced and Purchased for Resale—(Million Cubic Feet)	27,405	26,466	52,536	50,629	51,597	35,087
Sales—(Million Cubic Feet):						
Residential	6,927	8,498	9,269	11,378	10,840	7,810
Commercial	4,682	4,558	8,109	8,162	7,984	5,113
Industrial	13,578	11,309	28,885	25,000	26,617	16,597
Sales for resale	1,793	1,584	3,354	2,[illegible]71	3,145	2,337
Total sales	26,980	25,949	49,617	47,411	48,586	31,907
Total Customers (End of Period)	—	—	161,124	160,201	162,412	111,568

1066 117

PROSPECTUS

$50,000,000

South Carolina Electric & Gas Company

First and Refunding Mortgage Bonds, 9⅞% Series due June 1, 2009

The Bonds will be redeemable at any time at the option of the Company at the regular redemption prices set forth herein, provided that prior to June 1, 1984 no such redemption may be made out of the proceeds of or in anticipation of any refunding operation by the issuance of indebtedness having an effective interest cost of 10.03% or less per annum except under certain circumstances in the case of consolidations or mergers. The Bonds may also be redeemed, by operation of the sinking fund therefor or out of moneys deposited in the maintenance and replacement fund or the proceeds of certain released property, at 100% of the principal amount thereof plus accrued interest. See "Description of 2009 Series A Bonds" herein.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discounts and Commissions(2)	Proceeds to Company(1)(3)
Per Bond	99.375%	.875%	98.50%
Total	$49,687,500	$437,500	$49,250,000

(1) Plus accrued interest from June 1, 1979.

(2) The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

(3) Before deduction of expenses estimated at $107,000.

The Bonds are offered by the several Underwriters when, as and if issued by the Company and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that the Bonds will be ready for delivery at the office of Kidder, Peabody & Co. Incorporated, 10 Hanover Square, New York, New York, on or about June 21, 1979.

Kidder, Peabody & Co.
Incorporated

The date of this Prospectus is June 13, 1979.

1066 118

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

South Carolina Electric & Gas Company (the "Company") is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission. Certain information, for the year 1978 and prior years, concerning the Company's directors and officers, their remuneration, options granted to them and any material interest of such persons in transactions with the Company, is disclosed in proxy statements distributed to stockholders and filed with the Commission. Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at Room 6101, 1100 L Street, N. W., Washington, D. C. and at the Commission's regional offices at 219 South Dearborn Street, Chicago, Ill.; 26 Federal Plaza, New York, N. Y.; and 10960 Wilshire Boulevard, Los Angeles, Calif., and copies of such material can be obtained from the Public Reference Section of the Commission, 500 North Capitol Street, Washington, D. C. 20549 at prescribed rates. The Company's Common Stock is listed on the New York Stock Exchange, where reports, proxy material and other information concerning the Company may also be inspected.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

There are hereby incorporated by reference in this Prospectus the following documents heretofore filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934 (the "1934 Act"):

1. **The Company's Annual Report on Form 10-K for the year ended December 31, 1978, as amended ("Form 10-K").**
2. **The Company's definitive proxy statement, dated March 23, 1979, in connection with its 1979 Annual Meeting of Stockholders.**
3. **The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1979.**
4. **The Company's Quarterly Report for the quarter ended March 31, 1979, filed as an exhibit to Item 3 above.**
5. **The Company's Prospectus, dated February 1, 1978, constituting part of Registration Statement No. 2-60573 on Form S-7.**

All documents filed by the Company pursuant to Sections 13, 14 or 15(d) of the 1934 Act after the date of this Prospectus and prior to the termination of the offering of the $50,000,000 principal amount of First and Refunding Mortgage Bonds, 9⅞% Series due June 1, 2009 offered hereby (the "2009 Series A Bonds") shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference, other than exhibits to such documents. Written requests for such copies should be directed to Mr. Thomas M. Groetzinger, Vice President and Controller, South Carolina Electric & Gas Company, 328 Main Street, Columbia, South Carolina 29218.

HIGHLIGHTS

The following material is qualified in its entirety by the detailed information and financial statements and notes appearing elsewhere in this Prospectus and in the documents incorporated in this Prospectus by reference.

THE OFFERING

Company	South Carolina Electric & Gas Company
Bonds to be Offered	$50,000,000 First and Refunding Mortgage Bonds due June 1, 2009
Expected Closing Date	June 21, 1979
Use of Proceeds	To pay at maturity $39,000,000 principal amount of the Company's First and Refunding Mortgage Bonds and to retire a portion of the Company's short-term indebtedness.

THE COMPANY

Business (See pages 3-24 of Form 10-K)	Electric and Gas Utility in South Carolina
Customers (December 31, 1978) (See page 29 of the 1978 Annual Report incorporated by reference in Form 10-K)	Electric—328,797; Gas—162,412
Estimated 1979 Sources of Generation (See page 10 of Form 10-K)	Coal—73%; #6 Oil—22%; Hydro and #2 Oil—5%
Estimated 1979 Construction Expenditures (See "Recent Developments" in this Prospectus and pages 4-5 of Form 10-K)	$160 Million

FINANCIAL INFORMATION

(Thousands of dollars, except ratios)

	12 Months Ended		
	December 31, 1977	December 31, 1978	April 30, 1979
Consolidated Statements of Income Data:			
Operating Revenues	$ 418,355	$ 486,101	$ 495,194
Operating Income	68,265	74,751	73,668
Income Before Interest Charges	93,873	104,026	101,155
Net Income	54,652	60,347	54,742
Ratio of Earnings to Fixed Charges:			
—Actual	2.78	2.67	2.40
—Pro Forma	—	—	2.21
Net Utility Plant	$1,219,883	$1,362,952	$1,397,652

	April 30, 1979			
	Actual	Ratio	As Adjusted(1)	Ratio(1)
Capitalization:				
Long-term Debt(2)	$ 569,255	49.0%	$ 619,255	51.1%
Cumulative Preferred Stock	153,231	13.2	153,231	12.7
Common Stock Equity	438,959	37.8	438,959	36.2
Total	$1,161,445	100.0%	$1,211,445	100.0%
Short-term Notes Payable(3)	$ 15,127		$ 14,900	

(1) Gives effect to the sale of the 2009 Series A Bonds.

(2) Excludes current portion of Long-term Debt of $116,270,000.

(3) The Company expects to have approximately $25,000,000 of such notes outstanding at the date of the sale of the 2009 Series A Bonds.

1066 120

THE COMPANY

The Company is a South Carolina corporation organized in 1924 and has its principal executive office at 328 Main Street, Columbia, South Carolina 29218. Its telephone number is 803-799-1234.

USE OF PROCEEDS

Of the approximately $49,100,000 estimated net proceeds from the sale of the 2009 Series A Bonds, $39,000,000 will be applied to the payment at maturity of $4,000,000 principal amount of a 3 1/8% Series and $35,000,000 principal amount of a 10 1/2% Series of First and Refunding Mortgage Bonds, due July 1, 1979 (the "Maturing Bonds"). The balance of such net proceeds will be used to retire a like amount of the Company's short-term indebtedness incurred or to be incurred as a result of construction expenditures. Short-term indebtedness is expected to approximate $25,000,000 at the time of such sale.

RECENT DEVELOPMENTS

The Company has revised its construction program to defer the in-service date for two proposed 550 MW coal-fired units from the mid-1980's to the latter part of the 1980's. It also plans to retain in service 131 MW of internal combustion turbines used for peak load generation previously scheduled for retirement in 1981 and to add as peaking units 300 MW of internal combustion turbines in the mid-1980's. As a result, the Company's previously announced $804 million construction program for the years 1980-1983 will be reduced by $349 million.

The Company's construction program, which is subject to continuing review and adjustment, for 1979 and for the four-year period 1980-1983 as now scheduled involves costs estimated as follows (estimates include allowance for funds used during construction estimated at $24,751,000 for 1979 and $37,083,000 for the 1980-1983 period and the cost of nuclear cores, estimated at $95,093,000 for the 1979-1983 period):

Type of Facilities	1979	1980-1983
	(Thousands of dollars)	
Electric		
Generation	$ 97,717	$212,626
Transmission	20,484	68,924
Distribution	29,836	143,410
Other	4,976	10,600
Total Electric	153,013	435,560
Gas	7,187	19,214
Transportation (Coach)	287	301
Total Construction	$160,487	$455,075

In addition to the cash requirements for its construction program, during the years 1980-1983 the Company has an aggregate of $203,019,000 of long-term debt maturing (including sinking fund maturities, of which $27,784,000 are expected to be satisfied by certifying property additions) and $10,760,000 of purchase or sinking fund requirements for preferred stock.

The Company expects that on the average during 1979-1980 approximately 75% of the cash requirements for its construction program and for the retirement of securities will require external financing through the sale of securities or other financial arrangements and approximately 25% will be provided from internally generated funds. On the basis of current construction schedules and cost estimates and current estimates of internally generated funds, all of which are subject to change, the Company presently anticipates that internally generated funds and the proceeds of sales of common stock pursuant to employee plans and the Company's Dividend Reinvestment and Stock Purchase Plan

1066 121

will provide all of the cash required for its construction program and for the retirement of securities during 1981-1983 and that no other external financing will be required.

The V. C. Summer Nuclear Station, of which the Company is joint owner with a two-thirds undivided interest, is expected to have a capacity of 900,000 KW and is presently scheduled for fuel loading in the summer of 1980 and commercial operation in late 1980. It appears that as a result of events at the Three Mile Island Nuclear Unit No. 2 in March and April, 1979, there will be some increase in start-up and operating costs of the Summer Nuclear Station due to changes in operator training and operational procedures. At this time, the Company cannot predict what, if any, other impact the Three Mile Island incident will have on the cost or operations of the Summer Nuclear Station (the nuclear steam supply system for which was designed and is being furnished by Westinghouse Electric Corporation), or on the issuance of an operating license, the scheduled fuel loading date or the time of commencement of commercial operation of that Station. However, the Company has not received any notification from the Nuclear Regulatory Commission and does not believe that there will be delays in the issuance of such license, in fuel loading or in the commencement of commercial operation, or that there will be design changes resulting in materially greater costs of construction or operation.

On June 1, 1979 the Company filed with The Public Service Commission of South Carolina ("PSC") an application for a rate increase for substantially all of its electric retail customers and an application for a rate increase for substantially all of its gas customers. The electric rate application seeks an increase of approximately 10.77% of base revenues, which would produce additional revenues of approximately $38,981,000 annually based on the Company's operations for the test year ended March 31, 1979. The Company plans to place this increase in effect on July 1, 1979, subject to refund with interest to the extent not finally allowed. The gas rate application seeks an increase of approximately 6.05% of gas revenues, which would produce additional revenues of approximately $6,749,000 annually based on the Company's operations for the test year ended March 31, 1979. The Company plans to place this increase in effect on November 1, 1979, subject to refund with interest to the extent not finally allowed.

There can be no assurance that all or any part of the requested increases will be granted.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

South Carolina Electric & Gas Company:

We have examined the consolidated summary of operations of South Carolina Electric & Gas Company for each of the five years in the period ended December 31, 1978. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned consolidated summary of operations of South Carolina Electric & Gas Company presents fairly the information shown therein for each of the five years in the period ended December 31, 1978, in conformity with generally accepted accounting principles applied on a consistent basis.

Columbia, South Carolina
February 7, 1979

DELOITTE HASKINS & SELLS

CONSOLIDATED SUMMARY OF OPERATIONS

The following Consolidated Summary of Operations for the five years ended December 31, 1978, which has been derived from the Company's Consolidated Statements of Income for such five years, has been examined by Deloitte Haskins & Sells, independent certified public accountants, whose opinion thereon appears elsewhere in this Prospectus. The unaudited Consolidated Summary of Operations for the twelve months ended March 31, 1979 has been derived from the Company's Consolidated Statement of Income for such period, which has not been examined by independent certified public accountants, but in the opinion of the Company includes all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results of operations for that period. For additional financial information, see "Incorporation of Certain Documents by Reference".

	Twelve Months Ended March 31, 1979 (Unaudited)	Year Ended December 31,				
		1978	1977	1976	1975	1974
	(Thousands of dollars, except per share amounts and ratios)					
Operating Revenues (a)	$491,774	$486,101	$418,355	$349,836	$321,131	$278,577
Operating Expenses (b)	(380,124)	(368,915)	(309,391)	(262,091)	(234,731)	(217,014)
Income Taxes	(38,277)	(42,435)	(40,699)	(28,612)	(27,662)	(13,878)
Operating Income	73,373	74,751	68,265	59,133	58,738	47,685
Allowance for Funds Used During Construction (c):						
Equity and borrowed—prior to January 1, 1977	—	—	—	18,317	9,668	4,105
Equity—since January 1, 1977	17,298	18,340	16,610	—	—	—
Borrowed—since January 1, 1977	11,363	10,848	7,878	—	—	—
Other Income, net	10,672	10,935	8,998	6,205	3,693	2,097
Interest Charges	(56,939)	(54,527)	(47,099)	(39,839)	(33,677)	(29,309)
Net Income	$ 55,767	$ 60,347	$ 54,652	$ 43,816	$ 38,422	$ 24,578
Earnings Available for Common Stock	$ 44,731	$ 49,747	$ 43,999	$ 34,647	$ 31,362	$ 17,461
Average Number of Common Shares Outstanding (d)	22,314,144	22,029,481	19,833,002	17,547,328	15,023,499	11,890,446
Earnings Per Share of Common Stock (Based on Average Number of Shares Outstanding)	$2.00	$2.26	$2.22	$1.97	$2.09	$1.47
Ratio of Earnings to Fixed Charges (e)	2.46	2.67	2.78	2.58	2.79	2.22

Notes:

(a) On March 31, 1978, the Company filed an application with the Federal Energy Regulatory Commission ("FERC") for a rate increase of approximately 14.0% of revenues to wholesale electric customers. This rate increase would produce additional revenues of approximately $2.3 million annually based on a projected 1978 test year. On July 14, 1978 the FERC issued an order allowing the rates to be placed into effect on November 15, 1978, subject to refund. The amount collected subject to refund was approximately $676 thousand at March 31, 1979. A settlement agreement has been reached with the wholesale electric customers which would allow the Company to increase its wholesale rate by $1.45 million annually (or approximately 8.8%) and would require the Company to make refunds amounting to approximately $294 thousand (including interest) at March 31, 1979. On March 28, 1979, the Company filed the agreement with the FERC for approval.

On January 15, 1979, The Public Service Commission of South Carolina (the "PSC") issued an order that suspended the Company's application of the monthly automatic electric fuel adjustment clause and increased the fuel component in base rates. This Order requires that semi-annual hearings be held to review and change, as necessary, the fuel component in base rates to enable the Company to recover projected fuel costs over the ensuing six-month period. The Company was further directed to account for over or under collections of fuel costs through unbilled revenues with any resultant balance to be included during the next PSC hearing to consider any change in the fuel component of base rates. The Company does not anticipate that this Order will have a material adverse effect on its future financial condition.

(b) During February 1979, two severe ice storms occurred in the Company's service area. As of March 31, 1979, the expenses incurred by the Company as a result of these storms were approximately $2.4 million. The results for the twelve months ended March 31, 1979 set forth above do not include these expenses. The PSC has issued an accounting order authorizing the Company to defer and commence amortizing such expenses, as finally determined, over a three-year period beginning June 1, 1979. The recoverability of these expenses is to be considered in connection with the Company's pending rate increase applications referred to under "Recent Developments".

(c) Allowance for funds used during construction (AFC), a non-cash item, reflects the net cost for the period of capital devoted to plant under construction. This net cost represents interest charges on borrowed funds and a reasonable rate of return on equity funds so used. This accounting practice, which has been questioned in certain litigation to which the Company is not a party, results in the inclusion, as a component of construction cost (construction work in progress), of amounts of AFC which will ultimately be included in rate base in establishing rates for utility charges. AFC was calculated using an 8% rate in 1974 through 1976 and a 6.5% rate in 1977 through 1979 except for AFC related to nuclear fuel in trust which was capitalized at the actual amount thereof.

Through December 31, 1976 the determination of the components of the composite rates attributable to each source of funds used for construction is impracticable; however, on the assumption that funds used for this purpose were provided from sources in the same ratios as the Company's capitalization ratios during applicable periods (54%-55% debt, 13%-14% preferred stock and 31%-32% common equity), with AFC attributable to debt and preferred stock being based upon incremental costs (without giving tax effect to interest on debt), the portion of AFC attributable to funds provided by common equity would amount to 3.8%, 5.4% and 14.7% of earnings available for common stock for the three years ended December 31, 1974 through 1976, respectively. The amount of AFC has varied over the periods principally as a result of substantial fluctuations in utility plant under construction and changes in the cost of capital.

Effective January 1, 1977, the FERC issued an order which provided a formula for computing a maximum allowable AFC rate based on, among other things, embedded cost, actual capitalization ratios, including short-term debt, and semi-annual compounding of the AFC rate. The Company's AFC rate, determined in compliance with the above-mentioned FERC order, does not exceed the maximum allowable rate.

(d) The significant increases in the average number of common shares outstanding are attributable primarily to the issuance of 2,360,000 shares in December 1974, 1,500,000 shares in July 1975, 1,700,000 shares in February 1976, 2,200,000 shares in March 1977 and 1,500,000 shares in February 1978.

(e) For purposes of this ratio, earnings represent net income plus income taxes and fixed charges. Fixed charges represent interest charges of the Company and its subsidiaries and the estimated

1066 124

interest portion of annual rentals. The pro forma ratio of earnings to fixed charges for the twelve months ended March 31, 1979, which reflects the annual interest requirements on debt (including $2,970,000 of interest payable on the average amount of short-term notes payable expected to be outstanding during the ensuing twelve months) assumed to be outstanding after adjustment for the issuance of and application of the net proceeds from $35,000,000 principal amount of First and Refunding Mortgage Bonds and 1,000,000 shares of Common Stock sold in April 1979 and the 2009 Series A Bonds, is 2.23.

Interim Results

The following table sets forth certain operating results for the four months and twelve months ended April 30, 1979 and 1978, respectively. These amounts are unaudited but, in the opinion of the Company, include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of such amounts.

	(Unaudited)			
	Four Months Ended April 30		Twelve Months Ended April 30	
	1979	1978	1979	1978
	(Thousands of dollars, except ratios)			
Operating Revenues	$170,364	$161,272	$495,194	$449,153
Operating Expenses(1)	144,623	134,447	421,526	376,786
Operating Income	25,741	26,825	73,668	72,367
AFC (includes allowance for both equity and borrowed funds)(2)	9,224	10,013	28,399	27,336
Interest Charges	20,413	17,044	57,897	48,669
Net Income	17,722	23,327	54,742	60,547
Earnings Available for Common Stock	13,615	19,795	43,566	49,929
Ratio of Earnings to Fixed Charges(3):				
Actual	—	—	2.40	2.89
Pro Forma	—	—	2.21	—

(1) Do not include expenses of approximately $2.5 million at April 30, 1979 resulting from the ice storms referred to in Note (b) of Notes to "Consolidated Summary of Operations".
(2) See Note (c) of Notes to "Consolidated Summary of Operations" for explanation of AFC.
(3) See Note (e) of Notes to "Consolidated Summary of Operations" for method of calculating these ratios.

The increase in operating revenues during the four months ended April 30, 1979 was not as great as the increase in the corresponding period of 1978 because of mild weather and, to a lesser extent, service interruptions due to the ice storms described in Note (b) of Notes to "Consolidated Summary of Operations". During the four months ended April 30, 1979, operating expenses continued to increase at a rate greater than operating revenues. Major items of operating expenses increased as a result of inflationary pressures on wages, material costs and supplies and increased costs of primary fuels used in electric generation and of gas purchased for resale. Depreciation expense increased $1.4 million (13.0%) as additional facilities were placed in service. During the four months ended April 30, 1979, AFC decreased $0.8 million (7.9%) primarily because the Fairfield Pumped Storage Hydro Project was placed in service during the latter part of 1978, and interest expense increased $3.4 million (19.8%) as a result of

1066 125

increased borrowings to finance the Company's continuing construction program. As a result, net income for the four months ended April 30, 1979 declined \$5.6 million (24.0%). For the twelve months ended April 30, 1979, net income declined \$5.8 million (9.6%).

While the Company expects that operating revenues will continue to increase in future periods, it anticipates that the factors discussed above will continue to affect operating results for future periods. Therefore, at least until the rate increases which the Company plans to place in effect as described under "Recent Developments" (which are subject to refund to the extent not finally allowed) are placed in effect, the Company's operating income, net income, earnings available for common stock and ratios of earnings to fixed charges for periods ending subsequent to April 30, 1979 probably will be less than such amounts and ratios for periods of like duration ended April 30, 1979 and for the corresponding periods ended in 1978.

RESTRICTIONS ON THE ISSUANCE OF ADDITIONAL SECURITIES

The Company's first mortgage bond indenture contains provisions prohibiting the issuance of additional bonds unless net earnings (as therein defined) for 12 consecutive months out of the 15 months prior to the month of issuance shall have been at least twice the annual interest requirements on all bonds to be outstanding and all divisional bonds and prior lien bonds. For the twelve months ended March 31, 1979 such ratio was 2.82. After giving effect to the issuance and sale in April 1979 of \$35,000,000 principal amount of First and Refunding Mortgage Bonds, 10 1/8% Series due 2009 (the "April Bonds") and the issuance and sale of the 2009 Series A Bonds and the application of the net proceeds therefrom as described under "Use of Proceeds", the pro forma ratio for such period is 2.58. At March 31, 1979, after giving effect to the issuance of the April Bonds, such pro forma ratio would have permitted the Company to issue approximately \$181,000,000 principal amount of additional bonds (including the 2009 Series A Bonds) at an assumed interest rate of 9 7/8%. (For a further restriction relating to the issuance of additional bonds, see "Issuance of Additional Bonds" under "Description of 2009 Series A Bonds".)

The Company's Restated Articles of Incorporation, as amended, prohibit the issuance of additional shares of Preferred Stock without the consent of the holders of at least two-thirds of the total voting power of the shares then outstanding, unless net earnings available for the payment of interest charges on the Company's indebtedness (as therein defined) for the 12 consecutive months immediately preceding the month of issuance shall have been at least one and one-half times the aggregate of interest charges on indebtedness and the dividend requirements on all shares of Preferred Stock to be outstanding. For the twelve months ended March 31, 1979 such ratio was 1.54. The pro forma ratio for such period, after giving effect to the issuance and sale of the April Bonds and 1,000,000 shares of the Company's Common Stock in April 1979 and of the 2009 Series A Bonds and to the application of the net proceeds therefrom, is 1.53. At March 31, 1979, such pro forma ratio would have permitted the Company to issue additional shares of Preferred Stock having a par value of approximately \$15,000,000 at an assumed dividend rate of 9 7/8%.

The Company's Restated Articles of Incorporation, as amended, limit the issuance or assumption, without the consent of the holders of at least a majority of the total voting power of all shares of Preferred Stock then outstanding, of unsecured indebtedness outstanding at any time to 10% of the aggregate of all secured indebtedness and capital and surplus, which would have permitted the Company to have approximately \$115,000,000 of unsecured indebtedness outstanding at March 31, 1979.

1066 126

On March 1, 1979 the Federal Energy Regulatory Commission (which has asserted jurisdiction over the issuance of short-term indebtedness by the Company) issued an order authorizing the Company to have up to $110,000,000 of short-term indebtedness, with final maturities not later than December 31, 1980, outstanding at any one time.

DESCRIPTION OF 2009 SERIES A BONDS

The 2009 Series A Bonds are to be issued under the indenture, dated as of January 1, 1945, made by South Carolina Power Company to Central Hanover Bank & Trust Company (now Manufacturers Hanover Trust Company) as Trustee (the "Original Indenture"), as supplemented by three supplemental indentures executed by South Carolina Power Company and by twenty-nine supplemental indentures executed by the Company, including a Thirty-second Supplemental Indenture to be dated as of June 1, 1979, all of which are collectively referred to as the "Mortgage". The Company has assumed all of the obligations of South Carolina Power Company under the Original Indenture as supplemented by the aforesaid first three supplemental indentures, as well as the payment of the bonds issued under the Mortgage by South Carolina Power Company.

The statements herein concerning the 2009 Series A Bonds and the Mortgage are an outline and do not purport to be complete. They make use of defined terms and are qualified in their entirety by reference to the Original Indenture and the above mentioned thirty-two supplemental indentures, which are filed as exhibits to the Registration Statement. References herein are to sections and articles of the Original Indenture unless otherwise indicated.

Form, Denominations and Exchangeability. The 2009 Series A Bonds are issuable only in fully registered form in denominations of $1,000 and any multiple thereof. (Thirty-second Supplemental Section 1.01)

2009 Series A Bonds will be transferable or exchangeable for 2009 Series A Bonds of other authorized denominations at the office of the Trustee in New York City without any service charge by the Company. (Thirty-second Supplemental Sections 1.01 and 1.07) Transfers and exchanges will ordinarily be accomplished within two business days except during any period immediately prior to any selection of 2009 Series A Bonds for redemption or, unless certain conditions are complied with, any interest payment date.

Interest and Maturity. The 2009 Series A Bonds will bear interest from June 1, 1979, at the rate shown in their title, payable semi-annually on June 1 and December 1 of each year commencing on December 1, 1979, and will mature June 1, 2009. The principal and interest are payable in New York City at the office of the Trustee.

Security and Priority. The 2009 Series A Bonds are to be secured, equally with all other bonds heretofore or hereafter issued under the Mortgage, by a direct lien (which is a first lien except as set forth below) on substantially all of the Company's fixed property and franchises used or useful in its public utility businesses (except cash, securities, contracts and accounts receivable, materials and supplies, natural gas, oil, certain minerals and mineral rights, the real property on which the Company's LNG facilities are located, which real property has been released from the lien of the Mortgage, and such LNG facilities and certain other assets) now owned by the Company; subject, however, (i) to certain excepted encumbrances, (ii) to the fact that titles to certain properties are subject to reservations and encumbrances such as are customarily encountered in the public utility business and which do not materially interfere with their use, (iii) as to certain property located in Charleston and vicinity, to

1066 127

the prior lien of the indenture securing the Charleston Consolidated Railway, Gas and Electric Company Five Per Cent Consolidated Mortgage Gold Bonds, due March 1, 1999 (the "divisional bonds") of which $1,075,000 principal amount were outstanding at March 31, 1979, and (iv) as to the Company's Urquhart steam electric generating station located at Beech Island, South Carolina, and properties appurtenant thereto, to the prior lien of the indenture securing the first mortgage bonds of South Carolina Generating Company, a former subsidiary, which bonds ($802,000 principal amount outstanding at March 31, 1979) have been assumed by the Company and mature in 1979 and 1981. The divisional bonds are non-callable. The Mortgage contains provisions for the subjection (with certain exceptions and limitations) of after-acquired property to the lien thereof.

The Mortgage prohibits the acquisition of property subject to prior liens if, following such acquisition, prior lien bonds would exceed 15% of the aggregate of outstanding divisional bonds and bonds outstanding under the Mortgage unless the principal amount of indebtedness secured by such prior liens does not exceed 60% of the cost of such property to the Company and unless, in certain cases, the net earnings of such property meet certain tests. (Section 7.05)

Sinking Fund Provisions. The Mortgage requires that the Company shall on or before June 1 in each year deposit with the Trustee as a "sinking fund requirement" an amount equal to 1% of the aggregate principal amount of divisional bonds outstanding on January 1, 1945 and of bonds (other than bonds of the 3¾% Series due 1981, the 1983, 1985, 1987, 1988, and 1990 Series, the 10½% Series due May 1, 1990 and the 1991 Series) authenticated under the Mortgage (except bonds authenticated on the basis of retirements of other bonds) prior to January 1 of the year in which the deposit is made, less certain divisional bonds and certain bonds retired, plus, so long as bonds of the respective series are outstanding, 1½% of the aggregate principal amount of bonds of the 3¾% Series due 1981, the 1983, 1985, 1987, 1988, 1990 and 1991 Series and 4% of the 10½% Series due May 1, 1990 theretofore authenticated and delivered under the Mortgage. Payment of the sinking fund requirement may be made in cash, outstanding divisional bonds or bonds authenticated under the Mortgage except that payment of the portion of the sinking fund requirement measured by bonds of the 3¾% Series due 1981, the 1983 Series and the 10½% Series due May, 1990 may be made only in cash and payment of the portion measured by bonds of the 1985 and 1987 Series may be made only in cash or bonds of the particular series. After the holders of all outstanding bonds of all series created prior to the 1997 Series Bonds shall have consented thereto, the portion of the sinking fund requirement measured by the 1997 Series Bonds, the 1998 Series Bonds, the 1999 Series Bonds, the 1999 Series A Bonds, the 2000 Series Bonds, the 2001 Series Bonds, the 2002 Series Bonds, the 1979 Series Bonds, the 1984 Series Bonds, the 2006 Series Bonds, the 2006 Series A Bonds, the 2007 Series Bonds, the 1982 Series Bonds, the 2008 Series Bonds, the 8.45% Series Bonds due 1981, the 2009 Series Bonds, the 2009 Series A Bonds or by any other series of bonds the holders of which consent thereto may also be satisfied by certifying to the Trustee unfunded net property additions in an amount equal to 166⅔% of the portion of the sinking fund requirement being satisfied. Any cash deposited may be applied to the purchase or redemption of bonds of any series or may be withdrawn by the Company against deposit of divisional bonds or bonds authenticated under the Mortgage except that any cash deposited with respect to the portion of the sinking fund requirement measured by the bonds of the 3¾% Series due 1981, the 1983, 1985 and 1987 Series and the 10½% Series due May 1, 1990, respectively, may only be applied to the redemption of bonds of the particular series. (Section 2.12, Second Supplemental Section 2, Third to Fifth, Seventh to Eleventh and Thirteenth to Thirty-second Supplementals, inclusive, Section 1.03 and Sixth and Twelfth Supplementals Section 2.03)

Maintenance and Replacement Fund. The Company is required, for the period subsequent to December 31, 1944, to make expenditures on the mortgaged property for maintenance, renewals and replacements and/or certify to the Trustee unfunded net property additions, in an amount equal to the greater of (i) 15% of "gross operating revenues derived by the Company" during such period "from the mortgaged and pledged property" (other than certain property) after deducting from such revenues the cost of electric energy, gas and steam purchased for resale or (ii) 4% of the principal amount of divisional bonds and bonds authenticated and outstanding under the Mortgage, computed cumulatively at the end of each year. To the extent that such expenditures at any time exceed the greater of (i) or (ii) above, cash, divisional bonds, bonds authenticated under the Mortgage or certified net property additions so deposited or certified may be withdrawn. Cash so deposited may be withdrawn as above described or against the certification of unfunded net property additions or the deposit of divisional bonds or bonds authenticated under the Mortgage and, if in excess of certain amounts and not so withdrawn within two years, shall, except in certain circumstances, be used for the redemption or purchase of bonds having the earliest date of maturity. (Section 7.07)

Issuance of Additional Bonds. The principal amount of bonds which may be issued under the Mortgage is limited to $1,000,000,000 by the terms of the Twenty-seventh Supplemental Indenture (which increased such limitation from the prior limitation of $500,000,000), but such limitation may be increased by a supplemental indenture or indentures without the consent of bondholders or stockholders. (Section 2.01, Twenty-seventh Supplemental Section 2.01) Additional bonds may from time to time be issued on the basis of (i) 60% of unfunded net property additions, (ii) deposit of cash or (iii) retirement of bonds or divisional bonds. With certain exceptions in the case of (iii) above, the issuance of bonds is subject to net earnings for 12 consecutive months out of the preceding 15 months being at least twice the annual interest requirements on all bonds to be outstanding and all divisional bonds and prior lien bonds. Cash deposited with the Trustee pursuant to (ii) above may be withdrawn in an amount equal to the principal amount of bonds which the Company is then entitled to have authenticated and delivered or may be withdrawn against the deposit of divisional bonds or bonds authenticated under the Mortgage or may be applied to the purchase or redemption of bonds. (Articles IV, V, and VI) The 2009 Series A Bonds will be issued upon the basis of $50,000,000 of credits from the retirement of bonds, including credits to be obtained from the deposit of a portion of the proceeds from the sale of the 2009 Series A Bonds with the Trustee under the Mortgage for the payment at maturity of the $39,000,000 principal amount of the Maturing Bonds. After the issuance of the 2009 Series A Bonds, unused credits from the retirement of bonds will aggregate approximately $18,000,000. At March 31, 1979 unfunded net property additions aggregated approximately $139,000,000, sufficient to permit the issuance of approximately $83,000,000 principal amount of bonds, including the $35,000,000 principal amount of April Bonds.

Dividend Restrictions. The Company's Restated Articles of Incorporation and the indentures securing certain series of the Company's outstanding bonds contain restrictions on the payment of cash dividends on Common Stock, including restrictions which would become applicable only if Common Stock Equity would be less than 25% of Total Capitalization. (At March 31, 1979, the ratio of Common Stock Equity to Total Capitalization was 37%.) Such restrictions would have permitted the payment of approximately $120,094,000 in cash dividends at March 31, 1979. After giving effect to the issuance and sale of 1,000,000 shares of the Company's Common Stock and the April Bonds in April 1979 and the 2009 Series A Bonds and to the application of the net proceeds therefrom, Common Stock Equity would be approximately 35%.

1066 129

Events of Default; Concerning the Trustee. The following events constitute defaults under the Mortgage: failure to make payments of principal and interest; failure to make payments of principal of the divisional bonds; failure to make any sinking fund or purchase fund payment; certain events involving insolvency, receivership and bankruptcy; and failure to perform certain covenants or agreements. Certain of such events become defaults only after the lapse of prescribed periods of time and/or notice from the Trustee. (Section 11.01) The Mortgage does not require the Company to furnish the Trustee with periodic evidence as to the absence of defaults.

The Original Indenture (Section 11.05) provides that, upon the occurrence of certain events of default, the Trustee or the holders of not less than 20% in principal amount of outstanding bonds may declare the principal of all outstanding bonds immediately due and payable but that, upon the curing of any such default, the holders of a majority in principal amount of outstanding bonds may rescind such declaration and waive such default and its consequences.

The holders of not less than a majority in principal amount of outstanding bonds may direct the time, method and place of conducting any proceeding for the enforcement of the Mortgage. (Section 11.12) No holder of any bond shall have any right to institute any proceedings to enforce any provisions of the Mortgage or any remedy thereunder, unless (a) such holder shall previously have given to the Trustee written notice of a default, (b) the holders of not less than 20% in principal amount of outstanding bonds shall have tendered to the Trustee indemnity against costs, expenses and liabilities and requested the Trustee to take action, (c) the Trustee shall have declined to take action or failed so to do within 60 days, and (d) no inconsistent directions shall have been given by the holders of not less than a majority in principal amount of outstanding bonds. (Section 11.14)

Redemption. The 2009 Series A Bonds will be redeemable at the option of the Company as a whole at any time or in part from time to time on at least 30 days' notice. However (except under certain circumstances in the case of consolidations or mergers), the 2009 Series A Bonds may not be redeemed prior to June 1, 1984 directly or indirectly out of the proceeds or in anticipation of any refunding operations involving the issuance of indebtedness having an effective interest cost of 10.03% or less per annum. (Thirty-second Supplemental Section 1.02)

The Special Redemption Price, which is 100% of the principal amount together with interest accrued to the redemption date, will apply to redemptions (a) by the operation of the sinking fund or maintenance and replacement fund, and (b) by use of the proceeds of released property. The following Regular Redemption Prices (expressed in percentages of principal amount) will apply to all other redemptions:

If Redeemed During Twelve Months' Period Beginning June 1,	Regular Redemption Price	If Redeemed During Twelve Months' Period Beginning June 1,	Regular Redemption Price
1979	109.25	1987	106.70
1980	108.94	1988	106.38
1981	108.62	1989	106.07
1982	108.30	1990	105.75
1983	107.98	1991	105.43
1984	107.66	1992	105.11
1985	107.34	1993	104.79
1986	107.02	1994	104.47

1066 130

If Redeemed During Twelve Months' Period Beginning June 1,	Regular Redemption Price	If Redeemed During Twelve Months' Period Beginning June 1,	Regular Redemption Price
1995	104.15	2002	101.92
1996	103.83	2003	101.60
1997	103.51	2004	101.28
1998	103.19	2005	100.96
1999	102.88	2006	100.64
2000	102.56	2007	100.32
2001	102.24	2008	100.00

together in each case with interest accrued to the redemption date.

Miscellaneous. Property subject to the lien of the Mortgage may (subject to certain exceptions and limitations contained therein) be released only upon the substitution of cash, divisional bonds, bonds authenticated under the Mortgage or certain other property. (Article X) Section 2.01 of the Thirty-second Supplemental Indenture provides that, at the earlier of (a) such date as no bonds created prior to the Bonds of the 10½% Series due May 1, 1990 shall remain outstanding or (b) such date as the holders of all then outstanding bonds created prior to the Bonds of the 10½% Series due May 1, 1990 shall have consented thereto, Article XVII of the Original Indenture shall be amended so as to permit amendments of the Mortgage with the consent of the holders of 66⅔% in principal amount of bonds then outstanding. No further consent from the holders of the 10½% Series due May 1, 1990, the 1984 Series Bonds, the 2006 Series Bonds, the 2006 Series A Bonds, the 2007 Series Bonds, the 1982 Series Bonds, the 2008 Series Bonds, the 8.45% Series Bonds due 1981, the 2009 Series Bonds or of the 2009 Series A Bonds will be required. Similar provisions are contained in Section 2.01 of the Twenty-third through Thirty-first Supplemental Indentures.

EXPERTS

The statements made under "Restrictions on the Issuance of Additional Securities" and "Description of 2009 Series A Bonds", as to matters of law and legal conclusions, have been prepared or reviewed by George H. Fischer, Esq., and such statements are made upon the authority of such counsel as an expert. Mr. Fischer is General Counsel, a Vice President, an Assistant Secretary, an Assistant Treasurer and a full time employee of the Company.

The consolidated balance sheet of the Company and consolidated subsidiary as of December 31, 1976 and the related consolidated statements of income, retained earnings and changes in financial position for the five years then ended included in the Company's prospectus dated February 1, 1978 and the consolidated balance sheets of the Company and consolidated subsidiary as of December 31, 1978 and 1977 and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 1978, all of which are incorporated by reference in this Prospectus, and the consolidated summary of operations included herein for each of the five years in the period ended December 31, 1978 have been examined by Deloitte Haskins & Sells, independent certified public accountants, as stated in their opinions incorporated or included herein, and have been so incorporated or included herein in reliance upon such opinions given upon authority of that firm as experts in accounting and auditing.

UNDERWRITING

The names of the several Underwriters and the respective principal amounts of the 2009 Series A Bonds which they have severally agreed to purchase from the Company, subject to the terms and conditions specified in the Underwriting Agreement filed as an exhibit to the Registration Statement, are as follows:

Name	Principal Amount
Kidder, Peabody & Co. Incorporated	$ 9,550,000
Bache Halsey Stuart Shields Incorporated	1,100,000
The First Boston Corporation	1,100,000
Bear, Stearns & Co.	1,100,000
Blyth Eastman Dillon & Co. Incorporated	1,100,000
Dillon, Read & Co. Inc.	1,100,000
Donaldson, Lufkin & Jenrette Securities Corporation	1,100,000
Drexel Burnham Lambert Incorporated	1,100,000
Goldman, Sachs & Co.	1,100,000
E. F. Hutton & Company Inc.	1,100,000
Lazard Freres & Co.	1,100,000
Lehman Brothers Kuhn Loeb Incorporated	1,100,000
Loeb Rhoades, Hornblower & Co.	1,100,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	1,100,000
Paine, Webber, Jackson & Curtis Incorporated	1,100,000
L. F. Rothschild, Unterberg, Towbin	1,100,000
Salomon Brothers	1,100,000
Shearson Hayden Stone Inc.	1,100,000
Smith Barney, Harris Upham & Co. Incorporated	1,100,000
Warburg Paribas Becker Incorporated	1,100,000
Wertheim & Co., Inc.	1,100,000
Dean Witter Reynolds Inc.	1,100,000
The Robinson-Humphrey Company, Inc.	1,100,000
ABD Securities Corporation	600,000
Atlantic Capital Corporation	600,000
Basle Securities Corporation	600,000
J. C. Bradford & Co.	600,000
Alex. Brown & Sons	600,000
A. G. Edwards & Sons, Inc.	600,000
Robert Fleming Incorporated	$ 600,000
Ladenburg, Thalmann & Co. Inc.	600,000
Moseley, Hallgarten, Estabrook & Weeden Inc.	600,000
New Court Securities Corporation	600,000
Nomura Securities International, Inc.	600,000
Oppenheimer & Co., Inc.	600,000
Stuart Brothers	600,000
Thomson McKinnon Securities Inc.	600,000
Tucker, Anthony & R. L. Day, Inc.	600,000
Wheat, First Securities, Inc.	600,000
American Securities Corporation	400,000
Dain, Kalman & Quail, Incorporated	400,000
Fahnestock & Co.	400,000
Frost, Johnson, Read & Smith, Inc.	400,000
Interstate Securities Corporation	400,000
Johnson, Lane, Space, Smith & Co., Inc.	400,000
Laidlaw Adams & Peck Inc.	400,000
McCarley & Company, Inc.	400,000
McDonald & Company	400,000
Wm. E. Pollock & Co., Inc.	400,000
Prescott, Ball & Turben	400,000
Anderson & Strudwick, Incorporated	250,000
Craigie Incorporated	250,000
First Southwest Company	250,000
Freeman Securities Company, Inc.	250,000
Herzfeld & Stern	250,000
Howard, Weil, Labouisse, Friedrichs Incorporated	250,000
Kirkpatrick, Pettis, Smith, Polian Inc.	250,000
Thomas & Company, Inc.	250,000
Burton J. Vincent, Chesley & Co.	250,000
Total	$50,000,000

The Underwriting Agreement provides that the obligations of the several Underwriters are subject to certain conditions precedent, and that the several Underwriters will be obligated to purchase all of the 2009 Series A Bonds if any are taken. Under certain circumstances, the commitments of non-defaulting Underwriters may be increased. The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

The several Underwriters, through Kidder, Peabody & Co. Incorporated as their Representative, have advised the Company that the Underwriters propose to offer the 2009 Series A Bonds to the public initially at the offering price set forth on the cover page of this Prospectus, and that they may initially allow a concession to certain dealers of not more than .50% of the principal amount, of which not in excess of .25% of the principal amount may be reallowed to certain other dealers. The public offering price, concession and reallowance may be changed by the Representative of the several Underwriters after the initial public offering.

1066 132

TABLE OF CONTENTS

No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Prospectus, in connection with the offer contained herein, and if given or made such information and representations must not be relied upon as having been authorized by the Company or any Underwriter. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the 2009 Series A Bonds offered hereby in any State to any person to whom it is unlawful to make such offer in such State.

$50,000,000

South Carolina Electric & Gas Company

First and Refunding Mortgage Bonds,

9⅞% Series due June 1, 2009

PROSPECTUS

Kidder, Peabody & Co.
Incorporated

June 13, 1979

1066 133

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1977 Commission File Number 1-3375

SOUTH CAROLINA ELECTRIC & GAS COMPANY
(Exact name of registrant as specified in its charter)

SOUTH CAROLINA (State of incorporation)	57-0248695 (IRS Employer Identification No.)
328 MAIN STREET, COLUMBIA, SOUTH CAROLINA (Address of principal executive offices)	29218 (Zip Code)
Registrant's telephone number, including area code	(803) 799-1234

Securities registered pursuant to 12(b) of the Act:

Title of each class	Name of each exchange on which registered
5% Cumulative Preferred Stock par value $50 per share	New York Stock Exchange
Common Stock par value $4.50 per share	New York Stock Exchange

Securities registered pursuant to 12(g) of the Act:

Title of Class

Cumulative Preferred Stock, Par Value $50 per share
or $100 per share, Having a periodic sinking fund

9.40% Cumulative Preferred Stock par value $50 per share	7.70% Cumulative Preferred Stock par Value $100 per share
8.12% Cumulative Preferred Stock par value $100 per share	10.75% Cumulative Preferred Stock par value $100 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x . No ___.

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of December 31, 1977.

Common: $4.50 par value 20,358,612

1066 134

TABLE OF CONTENTS

1066 135

PART I

ITEM 1. BUSINESS.

Lines of Business

The Company's principal business is the production, transmission, distribution and sale of electricity and the purchase, transmission, distribution and sale of natural gas. The Company also renders urban bus service in the cities of Columbia and Charleston. As of December 31, 1977, the Company employed 2,913 persons as compared to 2,831 persons employed as of December 31, 1976. The Company's business is seasonal in that sales of electricity are higher during the summer months because of air conditioning requirements, and sales of gas are greater in the winter months due to its use for space heating. The approximate amounts and percentages of operating revenues and operating income before income taxes for the five years ended December 31, 1977 attributable to each line of business were as follows:

	Operating Revenues					
	Electric		Gas		Coach	
	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)					
1973...........	$162,650	79.6	$39,693	19.4	$1,897	1.0
1974...........	227,803	81.8	48,750	17.5	2,024	0.7
1975...........	263,773	82.1	55,379	17.3	1,979	0.6
1976...........	275,892	78.8	71,948	20.6	1,996	0.6
1977...........	337,927	80.8	78,405	18.7	2,023	0.5

	Operating Income					
	Electric		Gas		Coach	
	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)					
1973...........	$ 43,544	87.4	$ 7,484	15.0	$(1,190)	(2.4)
1974...........	51,891	84.3	11,084	18.0	(1,412)	(2.3)
1975...........	75,890	87.8	12,235	14.2	(1,725)	(2.0)
1976...........	76,613	87.3	13,357	15.2	(2,225)	(2.5)
1977...........	101,815	93.4	9,671	8.9	(2,522)	(2.3)

Service Area

The Company's service territory is located in 24 counties in the central, southern and southwestern portions of South Carolina. The area, which exceeds 12,000 square miles, covers about one-half of the State and has an estimated population in excess of 1,000,000. The most important industries in territories served by the Company are: cotton, synthetic fiber and woolen manufacturing, chemical and allied products, rubber and miscellaneous plastic products, fiberglass, electronic equipment and supplies, wood and paper products, office machinery, metal products, fiberglass boats and fishing rods, and stone, clay and sand processing.

Electric Sales

For the year ended December 31, 1977, residential sales accounted for 40% of operating revenues from sales of electricity; commercial sales 24%; industrial sales 25%; sales for resale 7%; and all other 4%. The average annual use per residential customer increased from 11,320 kilowatt hours ("KWH") in 1976 to 12,146 KWH for the year ended December 31, 1977. The Company promotes electric heating and had 56,259 residential heating customers at December 31, 1977. This is an increase of 7,001 or 14% in such customers since December 31, 1976.

The Company supplies electricity to three neighboring utilities as follows: Georgia Power Company, 75,000 KW of firm power under an agreement expiring in 1979; Carolina Power & Light Company, 53,000 KW of firm power and 150,000,000 KWH annually under an agreement expiring in 1980; and Duke Power Company, 21,375 KW of firm power and 75,000,000 KWH annually under an agreement expiring in 1980. Revenues received from sales of electricity under these agreements amounted to approximately 2.9% of the Company's total electric operating revenues during the year ended December 31, 1977.

The Company furnishes electricity to the Savannah River Project of the Energy Research and Development Administration ("ERDA") under two contracts, one for 30,000 KW of firm power expiring in 1979 and the other for 40,000 KW of firm power expiring in 1980. These contracts permit cancellation by ERDA in whole or part under certain conditions. The Company has an agreement to supply the Savannah River Project interruptible energy, whenever available, if and when requested by ERDA.

The Company furnishes electricity for resale to three municipalities and six electric cooperatives. The Company's sales to such municipalities and cooperatives accounted for 2.9% and 1.3%, respectively, of the Company's electric revenues for the year ended December 31, 1977.

Electric Interconnections

The Company's transmission system is part of the interconnected grid extending over a large part of the central and eastern portion of the nation. The Company, Virginia Electric and Power Company, Duke Power Company, Carolina Power & Light Company and Santee-Cooper are members of the Virginia-Carolinas Reliability Group, one of the several geographic divisions within the Southeastern Electric Reliability Council which provides for coordinated planning for reliability among bulk power supply systems in the Southeast.

Gas Operations

The Company serves natural gas to over 70 communities and at December 31, 1977 rendered service to 161,850 customers. For the year ended December 31, 1977, residential sales accounted for 36% of gas operating revenues; commercial sales 17%; industrial sales 43%; and sales to two municipalities 4%.

Since 1953 the Company has purchased gas from Southern Natural Gas Company ("Southern Natural") under long-term contract. Such contract presently extends to 1989 and has a contract demand of 165,000 MCF per day. However, the Federal Energy Regulatory Commission ("FERC" which term, as used herein, includes its predecessor, the Federal Power Commission) has established curtailment priorities applicable to deliveries by interstate pipeline companies to their customers which require Southern Natural to allocate gas to its customers based upon the "end-use" categories of the ultimate consumers of such gas. Such categories give preference first to residential and small commercial customers, second to large commercial requirements and to certain limited industrial requirements and only then to various industrial and other requirements.

On November 17, 1977, FERC issued an order placing a permanent curtailment plan in effect. Such order, which became effective with respect to Southern Natural on November 24, 1977, and modified a prior interim curtailment plan, continued priorities based on "end-use" but redefined certain "end-uses", thereby permitting reclassification of certain consumers from one category of priorities to another. It also makes no distinction between firm and interruptible industrial sales.

Under Southern Natural's curtailment plan, each of its customers, including the Company, has a "base-period allocation" arrived at on the basis of gas consumption during a 24-month "base period" ended February 1973 by the ultimate consumers of the gas in various "end-use" categories. The daily volumes of gas covered by the base-period allocations of Southern Natural's customers are increased by specified amounts (which vary from customer to customer and depend in part on the base-period consumption by their "end-users" in the first, second and third categories of priority) for each degree by which the average temperature in the area served by Southern Natural is estimated to be below 70°, provided that base period allocations, as so adjusted, do not exceed contract demand. Deliveries of gas are allocated by Southern Natural on a day-to-day basis among its customers on the basis of gas available for delivery by its system and the various base-period allocations of its customers as adjusted for estimated average system temperature. However, FERC curtailment priorities are not applicable to deliveries by the Company to its customers, which are governed by a separate curtailment plan approved by the Public Service Commission of South Carolina ("PSC").

Under the PSC plan preference is also given first to residential and small commercial customers and then to large commercial and certain limited industrial requirements and to successively lower categories of priority, although there are some differences in the definitions of "end-use" for purposes of FERC and PSC approved categories. The major difference between the two curtailment plans is that gas is allocated under the FERC plan to the Company on the basis of the "end-use" during the base period by the Company's customers at that time with no provisions for changes in allocation to the Company because of changes in the numbers of or priority usages by its customers, whereas deliveries by the Company under the PSC plan are allocated to its present customers on the basis of their current "end-use" of the gas.

Gas Operations (Continued)

As a result of Southern Natural's FERC curtailment plan, on many days during the colder months of 1975, 1976, and 1977 when the average temperature in the area served by Southern Natural was higher than normal, and on most days during the warmer months of 1976 and 1977, the Company received less than its full contract demand. The Company anticipates that this will continue to be the case. Notwithstanding this curtailment, the Company was able to meet the requirements of its firm customers during 1975 and 1976.

The Company usually receives its full contract demand during the colder months except on days when, as noted in the preceding paragraph, the average temperature in the area served by Southern Natural is higher than normal. However, during the 1976-1977 winter, as a result of demands on the Southern Natural system because of the unusually cold weather in the eastern half of the United States, coupled with Southern Natural's depleted storage facilities, on two of the colder days during January 1977 the Company received less than its full contract demand. Between January 28, 1977 and February 12, 1977 the Company, pursuant to PSC order, curtailed all natural gas service to all customers except those in the highest priorities of end-uses and for essential plant protection. Curtailments of gas service during the 1976-1977 winter did not have a material adverse effect on the financial results of the Company's gas operations despite a decline of 13.8% in the volume of gas sold during the first two months of 1977 as compared with the comparable period in the preceding year. However, the Company is unable to predict the future effects on the financial results of its gas operations of possible further curtailments of gas service.

On June 13, 1974 the PSC ordered the Company to continue to install and furnish gas service to new and old residences located on existing mains. To preserve its ability to supply gas to its existing firm customers, the Company adopted the policy of not extending service to any other firm customers. The Company also limits its interruptible sales to a maximum of 1,000 MCF per day on existing mains. The Company expects that such limitations on its ability to extend service to new customers will continue in effect in the future.

On September 24, 1976 the PSC initiated an investigation of the Company's curtailment plan to determine whether it should be revised to reflect the impact of changes in Southern Natural's FERC curtailment plan. Hearings had been scheduled to commence on January 20, 1977, but have been indefinitely postponed. The Company is unable to predict the outcome of the PSC investigation or the extent to which any change in the Company's curtailment plan could ultimately affect the Company's delivery of natural gas to its customers or the financial results of its operations.

The Company, through its wholly-owned subsidiary South Carolina LNG Company, Inc., completed in 1977 construction of liquefied natural gas ("LNG") facilities in Bushy Park near Charleston which (1) enable the Company to liquefy up to 6,000 MCF of gas per day during off-peak periods, (2) provide liquid storage for up to 1,000,000 MCF of gas and (3) enable the Company to gasify up to 60,000 MCF per day when required to meet the demands of its high-priority

Gas Operations (Continued)

users. The natural gas liquefied and stored in these facilities is taken from the Company's own pipeline system during off-peak periods out of gas supplied by Southern Natural as described above. There is no separate contract or allocation covering this gas. In addition, the Company has facilities for production of gas from supplemental propane during periods of maximum demand upon the system (commonly referred to as "peak shaving"). Such facilities have a capability of approximately 58,200 MCF per day. The Company was able to maintain service to its customers during the winter of 1976-1977 to the extent described above only by using its stored LNG and peak shaving propane. In December 1976, the then partially completed LNG facilities contained approximately 400,000 MCF of gas and the Company had about 5,300,000 gallons of propane (equivalent to about 440,000 MCF of gas) in storage. At the beginning of the 1977-78 winter season, the LNG storage facilities were full and the Company had in inventory about 6,300,000 gallons of propane (equivalent to approximately 525,000 MCF of gas). The Company also had a contract for an additional 2,665,000 gallons of propane (equivalent to approximately 222,000 MCF of gas) for use during the current winter season. These increased supplemental resources and deliveries of natural gas from Southern Natural enabled the Company to meet the requirements of its firm customers during the current winter.

Although Southern Natural has repeatedly increased its tariffs to the Company during the past several years, the Company's tariffs under which its customers are billed permit adjustment in its rates in the event of increases or decreases in the cost of gas, including LNG and propane. Accordingly, such increases have been reflected in the Company's rates.

During the twelve months ended December 31, 1977 the Company's average cost per MCF of natural gas purchased from Southern Natural was approximately $1.15 and for propane approximately $2.42. The cost of regasified LNG obtained by liquefaction of natural gas from its own system was approximately $2.44 per MCF.

1066 140

Availability of Fuel

The Company estimates that during 1978 coal will provide the fuel for approximately 76% of its generation of electric energy, No. 6 fuel oil approximately 18%, and hydroelectric power and No. 2 fuel oil (for internal combustion turbines) the remainder.

The national shortage of natural gas has limited the availability of natural gas for boiler fuel and the Company is substituting higher percentages of coal to meet its fuel requirements.

The following table sets forth the cost (in cents per million BTU) of each category of fuel consumed in the Company's steam generating stations as well as the percentage of total fuel requirements represented by each category of fuel during each of the years 1972 through 1977.

Year	Coal		No. 6 Oil		Nat. Gas		Weighted Average Cost of All Fuels
	Cost	%	Cost	%	Cost	%	
1972...........	46.04	82	48.83	3	46.54	15	46.73
1973...........	50.08	71	49.57	16	50.54	13	50.62
1974...........	104.59	61	98.63	28	64.37	11	99.92
1975...........	120.46	59	114.01	28	74.66	13	113.76
1976...........	104.04	72	133.60	25	95.93	3	111.82
1977...........	118.34	73	164.84	25	124.48	2	130.94

Coal. The Company uses coal for fuel at four of its six major thermal plants. These existing coal fired plants are estimated to require an aggregate of 85,000,000 tons of coal over their remaining useful lives (ranging from 27 to 36 years). The Company uses unit train delivery of coal at all four of these plants. The supply is obtained through contracts and purchases on the spot market. The Company's contracts for the purchase of coal represent the following percentages of the Company's estimated requirements for 1978 (4,085,000 tons) and expire at the dates indicated (giving effect to the Company's intention to exercise renewal options):

No. of Tons Per Year	% of 1978 Requirement	Range of % of Sulfur Content per Contract	Expiration Date
1,050,000	25.7	1.2-1.5	December 31, 1990
500,000	12.2	1.5-2.0	December 31, 1990
400,000	9.8	1.0-1.2	April 30, 1982
300,000	7.3	.9-1.2	September 30, 1985
72,000	1.8	1.0-1.5	June 30, 1991
180,000	4.4	1.0-1.5	July 31, 1988
Total 2,502,000	61.2		

1066 141

All of the above contracts are subject to periodic price adjustments, based on changes in indices published by the U. S. Department of Labor and others.

The Company expects to continue spot market purchases of its coal requirements in excess of those provided by its existing contracts. However, there is no assurance that coal will be available on a spot basis in the future or that it will be available at reasonable prices. The delivered cost of spot coal purchased during December 1977 averaged $1.47 per million BTU and $35.24 per ton, and the average delivered cost of all coal purchased, both spot and under contract, during such month was $1.38 per million BTU and $33.81 per ton.

The average costs per ton of coal consumed for the years 1972 through 1977 were $11.34, $12.23, $25.49, $29.72, $25.63 and $28.50, respectively.

The coal purchased by the Company in December 1977 had an average sulfur content of 1.58%, which is less than the maximum permitted by existing regulations, and the Company believes that its operations are in substantial compliance with all existing regulations relating to the discharge of sulfur dioxide. The Company has been advised by officials of the South Carolina Department of Health and Environmental Control that at this time no more stringent sulfur content requirements for existing plants are contemplated. (See "Environmental Control Matters")

Fuel Oil. Two of the Company's major thermal plants use No. 6 fuel oil to fire their boilers. Oil for the Williams Station, the newest plant on the Company's system, is supplied by Exxon Company, U.S.A. ("Exxon") under a contract expiring in 1992, subject to renegotiation of price in 1982 and 1987, providing for the estimated maximum requirement of 6 million barrels per year or 100% of the actual requirement, whichever is less. The price of oil is based upon the market price less a discount. The contract for oil at Plant Hagood (also with Exxon) provides for supply of Plant Hagood's requirements at market price less a discount over the seven-year period 1976-1982.

Oil for the Williams Station is barged up the Cooper River from Charleston, South Carolina in 20,000 barrel barges and stored at a tank farm. Oil for Plant Hagood is shipped via pipeline from the supplier's terminal in Charleston, South Carolina.

The Company's internal combustion turbines, used only at times of maximum demand upon the Company's generating system, burn natural gas and No. 2 oil. The quantities of such fuels used are not significant and the Company presently has adequate supplies of No. 2 oil for its current needs.

Nuclear. As discussed more fully below under the caption "Construction Program and Financing", the Company is constructing the V. C. Summer Nuclear Station which is its first nuclear generating station and is expected to be completed in 1980. The following discussion sets forth the factors affecting current and future availability of uranium to fuel the V. C. Summer Nuclear Station.

In order to fuel and operate a nuclear generating station, six distinct stages of the fuel cycle are involved: (1) the mining and milling of uranium ore to yield uranium concentrates, (2) the conversion of uranium concentrates to uranium hexaflouride, (3) the enrichment of the uranium hexafluoride, (4) the

Availability of Fuel (Continued)

conversion of the uranium hexafluoride to uranium dioxide and the fabrication of fuel assemblies into which the uranium dioxide is incorporated, (5) the utilization of the nuclear fuel in the generating station reactor and (6) the reprocessing of the spent fuel including the appropriate disposition of radioactive wastes or disposal of spent fuel without reprocessing.

The Company has contracts with Westinghouse Electric Corporation, with an effective date of December 18, 1970, for the supply of uranium concentrate, conversion and fabrication and with the ERDA for supply of enriching services for the V. C. Summer Nuclear Station. The contract with Westinghouse covers the initial core loading of three regions and eight yearly reload regions for a total of 11 regions of fuel. (A region represents approximately one-third of the nuclear cores in the reactor at any time.) Under anticipated operating conditions this would cover a period of approximately ten years. It will be necessary for the Company to enter into future contracts to cover the difference between its total requirements and those covered by its present contract. The contract with the ERDA is a "requirements" type contract whereby the ERDA supplies total enriching requirements for the unit through the year 2002. There are presently no reprocessing facilities in operation in the United States available to utilities for reprocessing of spent fuel. President Carter has announced his opposition to reprocessing. The Company estimates that the spent fuel storage facilities at the V. C. Summer Nuclear Station will be adequate for at least 10 years of operation. In addition, there wil be sufficient on-site storage capacity to permit storage of the entire reactor core in the event that complete unloading should become desirable or necessary for any reason.

The following table summarizes the Company's contract commitments for the stages of nuclear fuel assemblies:

Commitment	Contractor	Regions	Operating Years Estimated
Uranium concentrate	Westinghouse	1-1.	1980-1989
Conversion	Westinghouse	1-11	1980-1989
Enrichment	ERDA	*	through 2002
Fabrication	Westinghouse	1-11	1980-1989
Reprocessing	None	None	None

*Requirements contract

On September 8, 1975, Westinghouse notified the Company that "Under present and anticipated market conditions, Westinghouse finds itself unable to obtain sufficient uranium to meet...customer needs except at such onerous prices that performance on Westinghouse's part would be commercially impracticable". On October 22, 1975 the Company commenced an action against Westinghouse in the U. S. District Court for the District of South Carolina seeking specific performance of the uranium supply provisions of the contract and damages for its breach. Such action was consolidated with other similar actions by other utility companies against Westinghouse and transferred to the U. S. District Court for the Eastern District of Virginia. Trial commenced September 12, 1977; proceedings are continuing at present.

1065 143

On February 3, 1976, Westinghouse consented to an order of the U. S. District

Court for the Eastern District of Virginia requiring it to deliver, without prejudice to the position of any of the parties as to their ultimate obligations, quantities of uranium concentrates at the contract price equal to its inventories of uranium concentrates then on hand and on order to the extent received. The Company will receive approximately 731,000 pounds of uranium concentrates, which is approximately 18% of the original Westinghouse commitment to the Company (estimated at approximately 4,100,000 pounds) and 82% of the first core fuel requirements (estimated at approximately 888,000 pounds).

The contract with Westinghouse provides for a base price subject to increases or decreases in price according to changes in various indices published by several Federal agencies. The Company estimates that the contract price for the 731,000 pounds of uranium concentrates will be in the range of $12 to $13 per pound. The Company has purchased on the open market, at prices averaging approximately $40 per pound, sufficient quantities of uranium to meet the fuel requirements of the initial core.

The Company cannot at this time estimate the amount of damages occasioned by Westinghouse's actions because the contract calls for performance by Westinghouse over a period of years. The Company is continuing discussions with Westinghouse and also with other suppliers for the purpose of obtaining an adequate supply of uranium and minimizing any damage to the Company or cost to its customers resulting from the actions of Westinghouse. The Company intends to advise the PSC of the results of the negotiations prior to entering into any settlement of the dispute with Westinghouse. The Company does not anticipate that uranium supply problems are likely to result in a delay in completion or operation of the V. C. Summer Nuclear Station.

Regulation

The Company is subject to the jurisdiction of the PSC as to electric retail and gas rates, service, accounting, issuance of securities and other matters. The Company is subject to the jurisdiction of the FERC in the transmission of electric energy in interstate commerce and in the sale of electric energy at wholesale for resale, as well as with respect to licensed hydroelectric projects and certain other matters, including accounting, but not with respect to the issuance of securities. The Company is not subject to the Public Utility Holding Company Act of 1935. The Company is exempt from the provisions of the Natural Gas Act. The Department of Energy Organization Act of 1977 created a new department within the Executive Branch with the responsibility for coordinating and administering national energy policy and programs.

In connection with the Company's proposed construction program (see "Construction Program and Financing"), it will be necessary to obtain regulatory authorizations, permits and licenses, including permits and licenses from the Nuclear Regulatory Commission ("NRC"), a successor to the Atomic Energy Commission ("AEC"), and a license from the FERC. The Company has been granted a construction permit for the V. C. Summer Nuclear Station by the AEC and as of August 28, 1974 the FERC issued to the Company a license for the Fairfield Pumped Storage Project, which includes the Company's existing Parr Shoals Project. The United States Court of Appeals for the District of Columbia Circuit has set aside, as being based on an inadequate record, an NRC rule that established on a generic basis the environmental effects of fuel reprocessing and radioactive waste disposal to be assigned to the operation of nuclear power reactors. NRC has reopened the

1066 144

rule-making proceeding and invited comments with respect thereto. On March 7, 1977 the NRC adopted an interim rule that allows resumption of licensing subject to the condition that the licensed project be in compliance with such final rule as may be adopted. The Company has applied for an operating license for the V. C. Summer Nuclear Station. The Company is unable to predict whether the reopened rule-making proceeding will delay the issuance of an operating license for the Summer Station which is presently scheduled to load fuel in the fall of 1979. The Company has made and will continue to make substantial investments ($288,700,000 at December 31, 1977) and commitments in the nuclear station prior to the completion of licensing and other proceedings by governmental bodies. There can be no assurance that the requisite authorizations will be obtained by the Company. This situation, which is common to electric utilities in general, is necessitated by the complexity of present-day electric utility technology and the time required for the construction of new electric generating and transmission facilities and for completion of the licensing and other proceedings referred to above.

The Company holds licenses under the Federal Water Power Act or Federal Power Act with respect to all its hydroelectric projects. The licenses covering the projects expire as follows: Neal Shoals (5,000 KW capability) and Stevens Creek (9,000 KW capability) 1993 and Parr Shoals (14,000 KW capability) and Fairfield Pumped Storage Project (480,000 KW capability) 2020. The license for the Columbia (10,000 KW capability) project expired in 1970 and the license for the Saluda (206,000 KW capability) project expired in 1977, at which times the Company made timely filings for new licenses. Annual licenses are in effect while the FERC is reviewing the Company's application for such new licenses. The FERC has allowed Central Electric Cooperative, Inc. to intervene in the proceedings on the application for a new license of the Saluda project for the purpose of obtaining an article in the new license requiring the Company to enter into wheeling, pooling, and reserve sharing arrangements with it, but not for the purpose of opposing a new license. The Company cannot determine the probable outcome of these proceedings on its business or the results of its operations.

At the termination of a license under the Federal Power Act, the United States may take over the project covered thereby, or the FERC may extend the license or issue a license to another applicant. If the United States takes over a project or the FERC issues a license to another, the original licensee shall be paid its "net investment" in the project (not to exceed fair value), plus severance damage.

A number of separate bills have been introduced in the current session of the South Carolina Legislature which, if adopted, would, among other things, eliminate the existing authority of the Company to place increased rates in effect, subject to refund, 30 days after the filing of an application for a rate increase with the PSC, require monthly hearings on the Company's fuel adjustment clause, and change the process by which membership of the PSC is determined. Similar bills have been filed in prior sessions but were not adopted. The management of the Company cannot predict whether any of such legislation will be adopted or the effect such legislation might have upon the Company.

On November 7 and November 22, 1977 the PSC ordered the three major electric utilities serving the State of South Carolina to report to it annually, beginning on March 1, 1978, on proposed programs for customer load control and load management. The announced purpose of requiring the reports is to enable the PSC and its staff to assess the potential and actual impact of such programs on the utilities and their customers. Along with other utilities across the nation,

Regulation (Continued)

the Company is studying such load management techniques including direct control over certain customer appliances, time of day pricing, peak load pricing, and other current rate designs.

Rate Matters

The PSC has authorized the Company to apply a fuel surcharge to all of the Company's jurisdictional electric rate schedules and a purchased gas cost adjustment clause to its gas rate schedules. The FERC has accepted a fuel adjustment clause filing applicable to seven wholesale electric customers. These clauses permit the Company to pass on fuel costs in excess of certain levels stipulated in the Company's tariffs. On February 1, 1977 the PSC approved inclusion of purchased power and interchange power fuel costs and exclusion of fuel costs recovered through inter-system sales in the operation of the fuel adjustment clause.

On December 13, 1977, the PSC granted an electric retail rate increase amounting to $21,797,000 annually based on a test year ended December 31, 1976, or approximately 72% of the amount requested in an application by the Company filed November 12, 1976. The order also requires refunds to the Company's retail customers of approximately $2,800,000 of revenues collected under bond plus interest and approximately $7,000,000 of revenues representing the difference between the net purchased power and interchange sales with other utility companies in the first six months of 1976 and in the first six months of 1977, plus interest. In its order the South Carolina Public Service Commission allowed the Company an overall rate of return of 9.33% on total capitalization, including a 13% return on the equity component.

The rates provided for by the PSC order have become effective as to bills rendered on or after the Company's first billing cycle in January 1978. However, a petitioner in an appeal can request that the Court of Common Pleas stay, amend or rescind such new rates. Certain parties to the rate proceeding, including the Attorney General of South Carolina, who filed petitions for rehearing before the PSC which were denied, have appealed the rate increase granted by the PSC order. The Company cannot predict whether any such appeal will result in any stay of or amendment to the rate increase or affect the Company's revenues or the results of its operations.

In February 1978 the Company commenced making refunds to its customers of the approximately $2,800,000 of revenues collected under bond, plus interest. After denial of the Company's petition for rehearing before the PSC, the Company appealed to the Court of Common Pleas that portion of the PSC order requiring the $7,000,000 refund. That court has stayed the $7,000,000 refund until the Company's appeal of the PSC order can be heard. The Attorney General of South Carolina and certain of the other parties referred to above have appealed the stay of the $7,000,000 refund obligation to the South Carolina Supreme Court on the jurisdictional issue of the timeliness of the filing of the Company's petition for rehearing before the PSC. The PSC order denying the Company's petition for rehearing found that such petition was timely filed. The Company cannot predict whether the stay of the $7,000,000 refund obligation will be sustained by the South Carolina Supreme Court, when the Company's appeal with respect to such refund will be heard by the Court of Common Pleas, or the outcome of such appeal.

The Company's management intends to make application for such future rate increases as may be required to support the financing of its construction program.

Environmental Control Matters

Both federal and state authorities have imposed various environmental control requirements relating primarily to airborne pollution and liquid discharge of pollutants, including heat, into waters in the vicinity of the Company's plants. The Company is attempting to insure that its facilities meet applicable environmental regulations and standards. It is not possible to forecast the ultimate effect of environmental quality regulations upon the existing and proposed facilities and operations of the Company. Moreover, developments in these and other areas may require the Company to modify, supplement or replace equipment and facilities, at costs which could be substantial, and may delay or impede construction and operation of new facilities.

Air Quality Control. In 1971, pursuant to the Federal Clean Air Act of 1970 ("1970 Act"), the Environmental Protection Agency ("EPA") promulgated primary and secondary ambient air quality standards with respect to certain air pollutants including particulates, sulfur oxides and nitrogen oxides. In keeping with these regulations, South Carolina has adopted implementation plans containing standards limiting emissions of particulates, sulfur oxides and nitrogen oxides, which were generally designed to achieve the primary ambient air quality standards by 1975 and the secondary ambient air quality standards within a reasonable time thereafter. The effect of the South Carolina Department of Health and Environmental Control ("DHEC") standards is that in all portions of the Company's service area, except for Charleston and Aiken counties, the Company may not burn coal having a sulfur content in excess of 2.18% by weight. For Charleston and Aiken counties, such maximum sulfur content is 1.44%. EPA has taken the requisite action approving the implementation plans submitted by DHEC. The Company's air pollution control systems are subject to periodic inspections by DHEC and EPA. Several of them have been recently tested for compliance, and several more are scheduled for testing in the near future. Of the facilities tested, the Company's Wateree #1 Unit met visual opacity limitations but not particulate limitations; Wateree #2 Unit showed marginal non-compliance with both visual opacity and particulate limitations. Both units are scheduled to be retested during late winter and early spring of 1978. The Company's Williams Station and Urquhart #1 and #2 Units have been found to be in compliance with particulate limitations but not in compliance with visual opacity limitations. As a result of a conference with DHEC the Company has agreed to install continuous visual opacity monitors on all Urquhart units during the spring of 1978. DHEC regulations require installation of such monitors on all fossil fuel units by July 1, 1978. The Company expects to complete installation of the monitors within the required times. However, the Company is unable to predict whether use of monitors will materially affect its operations as presently conducted, but in the future compliance with such regulations could result in higher capital and operating costs.

In June 1973 an evenly divided United States Supreme Court left standing an opinion of a lower Federal court to the effect that EPA could not approve state implementation plans which would permit significant deterioration of ambient air quality in areas in which air quality is better than national primary and secondary standards. Neither the court opinion nor the 1970 Act defines "significant deterioration". Air quality in the areas in which many of the Company's existing and planned generating facilities are located is believed to exceed the national standards. EPA issued regulations effective January 1, 1975 setting up a mechanism

1066 147

for preventing "significant deterioration" of air quality in areas where air quality exceeds the national ambient air quality standards. The regulations provide for designation by each state of three classifications of areas, with varying limitations on the extent to which changes in air quality in such areas would be deemed to constitute "significant deterioration". The State of South Carolina control standards presently classify areas affecting the Company's operations in a manner required by the EPA regulations. Although the Company believes that it presently is in substantial compliance with applicable regulations, changes in EPA and the State of South Carolina regulations or in the availability of fuel could materially affect the Company's power resources and operating expenses. The 1977 amendments to the 1970 Act (i) require state regulations to prevent significant deterioration of areas cleaner than required by EPA regulations, (ii) establish specific increments for particulates and sulfur dioxide, (iii) require EPA to promulgate by August 1979 increments of, or other means to prevent significant deterioration from, oxides of nitrogen, hydrocarbons, carbon monoxide and photochemicals, and (iv) require new plants to use the best method of continuous emission reduction, regardless of fuel content. Accordingly, the Company believes that the new standards have the potential for restricting the number of sites available for future fossil fuel generating plants and the total generating capability which may be installed at a given site and that they will impose higher capital and operating costs on new generating plants.

Water Quality Control. The Federal Water Pollution Control Act of 1972 as amended in December 1977 ("1972 Act") provides for the imposition of effluent limitations to regulate discharges of pollutants, including heat, into the waters of the United States. With respect to existing plants, the 1972 Act requires that there have been achieved by (i) July 1, 1977 effluent limitations that require application of the "best practicable control technology currently available" and (ii) not later than three years after the effective date, or not later than July 1, 1984, whichever is later, but in no case later than July 1, 1987, effluent limitations that require application of the "best available technology economically achievable".

Pursuant to the 1972 Act, the Administrator of EPA has established guidelines for effluent limitations for steam electric generating plants and regulations establishing procedures for obtaining a variance from effluent limitations established under state water quality standards for the discharge of heated water from such plants. The Company has applied for variances for the discharge of heated water at four of its plants. If variances as to thermal discharges are not granted, the Company would be required to make additional expenditures in amounts which are not presently determinable but which could be substantial. A group of concerned utilities (including the Company) appealed from the Administrator's action and on July 16, 1976 the United States Court of Appeals for the Fourth Circuit set aside the parts of the regulations relating to "no discharge" of heat and certain chemical limitations and remanded them to EPA for further consideration.

In addition, the 1972 Act requires that the location, design and construction of cooling water intake structures for both new and existing generating plants reflect the "best technology available for minimizing adverse environmental impact". EPA's interpretation that the 1972 Act requires cooling towers at existing plants has been challenged by a group of concerned utilities (including the Company). On November 11, 1977 the Court of Appeals for the Fourth Circuit set aside the EPA

1066 148

regulations on the ground that they had been invalidly promulgated. The Company is presently studying the effect of the 1972 Act, including EPA's interpretation, on its plants and is presently unable to determine whether substantial changes in cooling water intake structures or the installation of additional cooling towers will be required, or the amount of expenditures required to make such changes, but the cost of compliance could be substantial.

Compliance with applicable effluent limitations is achieved by a permit system established under Section 402 of the 1972 Act. The Company filed timely applications for permits for its plants, and permits have been issued by DHEC for all the Company's generating stations. The Company has completed waste water treatment facilities for all its operational steam-electric generating stations and it believes that it is in compliance with all permits.

In addition to the 1972 Act and the regulations thereunder, the Company must comply with the South Carolina Water Quality Standards. The Company believes it is in substantial compliance with such Standards.

On November 21, 1975 EPA promulgated regulations pursuant to the 1972 Act which would require, among other things, assessments and allocations of the discharge of pollutants, including thermal discharges, and would affect the permits issued under Section 402 of the Act. An appeal of the regulations is now pending. The Company is unable to predict the effect of the regulations except that they could result in higher capital and operating costs and could restrict sites available for future expansion of the Company's generating facilities.

On October 13, 1972, a landowner on the shores of the Company's FERC licensed hydroelectric Saluda project ("Lake Murray") filed a complaint with the FERC alleging a violation of the Company's license due to the Company's failure to prevent unauthorized discharges (and proposed discharges) of effluent into Lake Murray by other persons, corporations and agencies owning or leasing property on Lake Murray, including a state recreational facility which has been granted a lease by the Company (approved by the FERC), a landowner which has been granted an easement by the Company to lay a pipe along the lake bottom for the discharge of treated effluent (the granting of such easement was approved by order of the FERC and such order was affirmed by the U. S. Court of Appeals, District of Columbia Circuit, following a petition for review by the same landowner who brought the October 13, 1972 complaint), other landowners to whom easements have been granted by the Company subject to FERC approval and owners and lessees with whom the Company has no such relationship. The complaint requests, among other things, that the FERC revoke the license for such project. The Company has filed its answer stating that it is in material compliance with the terms of its license, the rules and regulations of the FERC and the rules and regulations of other Federal, State and local agencies having jurisdiction over environmental matters involving Lake Murray. On September 10, 1973 the FERC ordered an investigation into the existing and future uses of the lands and waters of Lake Murray.

1066 149

On September 30, 1977 an Administrative Law Judge issued an Initial Decision which among other things found that the present water quality within the Project is acceptable, but that in the future there could be land use and water quality problems which might impair the recreational uses and aesthetic qualities of the Project. The Decision recommended among other things that in the re-licensing proceeding for the Project the Company and the Commission develop a land and water management plan that includes water quality controls and a land-use plan providing for a buffer zone around the shoreline of the Project. The Company

Environmental Control Matters (Continued)

has filed a Brief on Exceptions with the Commission seeking clarification of the Initial Decision. The Company is unable to predict when a final decision will be reached but the Company believes that such decision will not have a material effect on the Company's operations.

In the years 1970 through 1977, the Company's expenditures for environmental control facilities amounted to approximately $14,400,000. It is not possible for the Company to estimate all future costs for environmental purposes but it forecasts minimum capitalized expenditures therefor of at least $1,900,000 for 1978 and $3,800,000 for the years 1979 to 1982, inclusive. These expenditures are included in the Company's construction program set forth below under "Construction Program and Financing".

Other Matters

The Company is required to continue its coach operations so long as it exercises its existing electric and gas franchise rights in the City of Charleston. For many years the Company's coach operations in the City of Charleston have resulted, and continue to result, in substantial operating losses, amounting to approximately half the operating losses of the coach division (see "Lines of Business"). The Company has had discussions with the Charleston Area Transit Committee ("CATC") looking towards a transfer by the Company to a public body of its coach properties and operations. CATC has proposed to the Company that the Company pay $8,500,000 over the next 15 years and donate the coaches involved in the Charleston operation (with a book value at December 31, 1977 of $267,300) in consideration of its being released of its obligations to continue its coach operations in the City. Negotiations are still proceeding and the Company is unable to predict at this time their final outcome. Any agreement between the Company and CATC would be subject to the approval of the Company's Board of Directors, the PSC and the local governments involved. The Accounting treatment of such payments and of the assets transferred would depend, at least in part, upon the provisions of the PSC order issued in connection with the transfer but it is possible, although not certain, that the entire amount of the future payments and assets transferred could be charged to net income in one year.

One of the Company's wholly-owned subsidiaries, Energy Subsidiary, Inc., is primarily engaged in the holding and development of real property. The Company's investment at December 31, 1977 in the subsidiary was approximately $13,380,000. In 1974 the Company announced, following communications with the PSC, that it would not enter into new real property acquisitions but would continue to fund the subsidiary's existing obligations while it makes an orderly disposition of the subsidiary's holdings. The December 13, 1977 order of the PSC requires the Company to file semi-annual reports on the progress of the divestment of the real property. In a petition for rehearing of the PSC rate order referred to above under "Business - Rate Matters", the Attorney General of South Carolina had requested the PSC to order the divestiture of the subsidiary. Although such petition for rehearing was denied by the PSC, certain of the other parties to the rate proceeding have included a similar request in an appeal of such rate order to the Court of Common Pleas.

The Price-Anderson Indemnification Act, which was passed by Congress in 1957, limits the liability of a power company operating a nuclear reactor to $560 million for one nuclear accident and provides for governmental indemnification above any available privately offered insurance such that the total amount of indemnification is equal to $560 million. On March 31, 1977, in a case challenging the construction

permit for a nuclear station being constructed near Charlotte, North Carolina, the U. S. District Court for the Western District of North Carolina ruled that the Price-Anderson Indemnification Act represented an unconstitutional deprivation of property without due process of law. The decision has been appealed to the U. S. Supreme Court. If such decision were affirmed, it would probably increase cost of the insurance or the financial risk associated with the operation of a nuclear plant such as the V. C. Summer Nuclear Station.

Recent amendments to the Price-Anderson Indemnification Act, which are also subject to the litigation discussed above, provide that all owners of nuclear reactors may, commencing August 1, 1977, be assessed up to $5,000,000 per reactor for each nuclear accident occuring at any reactor in the United States with a limit of two assessments per year (a retroactive premium). The Company's maximum exposure would be $6,667,000 per year under this legislation.

CONSTRUCTION PROGRAM AND FINANCING

The Company's construction program, which is subject to continuing review and adjustment, for 1978 and the four-year period 1979-1982 as now scheduled involves costs estimated as follows (estimates include allowance for funds used during construction estimated at $26,100,000 for 1978 and $40,000,000 for the 1979-1982 period but exclude the cost of nuclear cores, estimated at $105,000,000 for the 1978-1982 period):

Type of Facilities	1978	1979-1982
	(Thousands of Dollars)	
Electric		
Generation	$111,541	$146,708
Transmission	29,400	72,073
Distribution	25,118	135,256
Other	6,140	11,689
Total Electric	172,199	365,726
Gas	5,531	7,918
Transportation (Coach)	240	405
Total Construction	$177,970	$374,049

1066 151

The cash requirements for the Company's 1978 construction program are estimated at $160,400,000. Such cash has been and is expected to be provided through the public sales in February 1978 of $30,000,000 principal amount of First and Refunding Mortgage Bonds and 1,500,000 shares of Common Stock, which sales produced net proceeds to the Company of approximately $56,092,500, the withdrawal of the remaining $1,756,000 of the proceeds of the sale in December 1977 of Pollution Control Revenue Bonds, the sale of shares of common stock pursuant to the Company's dividend reinvestment and employees' stock purchase plans, the incurring of short-term indebtedness, internally generated funds and the sale of additional securities. The timing and amount of such sales and the type of additional securities will depend upon market conditions and other factors in existence at the time.

In addition to the cash requirements necessary to finance its construction program described above, the Company has an aggregate of $201,319,000 of long-term debt maturing during the years 1978-1982 (including sinking fund maturities, of which $25,197,000 are expected to be satisfied by certifying property additions).

The Company expects that on the average during the five years 1978-1982 approximately 50% of the cash requirements for its construction program and for the retirement of maturing securities will require external financing through the sale of securities or other financial arrangements and approximately 50% will be provided from internally generated funds.

On September 30, 1976, the Company entered into agreements with The Citizens and Southern National Bank of South Carolina, as Trustee, and The Chase Manhattan Bank, for itself and as agent for The South Carolina National Bank and Bankers Trust of South Carolina, to finance its share of nuclear fuel for the initial core of the V. C. Summer Nuclear Station. The Company has assigned its share of uranium and processing contract rights to a trust which borrows the money from banks to pay for the costs of such share up to an aggregate of $42,000,000, including interest and fees, and the Company will pay the excess costs, if any. The Company is unconditionally obligated to purchase its share of the fabricated fuel from the trust prior to loading of the fuel into the reactor or on June 30, 1980, whichever is earlier.

The Parr-Frees complex, currently under construction, is located approximately 30 miles northwest of Columbia and will include the V. C. Summer Nuclear Station and the Fairfield Pumped Storage Project. The Fairfield Pumped Storage Project (which includes a reservoir and eight pumped storage units of 60,000 KW capacity each and is wholly owned by the Company) has been rescheduled for completion from 1978 and 1979 to 1978, at a total cost (including allowance for funds used during construction) of approximately $200,000,000, or $417 per KW, of which $185,758,000 had been incurred at December 31, 1977. This Project will be used primarily as a peaking station in preference to the Company's internal combustion turbines which are more costly to operate.

The Company and the South Carolina Public Service Authority, a public corporation of the State of South Carolina ("Santee-Cooper"), have contracted to become joint owners of the V. C. Summer Nuclear Station on the basis of two-thirds by the Company and one-third by Santee-Cooper and to participate, on a like basis, in the cost of construction, cost of operation and in the energy output thereof. This nuclear station is expected to have a capacity of 900,000 KW and is scheduled for completion in 1980 at an estimated total cost of $675,000,000, or $750 per KW (including allowance for funds used during construction but exclusive of nuclear cores), of which approximately $433,645,000 had been incurred at December 31, 1977.

As a result of delays, inflation and engineering and design changes the estimated costs of construction of the Fairfield Pumped Storage Project and the V. C. Summer Nuclear Station have been increased by approximately $31,000,000 and $182,000,000, respectively, over prior estimates made in the fall of 1975. While the Company believes that the revised completion dates are reasonably attainable, unanticipated circumstances could cause delay in completion dates and additional cost increases.

The Company presently anticipates that two additional 500,000 KW coal-fired units will be required during the 1980's. Construction of the first unit is presently expected to commence by 1980.

1066 153

ITEM 2. SUMMARY OF OPERATIONS

Reference is made to pages 25-27 of the 1977 Annual Report to shareholders, which is included in Item 13, for a Summary of Operations for each of the years 1973 through 1977 and "Management's Discussion and Analysis of the Summary of Operations." Such summary and discussion are incorporated herein by reference.

NOTES TO SUMMARY OF OPERATIONS

(1) Effective January 1, 1977, the interest portion related to borrowed funds of allowance for funds used during construction has been reclassified as a reduction of interest charges pursuant to a Federal Energy Regulatory Commission (successor to the Federal Power Commission) order. Prior periods have not been reclassified. The rates used in computing AFC were 6.5% in 1977 and 8% in years prior to 1977. For further discussion see Note 1D of the Notes to Consolidated Financial Statements.

(2) The year 1977 reflects an order from the South Carolina Public Service Commission dated December 13, 1977. For detail, see Note 2 of the Notes to Consolidated Financial Statements.

(3) Earnings per share of common stock have been computed by dividing earnings available for common stock by the weighted average number of shares outstanding.

ITEM 3. PROPERTIES

The following table gives information with respect to generating facilities of the Company at December 31, 1977.

Type	Name	Location	Net Generating Capability (Kilowatts)(1)
Steam	Canadys	Canadys, S. C.	422,000
	Hagood	Charleston, S. C.	94,000
	McMeekin	Irmo, S. C.	252,000
	Parr	Parr, S. C.	41,000
	Urquhart	Beech Island, S. C.	250,000
	Wateree	Eastover, S. C.	720,000
	Williams	Goose Creek, S. C.	580,000
Gas Turbines	Burton	Burton, S. C.	30,000
	Faber Place	Charleston, S. C.	9,000
	Hardeeville	Hardeeville, S. C.	15,000
	Canadys	Canadys, S. C.	15,000
	Urquhart	Beech Island, S. C.	30,000
	Coit	Columbia, S. C.	32,000
	Parr (2)	Parr, S. C.	64,000
	Williams (3)	Goose Creek, S. C.	54,000
Hydro	Columbia	Columbia, S. C.	10,000
	Neal Shoals	Carlisle, S. C.	5,000
	Parr Shoals	Parr, S. C.	14,000
	Saluda	Irmo, S. C.	206,000
	Stevens Creek	Martinez, Ga.	9,000
	Total		2,852,000

(1) Summer rating

(2) Two of the four Parr gas turbines are leased and have a net capability of 32,000 kilowatts. This lease expires on June 29, 1996.

(3) The two units at Williams are leased and have a net capability of 54,000 kilowatts. This lease expires on June 29, 1997.

The Company currently has under construction the Parr-Frees complex located at Parr, S. C. which includes the Fairfield Pumped Storage Project (480 MW capacity) scheduled for completion in 1978 and the V. C. Summer Nuclear Station (900 MW capacity) scheduled for completion in 1980. For additional information see "Construction Program and Financing" under Item 1. Business.

1066 155

Item 3. Properties. (Continued)

Major transmission and distribution lines owned and in service are as follows:

Voltage	Pole Miles
Transmission:	
230 KV	431
110 KV	1,264
44 KV	740
33 KV	72
22 KV and below	14
Total Transmission	2,521
Distribution:	
12 KV and over	6,452
Under 12 KV	5,477
Total Distribution	11,929
Total Transmission and Distribution	14,450

Through its wholly-owned subsidiary, South Carolina LNG Company, Inc., the Company owns an LNG plant located at Goose Creek, S. C. During off-peak periods, the LNG facility can liquefy up to 6,000 MCF per day and store one million MCF of natural gas. On peak days, the LNG plant can regasify up to 60,000 MCF per day.

Additionally, the Company has propane storage facilities in Charleston and Columbia, S. C., which can supplement the supply of natural gas by gasifying approximately 58,200 MCF per day.

The following table sets forth the Company's gas pipeline miles:

Transmission	610
Distribution	3,581
Service Piping	3,349
	7,540

1066 156

ITEM 4. PARENTS AND SUBSIDIARIES

The Company has no parent.

Listed below are the subsidiaries of the Company as of December 31, 1977:

Name of Company	Kind of Business	State of Incorporation	Percent Voting Stock Owned
Energy Subsidiary, Inc.	Primarily engaged in the holding and development of real property.	South Carolina	100%
South Carolina LNG Co., Inc.	Liquefaction, storage, and gasification of natural gas.	South Carolina	100% (1)

(1) South Carolina LNG Company, Inc., is a wholly-owned subsidiary of South Carolina Electric & Gas Company. South Carolina LNG Company, Inc., has no employees, and all of its operating functions are performed by employees of South Carolina Electric & Gas Company.

The accounts of the Company's wholly-owned subsidiary, South Carolina LNG Company, Inc., are consolidated in the accompanying financial statements.

The Company's investment in its wholly-owned subsidiary, Energy Subsidiary, Inc., is reported in the accompanying financial statements using the equity method of accounting. Separate financial statements of Energy Subsidiary, Inc. are not presented because Energy Subsidiary, Inc. is not a significant subsidiary.

ITEM 5. LEGAL PROCEEDINGS

See Notes 2 and 8B of the Notes to the Consolidated Financial Statements. The Company is involved in a proceeding before the FERC involving environmental control issues at its Saluda hydroelectric project. See Item 1, "Business - Environmental Control Matters".

1066 157

South Carolina Electric & Gas Company

ITEM 6. INCREASES AND DECREASES IN OUTSTANDING SECURITIES AND INDEBTEDNESS

(a) EQUITY SECURITIES

	At December 31, 1976			Increase (Decrease)		At December 31, 1977	
Cumulative Preferred Stock	Par Value	Shares	Amount	Shares	Amount	Shares	Amount
5% Issued July 1943	$50.00	125,234	$ 6,261,700		$	125,234	$ 6,261,700
4.60% Issued October 1950	50.00	29,334	1,466,700	(1,500)	(75,000)	27,834	1,391,700
4.50% Issued June 1954	50.00	48,000	2,400,000	(1,600)	(80,000)	46,400	2,320,000
4.60% (Series A) Issued June 1956	50.00	64,052	3,202,600	(2,000)	(100,000)	62,052	3,102,600
5.125% Issued March 1961	50.00	91,000	4,550,000	(1,000)	(50,000)	90,000	4,500,000
4.60% (Series B) Issued February 1963	50.00	139,400	6,970,000	(3,400)	(170,000)	136,000	6,800,000
6% Issued December 1966	50.00	144,000	7,200,000	(3,200)	(160,000)	140,800	7,040,000
*9.40% Issued November 1970	50.00	312,800	15,640,000	(6,800)	(340,000)	306,000	15,300,000
8.12% Issued July 1971	100.00	206,800	20,680,000	(4,400)	(440,000)	202,400	20,240,000
*7.70% Issued July 1972	100.00	144,000	14,400,000	(3,000)	(300,000)	141,000	14,100,000
6.875% Issued January 1974	100.00	150,000	15,000,000			150,000	15,000,000
*10.75% Issued December 1975	100.00	200,000	20,000,000			200,000	20,000,000
*8.40% Issued December 1976	100.00	200,000	20,000,000			200,000	20,000,000
Total		1,854,620	$137,771,000	(26,900) (1)	$(1,715,000)	1,827,720	$136,056,000

Common Stock	Par Value	Shares	Amount	Shares	Amount	Shares	Amount
	$4.50	17,834,173	$80,253,778	125,014 (2)	$ 562,563		
				145,405 (3)	654,323		
				54,020 (4)	243,090		
				2,200,000 (5)	9,900,000		
Total		17,834,173	$80,253,778	2,524,439	$11,359,976	20,358,612	$91,613,754

*Securities registered pursuant to 12(g) of the Act.

(1) Total Cumulative Preferred shares retired per sinking fund.
(2) Total number of shares issued under provisions of the Company's Employee Stock Purchase-Savings Program.
(3) Total number of shares issued under provisions of the Company's Dividend Reinvestment Program.
(4) Total number of shares issued under provisions of the Company's Employee Stock Ownership Plan.
(5) On March 1, 1977 the Company sold 2,200,000 shares of common stock to the public through underwriters at a public offering price of $18.75 (see 10-Q report for quarter ending March 31, 1977).

South Carolina Electric & Gas Company

Item 6. Increases and Decreases in Outstanding Securities and Indebtedness (Continued)

(b) Debt Securities

Sale of $30,000,000 principal amount of First and Refunding Mortgage Bonds 8-3/8% Series due March 1, 2007 dated March 1, 1977. Previously reported on Form 10-Q for quarter ending March 31, 1977.

Redemption of $30,000,000 principal amount of First and Refunding Mortgage Bonds 9-7/8% Series due June 1, 2000. Previously reported on Form 10-Q for quarter ending June 30, 1977.

Sale of $50,000,000 principal amount of First and Refunding Mortgage Bonds 7% Series due May 1, 1982. Previously reported on Form 10-Q for quarter ending June 30, 1977.

(c) Increase in Amount of Securities Outstanding During Fourth Quarter

(1) Title of Class - 4-1/2% Pollution Control Facilities Revenue Bonds, Series 1977 due October 1, 1987.

Amount Outstanding Last Previously Reported - None

Amount Presently Outstanding - $5,155,000 as of March 31, 1978.

(2) On December 9, 1977 the Company entered into loan agreements with seven South Carolina counties to provide funds for the payment of the cost of the acquisition, installation and construction of certain pollution control facilities located at the generating plants within their respective counties. Such counties, collectively, assigned the Loan Agreements to Morgan Guaranty Trust Company of New York as Depository and issued, under the Loan Agreements, $5,155,000 principal amount, 4-1/2% Pollution Control Facilities Revenue Bonds, Series 1977.

The Loan Agreements provide that payments by the Company will be sufficient to pay the principal, premium, if any, and interest on the Bonds.

The proceeds were and will be used for the payment of the cost of air and water pollution control facilities, solid waste disposal facilities, the acquisition, construction, reconstruction or improvement of land or property of a character subject to the allowance for depreciation all within the meaning of the Internal Revenue Code of 1954, as amended.

There were no underwriters.

The 4-1/2% Pollution Control Facilities Revenue Bonds, Series 1977 were not registered under the Securities Act of 1933, inasmuch as the sale was an exempt transaction under Section 3(a) of said Act as a security issued by a political subdivision of a state.

ITEM 7. CHANGES IN SECURITIES AND CHANGES IN SECURITIES FOR REGISTERED SECURITIES.

Previously reported on Forms 10-Q.

ITEM 8. DEFAULT UPON SENIOR SECURITIES.

None.

ITEM 9. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS.

(1) Title of Class	(2) Number of Record Holders
Cumulative Preferred Stock, Par Value $50 per share, having no sinking or purchase fund	
5.00% Series, Par Value $50	1,019
Cumulative Preferred Stock, Par Value $100 per share, having no sinking or purchase fund	
8.40% Series, Par Value $100	459
Cumulative Preferred Stock, Par Value $50 per share, having a periodic purchase fund	
4.50% Series, Par Value $50	84
4.60% Series, Par Value $50	9
4.60% Series A, Par Value $50	32
4.60% Series B, Par Value $50	24
5.125% Series, Par Value $50	18
6.00% Series, Par Value $50	20
Cumulative Preferred Stock, Par Value $100 per share, having one-payment sinking fund	
6.875% Series, Par Value $100	1
Cumulative Preferred Stock, Par Value $50 per share or $100 per share, having a periodic sinking fund	
9.40% Series, Par Value $50	1,176
8.12% Series, Par Value $100	1,060
7.70% Series, Par Value $100	266
10.75% Series, Par Value $100	1
Common Stock, Par Value $4.50	48,752

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Previously reported on Form 10-Q.

ITEM 11. EXECUTIVE OFFICERS OF THE COMPANY

Arthur M. Williams, Chairman of the Board and Chief Executive Officer, Age 63

Mr. Williams has served as Staff Counsel, Vice President and General Counsel, Senior Vice President, President, President and Chief Executive Officer; and on May 18, 1977, became Chairman of the Board and continued as Chief Executive Officer. He has been an executive officer since 1959.

During the past five years, he has served as President and Chief Executive Officer and Chairman of the Board and Chief Executive Officer with ultimate accountability for all phases of the Company's business.

Virgil C. Summer, President and Chief Operating Officer, Age 57

Mr. Summer became President and Chief Operating Officer effective May 18, 1977. He has served in various engineering staff positions in the Company's Electric Operations Department. In 1962, he was named Manager, Production Operations, Engineering and Construction, Vice President in 1966 and Senior Vice President, Operations in 1967. Mr. Summer remained in this position until being named President and Chief Operating Officer in May, 1977. He is a registered professional engineer and a Fellow of the American Society of Mechanical Engineers. He has been an executive officer since August, 1966.

From January 1973 until May 18, 1977, he served as Senior Vice President-Operations ultimately accountable for planning, construction, engineering and operation of the three types of service rendered by the Company - electric, gas and transit (coach). Upon being elected President and Chief Operating Officer, Mr. Summer assumed overall responsibility for all Company operations, plus sharing with Mr. Williams ultimate accountability for all phases of the Company's business.

Oscar S. Wooten, Executive Vice President-Finance, Age 54

Mr. Wooten has served as Assistant Controller, Assistant Vice President, Vice President, Senior Vice President-Finance; and in May, 1977, was named Executive Vice President-Finance. He has been an executive officer since 1967.

During the past five years in which he has served as Senior Vice President-Finance and Executive Vice President-Finance, Mr. Wooten's primary function has been that of raising funds and advising the Company's management on its financial position and problems with respect to financing. In addition, he is directly responsible for the Secretarial, Treasury, Accounting and Data Processing Departments.

C. Joseph Fritz - Senior Vice President-Administration, Age 59

Mr. Fritz has served in various engineering and accounting staff positions. He was named Office Engineer in 1957, Assistant to Vice President and General Manager in 1962, Executive Assistant to the President in 1966, Vice President in 1968 and Senior Vice President-Administration in 1970. He has been an executive officer since 1968.

Item 11. Executive Officers of the Company. (Continued)

C. Joseph Fritz (continued)

During the past five years he has served as Senior Vice President-Administration, Mr. Fritz was accountable for the corporate functions of Employee Relations, Special Services, Purchasing and Fuel Supply, Garage and Automotive Equipment, Corporate Communications, Safety and Training, and Economic Research and Performance Analysis.

Grayson C. Meetze, Senior Vice President and General Manager-Operations, Age 58

Mr. Meetze has served as General Purchasing Agent, Manager of Purchasing, Stores and Automotive Equipment, Vice President-Purchasing, Automotive and Transit, Vice President and Assistant to the Senior Vice President-Operations; and effective May 18, 1977, was named Senior Vice President and General Manager-Operations. He has been an executive officer since 1970.

From January 1973 until December 31, 1976, he served as Vice President-Purchasing, Automotive and Transit with accountability for purchasing, stores and automotive equipment, as well as the Company's transit (coach)operations. Effective January 1, 1977, Mr. Meetze became Vice President and Assistant to the Senior Vice President-Operations which position he held until being named Senior Vice President and General Manager-Operations. In this position, he is responsible for assuring proper coordination and effective performance of the Company's electric, gas and transit (coach) operations. He has principal concern for the planning, design, engineering,construction and operation of the three phases of service rendered by the Company from ultimate source to the customer.

William N. Ackerman, Vice President-Gas Operations, Age 50

Mr. Ackerman has served in various Gas Department staff positions; System Gas Engineer, Assistant Manager-Gas Operations, Manager-Gas Operations, General Manager-Gas Operations and Vice President-Gas Operations. He has been an executive officer since January 1, 1977.

Effective July 1, 1970, Mr. Ackerman became General Manager-Gas Operations and on January 1, 1977, became Vice President-Gas Operations. In both positions he was accountable for planning, design, construction and operation of the Company's gas transmission and distribution system, including its propane and LNG storage facilities.

Harry G. Boylston, Jr., Vice President-Marketing and Area Development, Age 53

Mr. Boylston has served in various engineering and marketing staff positions, District Engineer, District Manager, Manager Contracts and New Business, General Manager-Marketing and Area Development and Vice President-Marketing and Area Development. He has been an executive since January 1, 1977.

Item 11. Executive Officers of the Company. (Continued)

Harry G. Boylston, Jr. (continued)

From January 1973 to December 31, 1976, he served as General Manager-Marketing and Area Development; and effective January 1, 1977, was named Vice President-Marketing and Area Development. In both positions he was accountable for rate design, rate research including customer-oriented functions involving rates and area development.

Esca (Ed) H. Crews, Vice President and Group Executive-Engineering Services and Construction, Age 55

Prior to being employed by the Company, Mr. Crews was associated with Gilbert Associates, Inc., Reading, Pennsylvania. While in the employ of Gilbert Associates, he was in charge of constructing various electric power plants throughout the United States and overseas. He became affiliated with the Company in November, 1962. Since his employment, he has been Superintendent of Construction; Manager, Construction and Engineering Services; Manager, Engineering Services, Construction and Production; Vice President and Vice President and Group Executive, Engineering Services and Construction. He has been an executive officer since 1968.

During the past five years he has served as Vice President and Vice President and Group Executive, Engineering Services and Construction with accountability for planning, engineering design and construction of the Company's generating stations. In addition, he is responsible for the Company's engineering services.

Frank C. Davis, Vice President-Corporate Communications, Age 62

Mr. Davis has service as Administrative Assistant to the Operating Vice President; Manager, Industrial Relations; General Manager, Commercial Operations (Electric); Assistant Vice President, Gas Promotions and Advertising; and Vice President-Corporate Communications. He has been an executive officer since 1964.

During the past five years he has served as Vice President-Corporate Communications responsible for advertising, public relations, corporate communications with the public and news media and supervision of the Company's Saluda hydro licensed project land management program.

George H. Fischer, Vice President-General Counsel, Age 54

Mr. Fischer was engaged in private law practice before joining the Company in 1959. Since then, he has served in various legal staff positions; Assistant Staff Counsel; General Counsel and Vice President-General Counsel. He has been an executive officer since 1970.

During the past five years he served as Vice President-General Counsel having accountability for all phases of the Company's Legal Department.

Thomas M. Groetzinger, Vice President and Controller, Age 50

Mr. Groetzinger has served in various accounting staff positions; Supervisor of Taxes; Manager of Taxes; Assistant Controller; Controller; and effective May 19, 1976, was named Vice President and Controller. He has been an executive officer since 1973.

Item 11. Executive Officers of the Company. (Continued)

Thomas M. Groetzinger (continued)

During the past five years he has served as corporate Controller and Vice President and Controller with responsibility for all accounting functions including general, plant, customer and tax accounting, rate proceedings and evaluation, budget planning, statistical analyses and payroll.

D. Ellis Hay, Jr., Vice President-Customer Operations Districts, Age 53

Mr. Hay has served in various engineering staff positions; Distribution Engineer; District Engineer; Associate Engineer; District Manager; Manager-Distribution Operations-Districts and Vice President Customer Operations-Districts. He has been an executive officer since May 18, 1977.

During the past five years he has served as Manager, Distribution Operations-Districts and Vice President Customer Operations-Districts with responsibility for construction and operation and maintenance of the Company's district distribution system plus supervision of district customer services and affairs.

Malcolm C. Johnson, Vice President and Group Executive-Special Services and Purchasing, Age 58

Mr. Johnson has served as Superintendent, Relays & Communication; Superintendent, Transmission; Manager, Transmission Planning, Operation and & Maintenance; Assistant Vice President, Transmission Planning, Operation & Maintenance; Vice President, Electric System Operations, Transmission & Distribution; Vice President, Special Services; and Vice President & Group Executive-Special Services and Purchasing. He has been an executive officer since 1967.

From January 1973 to January 1, 1977, he served as Vice President, Special Services and effective January 1, 1977, was named Vice President and Group Executive-Special Services and Purchasing. In both positions he was accountable for special studies and long-range planning, including site location for power generation facilities, security and quality assurance in nuclear and non-nuclear areas. Since January 1977, Mr. Johnson has assumed the added responsibilities of purchasing, stores and fuel procurement, including fuel contract negotiations.

Thomas C. Nichols, Jr., Vice President and Group Executive - Power Production and System Operations, Age 49

Mr. Nichols has served in various engineering staff positions; Associate Manager-System Operations and Planning; Manager, Transmission Operations; Manager, System Operations; Manager, Power Supply; General Manager, Production Operations, System Operations and Planning; General Manager, Power Supply, System Operations and Planning; Vice President, Power Supply,System Operations and Planning and Vice President and Group Executive-Power Production and System Operations. He has been an executive officer since January 1, 1977.

1066 164

Item 11. Executive Officers of the Company. (Continued)

Thomas C. Nichols, Jr. (continued)

From January 1973 until October 31, 1974, he served as Manager, System Operations; effective November 1, 1974, he became General Manager, Production Operations, System Operations and Planning; effective May 1, 1976, he became General Manager, Power Supply, System Operations and Planning; effective January 1, 1977, he was elected Vice President, Power Supply, System Operations and Planning and on May 1, 1977, was named Vice President and Group Executive-Power Production and System Operation. In all of these positions occupied by Mr. Nichols since 1973 he has been directly responsible for the operation and maintenance of the Company's electric power generating facilities, system planning and load forecasting.

Curtis L. Rye, Vice President-Customer Operations, Metro Columbia , Age 48

Mr. Rye has served in various engineering staff positions; Senior-Engineer-Distribution Operations; Superintendent Distribution Operations, Metro Columbia; Manager Distribution Operations, Metro Columbia; General Manager, Metro Columbia and Vice President, Customer Operations-Metro Columbia. He has been an executive officer since May 18, 1977.

During the past five years he has served as General Manager, Metro Columbia and Vice President, Customer Operations-Metro Columbia. In both positions he was accountable for operation and maintenance of the Company's metropolitan Columbia electric and gas systems, including supervision of all customer related functions and affairs. In May 1977, Mr. Rye assumed the added responsibility of operation of the Columbia transit (coach) operations.

B. Marion Smith, Jr., Vice President-Governmental Affairs, Age 46

Mr. Smith served in the Company's Agricultural Development Department and Industrial Development Department before assuming staff positions as Director, Governmental Affairs; General Manager, Governmental Affairs and Vice President, Governmental Affairs. He has been an executive officer since January 1973.

He was elected Vice President-Governmental Affairs effective January 1, 1973, and in this position he is accountable for governmental related functions, public affairs and community resources planning, including community services.

Herman B. Speissegger, Jr., Vice President-Customer Operations, Metro Charleston, Age 52

Mr. Speissegger has served in various engineering staff positions; Senior Sales Engineer, Supervisor, Commercial Sales; Director, Electric Industrial Sales; General Manager, Metropolitan Charleston and Vice President-Customer Operations Metro Charleston. He has been an executive officer since May 18, 1977.

1066 165

Herman B. Speissegger, Jr. (continued)

During the past five years he has served as General Manager, Metropolitan Charleston and Vice President-Customer Operations Metro Charleston. In both positions he was accountable for operation and maintenance of the Company's Metropolitan Charleston electric, gas and transit (coach) systems, including supervision of all customer related functions and affairs.

Donald R. Tomlin, Vice President and Group Executive-Customer Operations, Age 63

Mr. Tomlin has served as Assistant Superintendent,Columbia Distribution; Superintendent, Columbia Distribution; Manager, Distribution Operations; General Manager-Transmission & Distribution Operations; Vice President-Transmission & Distribution Operations and Vice President and Group Executive-Customer Operations. He has been an executive officer since May 19, 1976.

From January 1973 until May 19, 1976, he was General Manager-Transmission & Distribution Operations and effective May 19, 1976, be became Vice President-Transmission & Distribution Operations. In both positions, he was responsible for the operation and maintenance of the Company's entire electric transmission and distribution system. On May 18, 1977, Mr. Tomlin became Vice President and Group Executive-Customer Operations with accountability for operation and maintenance of the Company's electric, gas and transit (coach) systems, including responsibility for customer service, rates, marketing and area development.

James W. Wedding, Vice President-Computer Services, Age 52

Prior to being employed by the Company, Mr. Wedding was associated for twenty years with International Business Machines Corporation (IBM). He held various positions in the field of data processing including computer design and application of the computer to business problems. During the later years of his employ with IBM, he acted as a consultant for IBM to the utility industry applying the data processing techniques to utility requirements. Since joining the Company in March 1969, he has held the positions of Executive Assistant to the Senior Vice President, Finance and Vice President-Computer Services. He has been an executive officer since 1971.

During the past five years he has served as Vice President-Computer Services responsible for all phases of the Company's data processing and computer services, including analysis, programming and operation.

Hugh W. Weldon, Vice President and Group Executive- Administrative Services, Age 56

Mr. Weldon has served in various administrative staff positions; Personnel Representative; Personnel Director-Charleston Division; Manager, Employee Relations; Vice President, Employee Relations; Vice President-Administrative Services; and Vice President and Group Executive-Administrative Services. He has been an executive officer since 1969.

1066 166

Item 11. Executive Officers of the Company. (Continued)

Hugh W. Weldon (continued)

During the past five years he has served as Vice President, Employee Relations; Vice President-Administrative Services and Vice President and Group Executive-Administrative Services with accountability of employee activities of the Company, labor relations and Company coordinator in negotiating union contracts. In May 1977 he assumed the additional responsibility of management and control of the Company's automotive equipment.

Harold M. Bryant, Secretary, Age 56

Mr. Bryant has served as Personnel Director; Assistant Secretary and Secretary. He has been an executive officer since 1971.

During the past five years he has served as Secretary including accountability for corporate secretarial functions and insurance.

Henry H. Gaddis, Treasurer, Age 52

Mr. Gaddis has served as Senior Accountant; Assistant Treasurer and Treasurer. He has been an executive officer since 1972.

During the past five years he has served as Treasurer including accountability for corporate functions of cash operations and management.

ITEM 12. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 8.18 of the South Carolina Business Corporation Act provides as follows:

"Right of Indemnity of Directors, Officers and Others. - (a) A corporation shall have power to indemnify any person who is made a party to any suit, action or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the corporation, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, against expenses, including attorney's fees, actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the corporation, except that no indemnification shall be made in respect of any claim, judgments, amounts paid in settlement, issue, fine, matter, attorney fees for a criminal proceeding, or as to such person guilty of a violation of a criminal law, or as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper. Provided, that said misconduct did not involve moral turpitude.

(b) The rights and remedy provided by this section shall be exclusive. Any provision of the articles of incorporation, by laws, or resolution of the corporation of its directors or shareholders, purporting to extend or limit such rights and remedy, shall be invalid.

(c) The right of indemnity shall inure to the estate, executor, administrator, heirs, legatees, or devisees of any person entitled to indemnification hereunder.

(d) Notwithstanding the provisions of Section (b) above, a corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this section. Provided, however, such payment or payments cannot be made except in accordance with item (a) of this section."

ITEM 13. FINANCIAL STATEMENTS AND EXHIBITS FILED

(a) TABLE OF CONTENTS OF CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL FINANCIAL DATA INCLUDED IN ANNUAL REPORT (FORM 10-K) FOR THE YEAR ENDED DECEMBER 31, 1977

The above listed financial statements are consolidated only since the Registrant is primarily an operating company and the subsidiary included in the consolidated financial statements is not a significant subsidiary.

Supplemental schedules other than those listed above are omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements or in the notes thereto.

1066 169

HASKINS & SELLS

INTERNATIONALLY
DELOITTE, HASKINS & SELLS

1250 FIRST NATIONAL BANK BUILDING
MAIN AT WASHINGTON STREET
COLUMBIA, SOUTH CAROLINA 29201

CONSENT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

South Carolina Electric & Gas Company:

We hereby consent to the incorporation by reference in your Annual Report (Form 10-K) to the Securities and Exchange Commission for the year ended December 31, 1977 of our opinion (which is qualified as set forth therein) dated February 6, 1978, as appearing in your 1977 Annual Report to Shareholders.

We also consent to our opinion, referred to above, being considered as comprehending our opinion that the additions to Notes to Consolidated Financial Statements, and the supplemental schedules listed in the accompanying table of contents, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

HASKINS & SELLS

February 6, 1978

1066 170

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1066 171

South Carolina Electric & Gas Company
Additions to Notes to Consolidated
Financial Statements

1. Long-term Debt:

The "Unsecured Notes - Banks" due 1980 bear interest as determined by a formula applied to the applicable prime rate of The Chase Manhattan Bank. If the Notes are not prepaid, aggregate interest in excess of interest computed at 7.625% per annum will be refunded to the Company. Interest paid in excess of 7.625% ($4,045,000 at December 31, 1977 and $3,774,000 at December 31, 1976) is included in "Deferred Debits - Other" in the accompanying consolidated financial statements. Deferred income taxes of $2,068,000 and $1,929,000 applicable to such excess interest payments are included in "Accumulated Deferred Income Taxes" at December 31, 1977 and 1976, respectively.

2. Preferred Stock:

The redemption prices per share of preferred stock are as follows:

	Redemption Price Per Share	
	December 31, 1977	Eventual Minimum
Cumulative $100 par value:		
6-7/8% Series	$101.00	$100.00
7.70% Series	105.75	101.00
8.12% Series	106.09	102.03
8.40% Series	108.40	101.00
10-3/4% Series	110.75	100.00
Cumulative $50 par value:		
4.50% Series	51.00	51.00
4.60% Series	50.50	50.50
4.60% Series A	51.00	51.00
4.60% Series B	51.25	50.50
5% Series	52.50	52.50
5.125% Series	51.00	51.00
6% Series	51.00	50.50
9.40% Series	53.525	51.175

Changes in preferred stock outstanding during the two years ended December 31, 1977 are summarized as follows:

Period	Shares of $50 Par Value Issued	Shares of $50 Par Value Retired	Shares of $100 Par Value Issued	Shares of $100 Par Value Retired
Year ended December 31:				
1976		19,500	200,000	7,400
1977		19,500		7,400

1066 172

A "Purchase Fund" or "Sinking Fund" must be set aside annually as long as certain series of cumulative preferred stock remain outstanding. Such "Funds" shall equal a percentage of the total par value of the largest number of shares of such stock at any time theretofore outstanding, which monies will be applied to redeem shares of stock at par value. The beginning dates and applicable percentages of such series of cumulative preferred stock are as follows:

Purchase Funds

Series	Beginning Date	Percentage	Annual Amount
4.60%	October 1, 1951	2-1/2%	$ 75,000
4.50%	June 1, 1957	2 %	80,000
4.60%, Series A	June 1, 1958	2 %	100,000
5.125%	April 1, 1963	1 %	50,000
4.60%, Series B	March 1, 1968	2 %	170,000
6.00%	January 1, 1972	2 %	160,000

After the receipt of tenders, any unused portion of the "Purchase Fund" shall revert to the general funds of the Company.

Sinking Funds

Series	Beginning Date	Percentage	Annual Amount
9.40%	October 1, 1973	2 %	$ 340,000
8.12%	July 1, 1974	2 %	440,000
7.70%	July 1, 1975	2 %	300,000
6-7/8%	January 31, 1979	100 %	15,000,000
10-3/4%			
(A)	October 1, 1981	6-1/2%	1,300,000
(B)	October 1, 1995	9 %	1,800,000

Unless the "Purchase Fund" and "Sinking Fund" requirements are met in full, no distribution may be made on the common stock.

3. Common Stock:

The following authorized shares of common stock of the Company were reserved for issuance pursuant to:

	December 31, 1977	December 31, 1976
Stock Purchase-Savings Program for Employees....	670,534	127,022
Dividend Reinvestment and Stock Purchase Plan.....	254,595	400,000
Employees Stock Ownership Plan..................	27,255	81,275

4. Supplementary Information:

Maintenance (including repairs) and provision for depreciation and amortization of utility plant are shown separately in the accompanying consolidated statement of income, except for amounts charged to clearing and other accounts, which amounts are not significant.

Rents, advertising expenses and research and development costs are not material. There were no royalties.

Taxes other than income taxes are as follows:

	Year Ended December 31, 1977	1976
	(Thousands of Dollars)	
State electric generation tax	$ 3,851	$ 3,451
General property taxes	13,156	11,630
Special state utility license	610	652
Federal social security taxes	2,203	1,974
Tax for support of South Carolina Public Service Commission	455	435
State gross receipts tax	1,153	964
Other taxes	1,969	1,782
Total	23,397	20,888
Less - Amount charged to other accounts	942	776
Remainder - Charged to operating expenses	$22,455	$20,112

SUPPLEMENTAL FINANCIAL INFORMATION (UNAUDITED)

The following replacement cost information for certain of the Company's assets and related depreciation is presented to comply with the reporting requirements of the Securities and Exchange Commission (the "Commission") as set forth in Accounting Series Release No. 190. The Company advises readers of the imprecise nature of these data and of the many subjective judgments required in the replacement cost estimation. This information does not purport to represent the current value of the assets or the amounts which could be realized if the assets were to be sold.

The calculation of replacement costs includes costs for pollution control equipment such as exists in the Company's latest operating units. Such equipment would also result in increases in fuel, operating and maintenance costs, none of which are reflected.

Replacement cost is not, per se, the current value of existing utility plant; it is only an estimate of the cost that would be incurred if such assets were replaced at December 31, 1977 and 1976.

The excess of replacement cost over historical cost does not represent additional book value of common stock.

In add'tion, the Company is subject to the jurisdiction of regulatory commission: which determine fair rates of return on its investment in utility plant. Under current ratemaking policy, the Company recovers, through future depreciation charges, the historical dollars invested in productive capacity. The ratemaking process does not allow the Company to recover the excess of replacement cost over historical cost.

As these data are limited to selected categories of assets and related depreciation and do not relate to other assets and liability and equity accounts, or to other expense and revenue accounts, there are significant limitations in using this information to evaluate the effect of inflation on the Company. These data should not be used to adjust and compare this Company's balance sheet or income statement with any other company's financial statements.

Subject to the limitations noted above and the inherent imprecision of the data, this information is provided in good faith in compliance with the Commission's rules and regulations.

It should be pointed out that the Commission has cautioned investors and analysts on the simplistic use of replacement cost data. The Commission also stated in its Release that the disclosure of the effect of replacement cost data on net income is not required at this time, because there are substantial theoretical problems in determining an income effect.

.e estimated replacement cost of the Company's productive capacity, depreciated replacement cost and related depreciation expense with comparative historical cost are presented below:

	Actual Historical Cost	Estimated Replacement Cost
	(Thousands of Dollars)	
December 31, 1977:		
Utility plant in service (excluding land, land rights and intangible plant):		
Electric	$796,562	$1,728,284
Gas	128,346	281,806
Coach	3,377	8,575
Common	12,597	19,525
Total	940,882	2,038,190
Less - Accumulated provision for depreciation	269,228	623,554
Utility Plant in Service - Net	$671,654	$1,414,636
Depreciation expenses for the twelve months ended December 31, 1977	$30,339	$60,056

1066 175

Additions to Notes to Consolidated Financial Statements. (Continued)

	Actual Historical Cost	Estimated Replacement Cost
	(Thousands of Dollars)	
December 31, 1976:		
Utility plant in service (excluding land, land rights and intangible plant):		
Electric	$770,181	$1,616,527
Gas	125,608	259,385
Coach	3,348	8,461
Common	10,107	16,202
Total	909,244	1,900,575
Less - Accumulated provision for depreciation	241,490	543,322
Utility Plant in Service - Net	$667,754	$1,357,253
Depreciation expenses for the twelve months ended December 31, 1976	$ 27,825	$ 53,553

The comparable historical cost amounts are reconciled to those shown in the accompanying consolidated balance sheet as follows:

	Recorded Utility Plant 1977	1976
	(Thousands of Dollars)	
Amounts for which replacement cost data are provided	$ 940,882	$ 909,244
Land, Land Rights and Intangible Plant	32,169	29,692
Property Held for Future Use	14	14
Construction Work in Progress	505,554	355,329
Nuclear Fuel in Trust	10,492	6,501
Accumulated Provision for Depreciation	(269,228)	(241,490)
Utility Plant - Net	$1,219,883	$1,059,290

1. Replacement Cost

A. Production - The replacement cost of the Steam Production Plant was determined by applying the cost per KW of recently installed units by fuel type trended to December 31, 1977 and 1976 by using the Handy-Whitman Index of Public Utility Construction Costs for the South Atlantic Region (hereafter referred to as the Handy-Whitman Index) to the respective generating capacity. Original cost of Hydro Generation, Other Production Plant and Gas Production Facilities was trended to December 31, 1977 and 1976 using the Handy-Whitman Index. Due consideration was given to the necessity for substituting type of generating facilities because of regulatory requirements or Company requirements.

B. Transmission and Distribution - The Handy-Whitman Index was applied to the original cost of electric and gas transmission and distribution facilities.

1066 176

C. General Plant - Replacement cost of transportation equipment and coach rolling stock was determined on a unit basis. For other general plant the original cost was trended using the GNP Implicit Price Deflator.

2. Depreciated Replacement Cost

The related accumulated depreciation based on the replacement cost was developed by applying the same percentage relationship that existed between gross plant and accumulated depreciation by functional groups on a historical cost basis at December 31, 1977 and 1976 to the current replacement cost of the productive capacity.

3. Depreciation Expense

Depreciation expense for the replacement cost of productive capacity was developed by applying the actual functional class depreciation rates in use to the respective functional class average replacement cost figures. The Company believes that the difference between depreciation based on historical cost and depreciation based on estimated replacement cost can in no way be treated as an additional amount of depreciation expense, because this difference is neither deductible for income tax purposes nor recognized by the regulatory authorities. With the earnings of the Company based on historical costs, any additional depreciation created by estimated replacement cost would require increased earnings and thus increased rates for the Company's services.

4. Supplemental Information

Non-capitalized leases are not significant and have been excluded from the replacement cost data. Additionally, land and intangibles are excluded from the replacement cost data since such assets are not consumed in the productive process. Construction Work in Progress representing future productive capacity is also excluded.

Replacement cost data relating to fuel inventories have n[illegible] een included since changes in cost levels are recovered through the operation [illegible] [illegible]el adjustment clauses.

1066 177

SCHEDULE V

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Property, Plant and Equipment
Year Ended December 31, 1977

Col. A Classification	Col. B Balance at beginning of period	Col. C Additions	Col. D Retirements	Col. E Other Changes add (deduct)	Col. F Balance at close of period
				(A)	
Electric Utility Plant:					
Intangible Plant	$ 91,081	$	$	$	$ 91,081
Production Plant - Steam	352,660,471	877,270	506,699		353,031,042
Production Plant - Hydraulic	37,839,114	197,572	10,516	(7,418)	38,018,752
Other Production	18,635,069	6,063	3,461		18,637,671
Transmission	116,153,721	8,609,950	308,434	23,257	124,478,494
Distribution	256,166,634	21,264,387	1,698,664	(44,440)	275,687,917
General	15,509,977	1,283,385	445,440	(377,659)	15,970,263
Held for Future Use	4,470				4,470
Construction Work in Progress	354,890,366	150,010,154			504,900,520
Total Electric Plant	1,151,950,903	182,248,781	2,973,214	(406,260)	1,330,820,210
Gas Utility Plant:					
Intangible Plant	117,621				117,621
Production Plant	8,114,133	1,642			8,115,775
Storage Plant	13,798,984	979,502			14,778,486
Transmission	27,318,510	27,800	4,851		27,341,459
Distribution	77,015,769	1,784,571	198,524		78,601,816
General	1,522,107	240,350	92,948		1,669,509
Construction Work in Progress	132,311	59,612			191,923
Total Gas Plant	128,019,435	3,093,477	296,323		130,816,589
Coach Utility Plant:					
Plant in Service	3,598,044	57,388	47,824	19,499	3,627,107
Construction Work in Progress	45,521	(28,958)			16,563
Total Coach Plant	3,643,565	28,430	47,824	19,499	3,643,670
Common Utility Plant:					
Plant in Service	10,394,639	2,212,166	143,506	420,267	12,883,566
Held for Future Use	8,873				8,873
Construction Work in Progress	261,246	185,002			446,248
Total Common Plant	10,664,758	2,397,168	143,506	420,267	13,338,687
Nuclear Fuel in Trust	6,500,867	3,991,028			10,491,895
Total Utility Plant	1,300,779,528	191,758,884	3,460,867	33,506	1,489,111,051
Nonutility Property	2,527,318	31,104	14,180	(33,506)	2,510,736
Total Property and Plant	$1,303,306,846	$191,789,988	$3,475,047	$	$1,491,621,787

(A) Includes accounting reclassification of property and equipment between various utility plant and nonutility plant classifications.

POOR ORIGINAL

1066 178

SCHEDULE V (Continued)

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Property, Plant and Equipment
Year Ended December 31, 1976

POOR ORIGINAL

Col. A Classification	Col. B Balance at beginning of period	Col. C Additions	Col. D Retirements	Col. E Other Changes add (deduct) (A)	Col. F Balance at close of period
Electric Utility Plant:					
Intangible Plant	$ 90,432	$ 649	$	$	$ 91,081
Production Plant - Steam	350,533,528	3,109,591	982,648		352,660,471
Production Plant - Hydraulic	37,512,993	330,263	883	(3,259)	37,839,114
Other Production	18,623,739	11,330			18,635,069
Transmission	108,000,074	8,326,564	164,383	(10,534)	116,153,721
Distribution	240,650,163	17,363,919	1,857,982	10,534	256,166,634
General	15,290,940	934,326	696,966	(18,323)	15,509,977
Held for Future Use	4,470				4,470
Construction Work in Progress	195,210,190	159,680,176			354,890,366
Total Electric Plant	965,918,529	189,756,818	3,702,862	(21,582)	1,151,950,903
Gas Utility Plant:					
Intangible Plant	117,621				117,621
Production Plant	8,136,658	41,267	6[illegible]92		8,114,133
Storage Plant	164,078	13,798,984	164,078		13,798,984
Transmission	27,259,437	73,491	14,418		27,318,510
Distribution	75,607,924	1,458,322	48,830	(1,647)	77,015,769
General	1,485,428	130,468	69,019	(24,770)	1,522,107
Construction Work in Progress	107,476	24,835			132,311
Total Gas Plant	112,878,622	15,527,367	360,137	(26,417)	128,019,435
Coach Utility Plant:					
Plant in Service	3,586,590	11,047	3,399	3,806	3,598,044
Construction Work in Progress	990	44,531			45,521
Total Coach Plant	3,587,580	55,578	3,399	3,806	3,643,565
Common Utility Plant:					
Plant in Service	10,219,460	357,114	178,151	(3,784)	10,394,639
Held for Future Use	8,873				8,873
Construction Work in Progress	230,981	30,265			261,246
Total Common Plant	10,459,314	387,379	178,151	(3,784)	10,664,758
Nuclear Fuel in Trust		6,500,867			6,500,867
Total Utility Plant	1,092,844,045	212,228,009	4,244,549	(47,977)	1,300,779,528
Nonutility Property	2,097,950	389,598	8,207	47,977	2,527,318
Total Property and Plant	$1,094,941,995	$212,617,607	$4,252,756	$	$1,303,306,846

(A) Includes accounting reclassification of property and equipment between various utility plant and nonutility plant classifications.

1066 179

SCHEDULE VI

SOUTH CAROLINA ELECTRIC & GAS COMPANY

ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1977

(Col. A) Classification	(Col. B) Balance at beginning of period	(Col. C) Additions	(Col. D) Retirements	(Col. E) Other charges add (deduct)	(Col. F) Balance at close of period
Electric Utility Plant:					
Production Plant - Steam	$100,966,862	$11,025,600	$ 506,059	$	$111,486,403
Production Plant - Hydraulic	13,498,685	426,000	12,516		13,912,169
Other Production	5,219,827	723,600	3,461		5,939,966
Transmission	23,365,333	2,786,400	314,701	(9,681)	25,827,351
Distribution	57,833,280	9,686,400	1,650,054	9,681	65,879,307
General	5,742,962	848,700	237,246	(101,877)	6,252,539
Total Electric Plant	206,626,949	25,496,700	2,724,037	(101,877)	229,297,735
Gas Utility Plant					
Production Plant	1,042,880	268,800	(598)		1,312,278
Storage Plant	(51,263)	950,400	30,182		868,955
Transmission	9,701,436	1,064,400	2,407		10,763,429
Distribution	18,964,732	2,527,200	290,103		21,201,829
General	663,069	108,500	75,523		696,046
Total Gas Plant	30,320,854	4,919,300	397,617		34,842,537
Coach Utility Plant	2,215,615	173,700	48,143	11,569	2,352,741
Common Utility Plant	2,326,208	404,700	92,553	97,029	2,735,384
Total Utility Plant	241,489,626	30,994,400	3,262,350	6,721	269,228,397
Nonutility Property	62,772	11,796	4,826	(6,721)	63,021
Total Property and Plant	$241,552,398	$31,006,196	$3,267,176	$	$269,291,418

(A) After deduction of net salvage.

1066 180

SOUTH CAROLINA ELECTRIC & GAS COMPANY

ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 1976

(Col. A)	(Col. B)	(Col. C)	(Col. D)	(Col. E)	(Col. F)
Classification	Balance beginning of period	Additions	Retirements	Other charges add (deduct)	Balance at close of period
Electric Utility Plant:			(A)		
Production Plant - Steam	$ 90,417,067	$10,966,800	$ 417,005	$	$100,966,862
Production Plant - Hydraulic	13,082,467	417,600	1,382		13,498,685
Other Production	4,497,427	722,400			5,219,827
Transmission	21,101,724	2,631,600	291,666	(76,325)	23,365,333
Distribution	50,556,410	8,980,800	1,707,080	3,150	57,833,280
General	5,529,752	814,400	621,365	20,175	5,742,962
Total Electric Plant	185,184,847	24,533,600	3,038,498	(53,000)	206,626,949
Gas Utility Plant:					
Production Plant	851,969	255,300	64,389		1,042,880
Storage Plant	15,517	150,500	217,280		(51,263)
Transmission	8,902,653	808,900	10,117		9,701,436
Distribution	17,029,787	2,038,800	103,815	(40)	18,964,732
General	639,013	96,800	53,669	(19,075)	663,069
Total Gas Plant	27,438,939	3,350,300	449,270	(19,115)	30,320,854
Coach Utility Plant	2,029,878	186,200	1,899	1,436	2,215,615
Common Utility Plant	2,105,139	371,300	147,734	(2,497)	2,326,208
Total Utility Plant	216,758,803	28,441,400	3,637,401	(73,176)	241,489,626
Nonutility Property	53,301	9,321	(1,233)	(1,083)	62,772
Total Property and Plant	$216,812,104	$28,450,721	$3,636,168	$ (74,259)	$241,552,398

(A) After deduction of net salvage.

1066 181

Item 13. Financial Statements and Exhibits Filed. (Continued)

(b) None.

PART II

ITEMS 14 through 18.

These items have been omitted since such information has been filed with the Securities and Exchange Commission in a definitive proxy statement pursuant to Regulation 14-A.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

South Carolina Electric & Gas Company
(Registrant)

Date March 31, 1978

By /s/ T. M. Groetzinger
(Signature)
T. M. Groetzinger
Vice President & Controller

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1978 Commission File Number 1-3375

SOUTH CAROLINA ELECTRIC & GAS COMPANY
(Exact name of registrant as specified in its charter)

SOUTH CAROLINA (State of incorporation)	57-0248695 (IRS Employer Identification No.)
328 MAIN STREET, COLUMBIA, SOUTH CAROLINA (Address of principal executive offices)	29218 (Zip Code)
Registrant's telephone number, including area code	(803) 799-1234

Securities registered pursuant to 12(b) of the Act:

Title of each class	Name of each exchange on which registered
5% Cumulative Preferred Stock par value $50 per share	New York Stock Exchange
Common Stock par value $4.50 per share	New York Stock Exchange

Securities registered pursuant to 12(g) of the Act:

Title of Class

The Class is comprised of the following series of Cumulative Preferred Stock, par value $50 per share or $100 per share, having a periodic sinking fund:

9.40% Cumulative Preferred Stock par value $50 per share

7.70% Cumulative Preferred Stock par value $100 per share

8.12% Cumulative Preferred Stock par value $100 per share

10.75% Cumulative Preferred Stock par value $100 per share

8.72% Cumulative Preferred Stock par value $50 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x . No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common $4.50 par value 22,439,871

1066 183

TABLE OF CONTENTS

South Carolina Electric & Gas Company

PART I

ITEM 1. Business.

The Company

South Carolina Electric & Gas Company (the "Company") is a South Carolina corporation organized in 1924 and has its principal executive office at 328 Main Street, Columbia, South Carolina 29218. Its telephone number is 803-799-1234.

Lines of Business

The Company's principal business is the production, transmission, distribution and sale of electricity and the purchase, transmission, distribution and sale of natural gas. The Company also renders urban bus service in the cities of Columbia and Charleston. As of December 31, 1978, the Company employed 3,079 persons as compared to 2,913 persons employed as of December 31, 1977. The Company's business is seasonal in that sales of electricity are higher during the summer months because of air conditioning requirements, and sales of gas are greater in the winter months due to its use for space heating. The approximate amounts and percentages of operating revenues and operating income before income taxes for the five years ended December 31, 1978 attributable to each line of business were as follows:

	Operating Revenues					
	Electric		Gas		Coach	
	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)					
1974	$227,803	81.8	$ 48,750	17.5	$2,024	0.7
1975	263,773	82.1	55,379	17.3	1,979	0.6
1976	275,892	78.8	71,948	20.6	1,996	0.6
1977	337,927	80.8	78,405	18.7	2,023	0.5
1978	382,370	78.7	101,804	20.9	1,927	0.4

	Operating Income Before Income Taxes					
	Electric		Gas		Coach	
	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)					
1974	$ 51,891	84.3	$11,084	18.0	$(1,412)	(2.3)
1975	75,890	87.8	12,235	14.2	(1,725)	(2.0)
1976	76,613	87.3	13,357	15.2	(2,225)	(2.5)
1977	101,815	93.4	9,671	8.9	(2,522)	(2.3)
1978	110,065	93.9	10,208	8.7	(3,087)	(2.6)

Service Area

The Company's service territory is located in 24 counties in the central, southern and southwestern portions of South Carolina. The area, which exceeds 12,000 square miles, covers about one-half of the State with a population of approximately 1.2 million. The most important industries in territories served by the Company are: cotton, synthetic fiber and woolen manufacturing, chemical and allied products, rubber and miscellaneous plastic products, fiberglass, electronic equipment and supplies, wood and paper products, office machinery, metal products, fiberglass boats and fishing rods, and stone, clay and sand processing.

Construction Program and Financing

The Company's construction program, which is subject to continuing review and adjustment, for 1979 and the four-year period 1980-1983 as now scheduled involves costs estimated as follows (estimates include allowance for funds used during construction estimated at $24,751,000 for 1979 and $56,213,000 for the 1980-1983 period and the cost of nuclear cores, estimated at $95,093,000 for the 1979-1983 period):

Type of Facilities	1979	1980-1983
	(Thousands of Dollars)	
Electric		
Generation	$ 97,717	$543,834
Transmission	20,484	86,910
Distribution	29,836	143,410
Other	4,976	10,600
Total Electric	153,013	784,754
Gas	7,187	19,214
Transportation (Coach)	287	301
Total Construction	$160,487	$804,269

The Company's cash requirements for 1979 are estimated at $142,500,000 for its construction program and $43,600,000 for refunding and retiring outstanding Company securities. Such cash is expected to be provided through the public sales of securities, the sale of shares of common stock pursuant to the Company's dividend reinvestment and employees' stock purchase plans, the incurring of short-term indebtedness, and internally generated funds. The timing and amount of such sales and the type of securities will depend upon market conditions and other factors in existence at the time.

A portion of the Company's 1979 financing was completed January 31, 1979 by the sale of $15 million of 8% preferred stock in a private placement. The new $15 million issue replaces a 6-7/8% preferred issue in a like amount which was retired January 31, 1979. Such $15 million is not included in the cash requirements discussed in the preceding paragraph.

In addition to the cash requirements referred to above, during the years 1980-1983, the Company has an aggregate of $195,734,000 of long-term debt maturing (including sinking fund maturities, of which $20,498,000 are expected to be satisfied by certifying property additions) and $10,760,000 of purchase or sinking fund requirements for preferred stock.

The Company expects that on the average during the five years 1979-1983 approximately 58% of the cash requirements for its construction program and for the retirement of securities will require external financing through the sale of securities or other financial arrangements and approximately 42% will be provided from internally generated funds.

Construction Program and Financing (Continued)

The Company entered into agreements dated September 30, 1976, amended August 1, 1977, with The Citizens and Southern National Bank of South Carolina, as Trustee, and The Chase Manhattan Bank, for itself and as agent for The South Carolina National Bank and Bankers Trust of South Carolina, to finance its share of nuclear fuel for the intial core of the V. C. Summer Nuclear Station. The Company has assigned its share of uranium and processing contract rights to a trust which borrows the money from banks to pay for the costs of such share up to an aggregate of $42,000,000, including interest and fees, and the Company will pay the excess costs, if any. The Company is unconditionally obligated to purchase its share of the fabricated fuel from the trust prior to loading of the fuel into the reactor or on June 30, 1980, whichever is earlier.

The Parr-Frees complex, currently under construction, is located approximately 30 miles northwest of Columbia. It includes the Fairfield Pumped Storage Project and will include the V. C. Summer Nuclear Station. The Fairfield Pumped Storage Project (which includes a reservoir and eight pumped storage units of 64,000 KW capacity each and is wholly owned by the Company) was completed in 1978, at a total cost (including allowance for funds used during construction) of approximately $201,500,000, or $394 per KW. This Project is used primarily as a peaking station in preference to the Company's internal combustion turbines which are more costly to operate.

The Company and the South Carolina Public Service Authority, a public corporation of the State of South Carolina ("Santee-Cooper"), have contracted to become joint owners of the V. C. Summer Nuclear Station on the basis of two-thirds by the Company and one-third by Santee-Cooper and to participate, on a like basis, in the cost of construction, cost of operation and in the energy output thereof. This nuclear station is expected to have a capacity of 900,000 KW and is scheduled for completion and commercial operation in late 1980. The fuel loading date for the V. C. Summer Nuclear Station is scheduled for the summer of 1980. The estimated total cost of this station is $756,000,000, or $840 per KW (including allowance for funds used during construction but exclusive of nuclear cores), of which approximately $569,300,000 had been incurred at December 31, 1978.

The Company presently anticipates that two additional 550,000 KW capacity coal-fired units will be required during the 1980's. Construction of the first unit is presently expected to commence by 1980.

1066 187

Electric Sales

For the year ended December 31, 1978, residential sales accounted for 39% of operating revenues from sales of electricity; commercial sales 25%; industrial sales 26%; sales for resale 7%; and all other 3%. The average annual use per residential customer increased by 1% from 12,146 kilowatt hours ("KWH") in 1977 to 12,269 KWH for the year ended December 31, 1978. The Company promotes electric heating and had 64,714 residential heating customers at December 31, 1978. This is an increase of 8,455 or 15% in such customers since December 31, 1977.

In 1978 the Company supplied electricity to neighboring utilities as follows: Georgia Power Company, 75,000 KW of firm power under an agreement which expired February 9, 1979 and was not renewed; Carolina Power & Light Company, 53,000 KW of firm power and 150,000,000 KWH annually under an agreement expiring in 1980; and Duke Power Company, 21,375 KW of firm power and 75,000,000 KWH annually under an agreement expiring in 1980. Revenues received from sales of electricity under these agreements amounted to approximately 2.7% of the Company's total electric operating revenues during the year ended December 31, 1978.

The Company furnished electricity to the Savannah River Project of the Energy Research and Development Administration ("ERDA") under two contracts, one for 30,000 KW of firm power which expired February 10, 1979 and the other for 40,000 KW of firm power expiring in 1980. The Company and ERDA are presently negotiating a new contract for 70,000 KW of firm power to replace these contracts. Until such agreement can be reached, it has been mutually agreed that the provisions of the 30,000 KW and 40,000 KW contracts will remain in effect. The Company has an agreement to supply the Savannah River Project interruptible energy, whenever available, if and when requested by ERDA.

The Company furnishes electricity for resale to three municipalities and six electric cooperatives. The Company's sales to such municipalities and cooperatives accounted for [illegible].0% and 1.4%, respectively, of the Company's electric revenues for the year ended December 31, 1978.

Electric Interconnections

The Company's transmission system is part of the interconnected grid extending over a large part of the central and eastern portion of the nation. The Company, Virginia Electric and Power Company, Duke Power Company, Carolina Power & Light Company and Santee-Cooper are members of the Virginia-Carolinas Reliability Group, one of the several geographic divisions within the Southeastern Electric Reliability Council which provides for coordinated planning for reliability among bulk power systems in the Southeast.

Gas Operations

The Company serves natural gas to over 70 communities and at December 31, 1978, rendered service to 162,412 customers. For the year ended December 31, 1978, residential sales accounted for 32% of gas operating revenues; commercial sales 17%; industrial sales 46%; and sales to two municipalities 5%.

1066 183

Gas Operations (Continued)

Since 1953 the Company has purchased gas from Southern Natural Gas Company ("Southern Natural") under long-term contract. Such contract presently extends to 1989 and has a contract demand of 165,000 MCF per day. However, the Federal Energy Regulatory Commission ("FERC") which term, as used herein, includes its predecessor, the Federal Power Commission, has established curtailment priorities applicable to deliveries by interstate pipeline companies to their customers which require Southern Natural to allocate gas to its customers based upon the "end-use" categories of the ultimate consumers of such gas. Such categories give preference first to residential and small commercial customers, second to large commercial requirements and to certain limited industrial requirements and only then to various industrial and other requirements.

On November 17, 1977 FERC issued an order placing a permanent curtailment plan in effect. Such order, which became effective with respect to Southern Natural on November 24, 1977, continued priorities based on "end-use" but redefined certain "end-uses", thereby permitting reclassification of certain consumers from one category of priorities to another. It also made no distinction between firm and interruptible industrial sales.

Under Southern Natural's curtailment plan, each of its customers, including the Company, has a "base-period allocation" arrived at on the basis of gas consumption during a 24-month "base period" ended February 1973 by the ultimate consumers of the gas in various "end-use" categories. The daily volumes of gas covered by the base-period allocations of Southern Natural's customers are increased by specified amounts (which vary from customer to customer and depend in part on the base-period consumption by their "end-users" in the first, second and third categories of priority) for each degree by which the average temperature in the area served by Southern Natural is estimated to be below 70°, provided that base period allocations, as so adjusted, do not exceed contract demand. Deliveries of gas are allocated by Southern Natural on a day-to-day basis among its customers on the basis of gas available for delivery by its system and the various base-period allocations of its customers as adjusted for estimated average system temperature. However, FERC curtailment priorities are not applicable to deliveries by the Company to its customers, which are governed by a separate curtailment plan approved by the Public Service Commission of South Carolina ("PSC").

Under the PSC plan preference is also given first to residential and small commercial customers and then to large commercial and certain limited industrial requirements and to successively lower categories of priority, although there are some differences in the definitions of "end-use" for purposes of FERC and PSC approved categories. The major difference between the two curtailment plans is that gas is allocated under the FERC plan to the Company on the basis of the "end-use" during the "base period" by the Company's customers at that time with no provisions for changes in allocation to the Company because of changes in the numbers of or priority usages by its customers, whereas deliveries by the Company under the PSC plan are allocated to its present customers on the basis of their current "end-use" of the gas.

Gas Operations (Continued)

The Company usually receives its full contract demand during the colder months except on days when the average temperature in the area served by Southern Natural is higher than normal. However, during the 1976-1977 winter, as a result of demands on the Southern Natural system because of the unusually cold weather in the eastern half of the United States, coupled with Southern Natural's depleted storage facilities, on two of the colder days during January 1977 the Company received less than its full contract demand. Between January 28, 1977 and February 12, 1977 the Company, pursuant to PSC order, curtailed all natural gas service to all customers except those in the highest priorities of end-uses and for essential plant protection. Curtailments of gas service during the 1976-1977 winter did not have a material adverse affect on the financial results of the Company's gas operations despite a decline of 13.8% in the volume of gas sold during the first two months of 1977 as compared with the comparable period in the preceding year.

Since the Company could not be assured that it would always receive its full contract allocation under its contract with Southern Natural, it took steps to help supplement its supply. The Company, through its wholly-owned subsidiary South Carolina LNG Company, Inc., completed in 1977 construction of liquified natural gas ("LNG") facilities in Bushy Park near Charleston which (1) enable the Company to liquefy up to 6,000 MCF of gas per day during off-peak periods, (2) provide liquid storage for up to 1,000,000 MCF of gas and (3) enable the Company to gasify up to 60,000 MCF per day when required to meet the demands of its high-priority users. The natural gas liquefied and stored in these facilities is taken from the Company's own pipeline system during off-peak periods out of gas supplied by Southern Natural as described above. There is no separate contract or allocation covering this gas. In addition, the Company has facilities for production of gas from supplemental propane during periods of maximum demand upon the system (commonly referred to as "peak shaving"). Such facilities have a capability of approximately 58,200 MCF per day.

At the beginning of the 1978-79 winter season, the LNG storage facilities were full and the Company had in inventory about 6,300,000 gallons of propane (equivalent to approximately 525,000 MCF of gas). The Company also had a contract for an additional 1,500,000 gallons of propane (equivalent to approximately 125,000 MCF of gas) for use during the current winter season. Since July 11, 1978 Southern Natural has been supplementing its domestic natural gas supplies with purchases of LNG that are being imported at Elba Island, Georgia from Algeria. The Company is receiving some of this imported LNG as part of its normal contract allocation. Because of the above, the Company has not had to curtail any firm customers during the 1978-79 winter season and does not expect to curtail its firm customers during the remainder of such season.

Gas Operations (Continued)

On June 13, 1974 the PSC ordered the Company to continue to install and furnish gas service to new and old residences located on existing mains. To preserve its ability to supply gas to its existing firm customers, the Company adopted the policy of not extending service to any other firm customers and limiting its interruptible sales to a maximum of 1,000 MCF per day on existing mains.

As a result of the increased availability of gas described above, effective October 1, 1978 the PSC removed part of its restrictions on new gas customers and allowed the Company, under certain conditions, to install new gas mains for the purpose of adding residential and small commercial customers. The Company was also allowed to add large commercial and industrial firm customers whose usage does not exceed 50 MCF per day for any purpose and up to 500 MCF per day for any purpose other than boiler fuel. Additionally, the Company was permitted to sell interruptible gas not to exceed 1,000 MCF per day to existing customers with expanded requirements and to new customers upon payment of costs to provide service.

Modifications to the Company's gas curtailment plan have effectively eliminated the use of gas for firm boiler fuel. Separate residences and "essential human needs" uses have been reclassified as the highest priority under the plan. The plan is a modified "end use" curtailment plan retaining the distinction between firm and interruptible uses. The Company has made a formal commitment to the PSC to submit by mid-1980 a gas curtailment plan based on the "end use" of natural gas.

Although Southern Natural has repeatedly increased its tariffs to the Company during the past several years, the Company's tariffs under which its customers are billed permit adjustment in its rates in the event of increases or decreases in the cost of gas, including LNG and propane. Accordingly, such increases have been reflected in the Company's rates.

During the twelve months ended December 31, 1978 the Company's average cost per MCF of natural gas purchased from Southern Natural was approximately $1.43. The cost for propane was approximately $2.99 per MCF and the cost of regasified LNG obtained by liquefaction of natural gas from its own system was approximately $2.49 per MCF.

Availability of Fuel

During 1978 coal provided the fuel for approximately 65% of the Company's generation of electric energy (as compared with 69% for 1977), No. 6 fuel oil approximately 27%, and hydroelectric power and No. 2 fuel oil (for internal combustion turbines) the remainder. The decline in coal usage in 1978 was primarily due to maintenance of coal fired generating units during this period.

1066 191

Availability of Fuel (Continued)

The Company estimates that during 1979 coal will provide the fuel for approximately 73% of its generation of electric energy, No. 6 fuel oil approximately 22%, and hydroelectric power and No. 2 fuel oil (for internal combustion turbines) the remainder.

The following table sets forth the cost (in cents per million BTU) of each category of fuel consumed in the Company's steam generating stations as well as the percentage of total fuel requirements represented by each category of fuel during each of the years 1973 through 1978.

Year	Coal		No. 6 Oil		Nat. Gas		Weighted Average Cost of All Fuels
	Cost	%	Cost	%	Cost	%	
1973	50.08	71	49.57	16	50.54	13	50.62
1974	104.59	61	98.63	28	64.37	11	99.92
1975	120.46	59	114.01	28	74.66	13	113.76
1976	104.04	72	133.60	25	95.93	3	111.82
1977	118.34	73	164.84	25	124.48	2	130.94
1978	134.75	68	186.39	29	153.75	3	150.87

Coal. The Company uses coal for fuel at four of its six major thermal plants. The Company uses unit train delivery of coal at all four of these plants. Although the Company has not experienced significant difficulties to date, future deliveries could be adversely affected by possible shortages of locomotives and cars for coal delivery and by railroad labor difficulties. On February 28, 1979 the Company had in excess of a [illegible] day supply of coal in inventory.

The supply is obtained through contracts and purchases on the spot market. The Company has negotiated and is negotiating renewals of several of its contracts for the purchase of coal. The Company's contracts for the purchase of coal represent the following percentages of the Company's estimated requirements for 1979 (3,852,000 tons) and expire at the dates indicated (giving effect to the Company's intention to exercise renewal options):

No. of Tons Per Year	% of 1979 Requirement	Range of % of Sulfur Content per Contract	Initial Expiration Date	Final Expiration Date (1)
1,050,000	27.3	1.2 - 1.5	12-31-80	12-31-90
750,000	19.5	1.5 - 2.0	12-31-80	12-31-90
400,000	10.4	1.0 - 1.2	4-30-82	4-30-92
180,000	4.7(2)	1.0 - 1.5	7-31-79	7-31-88
260,000	6.7	1.0 - 1.75	3-31-80	3-31-81
336,000	8.7(2)	1.0 - 2.0	9-30-79	9-30-80
360,000	9.3(2)	1.0	9-30-79	9-30-80
3,336,000	86.6			

(1) Contract extensions subject to mutual agreement on price, quantity and quality.
(2) Assume extension of original contract through remainder of 1979.

1066 192

All of the above contracts are subject to periodic price adjustments, based on changes in indices published by the U. S. Department of Labor and others.

The Company expects to continue spot market purchases of its coal requirements in excess of those provided by its existing contracts. However, there is no assurance that coal will be available on a spot basis in the future or that it will be available at reasonable prices. The delivered cost of spot coal received during December 1978 averaged $ 1.35 per million BTU and $ 32.11 per ton, and the average delivered cost of all coal received, both spot and under contract, during such month was $1.45 per million BTU and $35.79 per ton.

The average costs per ton of coal consumed for the years 1973 through 1978 were $12.23, $25.49, $29.72, $25.63, $28.50 and $32.71, respectively.

The coal purchased by the Company in December 1978 had an average sulfur content of 1.19%, which is less than the maximum permitted by existing regulations, and the Company believes that its operations are in substantial compliance with all existing regulations relating to the discharge of sulfur dioxide. The Company has not been advised by officials of the South Carolina Department of Health and Environmental Control that any more stringent sulfur content requirements for existing plants are contemplated. (See "Environmental Control Matters")

Fuel Oil. Two of the Company's major thermal plants use No. 6 fuel oil to fire their boilers. Oil for the Williams Station, the newest plant on the Company's system, is supplied by Exxon Company, U.S.A. ("Exxon") under a contract expiring in 1992, subject to renegotiation of price in 1982 and 1987, providing for the estimated maximum requirement of 6 million barrels per year or 100% of the actual requirement, whichever is less. The price of oil is based upon the market price less a discount. The contract for oil at Plant Hagood (also with Exxon) provides for supply of Plant Hagood's requirements at market price less a discount over the seven-year period 1976-1982.

Oil for the Williams Station is barged up the Cooper River from Charleston, South Carolina in 20,000 barrel barges and stored at a tank farm. Oil for Plant Hagood is shipped via pipeline from the supplier's terminal in Charleston, South Carolina.

The Company's internal combustion turbines, used only at times of maximum demand upon the Company's generating system, burn natural gas and No. 2 oil. The quantities of such fuels used are not significant and the Company presently has adequate supplies of No. 2 oil for its current needs.

1066 193

Availability of Fuel (Continued)

Nuclear. As discussed more fully under the caption "Construction Program and Financing", the Company is constructing the V. C. Summer Nuclear Station which is its first nuclear generating station and is expected to be completed in 1980. The following discussion sets forth the factors affecting current and future availability of uranium to fuel the V. C. Summer Nuclear Station.

In order to fuel and operate a nuclear generating station, six distinct stages of the fuel cycle are involved: (1) the mini g and milling of uranium ore to yield uranium concentrates, (2) the conversion of uranium concentrates to uranium hexaflouride, (3) the enrichment of the uranium hexafluoride, (4) the conversion of the uranium hexafluoride to uranium dioxide and the fabrication of fuel assemblies into which the uranium dioxide is incorporated, (5) the utilization of the nuclear fuel in the generating station reactor and (6) the reprocessing of the spent fuel including the appropriate disposition of radioactive wastes or disposal of spent fuel without reprocessing.

The Company has a contract with Westinghouse Electric Corporation for the supply of uranium concentrate, conversion and fabrication and with the ERDA for supply of enriching services for the V. C. Summer Nuclear Station. The contract with Westinghouse covers the initial core loading of three regions and eight yearly reload regions for a total of 11 regions of fuel. (A region represents approximately one-third of the nuclear cores in the reactor at any time.) Under anticipated operating conditions this would cover a period of approximately ten years. It will be necessary for the Company to enter into future contracts to cover the difference between its total requirements and those covered by its present contract. The contract with the ERDA is a "requirements" type contract whereby the ERDA supplies total enriching requirements for the unit through the year 2002. There are presently no reprocessing facilities in operation in the United States available to utilities for reprocessing of spent fuel. President Carter has announced his opposition to reprocessing. The Company estimates that the spent fuel storage facilities at the V. C. Summer Nuclear Station will be adequate for at least 10 years of operation. In addition, there will be sufficient on-site storage capacity to permit storage of the entire reactor core in the event that complete unloading should become desirable or necessary for any reason.

The following table summarizes the Company's contract commitments for the stages of nuclear fuel assemblies:

Commitment	Contractor	Regions	Operating Years Estimated
Uranium Concentrate	Westinghouse	1-11	1980-1989
Conversion	Westinghouse	1-11	1980-1989
Enrichment	ERDA	*	through 2002
Fabrication	Westinghouse	1-11	1980-1989
Reprocessing	None	None	None

*Requirements Contract

1066 194

Availability of Fuel (Continued)

On September 8, 1975 Westinghouse notified the Company that "Under present and anticipated market conditions, Westinghouse finds itself unable to obtain sufficient uranium to meet... customer needs except at such onerous prices that performance on Westinghouse's part would be commercially impracticable". On October 22, 1975 the Company commenced an action against Westinghouse in the U. S. District Court for the District of South Carolina seeking specific performance of the uranium supply provisions of the contract and damages for its breach. Such action was consolidated with other similar actions by other utility companies against Westinghouse and transferred to the U. S. District Court for the Eastern District of Virginia.

On February 3, 1976 Westinghouse consented to an order of the U. S. District Court for the Eastern District of Virginia requiring it to deliver, without prejudice to the position of any of the parties as to their ultimate obligations, quantities of uranium concentrates at the contract price equal to its inventories of uranium concentrates then on hand and on order to the extent received. The Company has received approximately 731,000 pounds of uranium concentrates, which is approximately 18% of the original Westinghouse commitment to the Company (estimated at approximately 4,100,000 pounds) and 82% of the first core fuel requirements (estimated at approximately 888,000 pounds).

The contract with Westinghouse provides for a base price subject to increases or decreases in price according to changes in various indices published by several Federal agencies. The contract price for the 731,000 pounds of uranium concentrates was $13.66 per pound. The Company has purchased on the open market, at prices averaging approximatly $40 per pound, sufficient quantities of uranium to meet the fuel requirements of the initial core.

On October 27, 1978 the United States District Court for the Eastern District of Virginia ruled that Westinghouse Electric Corporation had breached its contract to supply uranium for the V. C. Summer Nuclear Station. A trial to determine whether the Company is entitled to an order requiring Westinghouse to perform the remainder of the contract and the amount of damages due the Company is scheduled for May 1979.

The Company cannot at this time estimate the amount of damages occasioned by Westinghouse's actions because the contract calls for performance by Westinghouse over a period of years. The Company is continuing discussions with Westinghouse and also with other suppliers for the purpose of obtaining an adequate supply of uranium and minimizing any damage to the Company or cost to its customers resulting from the actions of Westinghouse. The Company intends to advise the PSC of the results of the negotiations prior to entering into any settlement of the dispute with Westinghouse. The Company does not anticipate that uranium supply problems are likely to result in a delay in completion or operation of the V.C. Summer Nuclear Station.

Item 1. Business. (Continued)

Regulation

The Company is subject to the jurisdiction of the PSC as to electric retail and gas rates, service, accounting, issuance of securities (other than short-term unsecured promissory notes) and other matters. The Company is subject to the jurisdiction of the FERC in the transmission of electric energy in interstate commerce and in the sale of electric energy at wholesale for resale, as well as with respect to licensed hydroelectric projects and certain other matters, including accounting, but not with respect to the issuance of securities except for short-term unsecured promissory notes. The Company is not subject to the Public Utility Holding Company Act of 1935. The Company is exempt from the provisions of the Natural Gas Act. The Department of Energy Organization Act of 1977 created a new department within the Executive Branch with the responsibility for coordinating and administering national energy policy and programs to which the Company is subject.

In September 1978 the FERC asserted jurisdiction under the Federal Power Act over the issuance of short-term indebtedness by the Company on the ground that the PSC does not regulate the issuance of such short-term indebtedness. The FERC has asserted that the Company is not permitted to issue such indebtedness in amounts exceeding 5% of the par value of its outstanding securities (approximately $45,000,000 at December 31, 1978) without approval by the FERC. On December 26, 1978 the Company filed an application to the FERC pursuant to Section 204 of the Federal Power Act seeking authority to issue up to $110 million unsecured promissory notes or commercial paper, with maturity dates of twelve months or less, but not later than December 31, 1980.

In connection with the Company's proposed construction program (see "Construction Program and Financing"), it will be necessary to obtain regulatory authorizations, permits and licenses, including permits and licenses from the Nuclear Regulatory Commission ("NRC"), a successor to the Atomic Energy Commission ("AEC"), and a license from the FERC. The Company has been granted a construction permit for the V. C. Summer Nuclear Station by the AEC and as of August 28, 1974 the FERC issued to the Company a license for the Fairfield Pumped Storage Project, which includes the Company's existing Parr Shoals Project. The United States Court of Appeals for the District of Columbia Circuit has under review an NRC rule that established on a generic basis the environmental effects of fuel reprocessing and radioactive waste disposal to be assigned to the operation of nuclear power reactors. NRC has reopened the rule-making proceeding and has adopted an interim rule that allows resumption of licensing subject to the condition that the licensed project be in compliance with such final rule as may be adopted. The Company is unable to predict whether the reopened rule-making proceeding will delay the issuance of an operating license for the Summer Station which is presently scheduled to load fuel in the summer of 1980. The Company has made and will continue to make substantial investments ($375,300,000 at December 31, 1978) and commitments in the nuclear station prior to the completion of licensing and other proceedings by governmental bodies. There can be no assurance that the requisite authorizations will be

obtained by the Company. This situation, which is common to electric utilities in general, is necessitated by the complexity of present-day electric utility technology and the time required for the construction of new electric generating and transmission facilities and for completion of the licensing and other proceedings referred to above.

A petition to intervene by a resident of Fairfield County in the Application for an Operating License for the V. C. Summer Nuclear Station, raising safety and environmental issues, has been granted by the NRC. Such interventions are frequently encountered in licensing applications before the NRC and may result in delays in the issuance of licenses. This proceeding is in its preliminary stages and it is not possible to determine whether there will be a delay in the issuance of the license for the V. C. Summer Nuclear Station as a result of this intervention.

On December 6, 1978 Central Electric Power Cooperative ("Central"), a customer of South Carolina Public Service Authority and of the Company (the licensees), petitioned the NRC to make a finding of significant change in the licensees' activities and to refer the matter to the Attorney General of the United States for an anti-trust review and his advice as to any conditions relating to the anti-trust laws that should be placed in the operating license for the V. C. Summer Nuclear Station. The petition as amended alleges that the licensees agreed to restrict competition between themselves in the sale of electric power, that Central is almost entirely dependent upon the Authority for bulk power supply, and that the Authority's dual rates to Central unfairly restrict Central's constituent members from competing with the Authority for large power loads. The Company has opposed such petition. While the ultimate relief sought by Central in its petition is not clear, the NRC has no direct jurisdiction over the Company's rates, and Central's petition states that "Central notes that it is dependent on [the Authority] for almost all of its power supply and would suffer serious injury if there were to be any delay in granting an operating license for said Summer unit." The Company does not believe, even if the petition were granted, that any such anti-trust review would result in delay in issuance of the operating license.

The Company holds licenses under the Federal Water Power Act or Federal Power Act with respect to all its hydroelectric projects. The licenses covering the projects expire as follows: Neal Shoals (5,000 KW capability) and Stevens Creek (9,000 KW capability) 1993; and Parr Shoals (14,000 KW capability) and Fairfield Pumped Storage Project (512,000 KW capability) 2020. The license for the Columbia project (10,000 KW capability) expired in 1970 and the license for the Saluda project (206,000 KW capability) expired in 1977, at which times the Company made timely filings for new licenses.

Annual licenses for these two projects are in effect while the FERC is reviewing the Company's application for such new licenses. The FERC has allowed Central Electric Cooperative, Inc. to intervene in the proceedings on the application for a new license of the Saluda project for the purpose of obtaining an article in the new license requiring the Company to enter into wheeling, pooling and reserve sharing arrangements with it, but not for the purpose of opposing a new license. The Company has opposed such intervention. The Company cannot determine the probable outcome of these proceedings on its business or the results of its operations.

At the termination of a license under the Federal Power Act, the United States may take over the project covered thereby, or the FERC may extend the license or issue a license to another applicant. If the United States takes over a project or the FERC issues a license to another, the original licensee shall be paid its "net investment" in the project (not to exceed fair value), plus severance damage.

On November 7 and November 22, 1977 the PSC ordered the three major electric utilities serving the State of South Carolina to report to it annually on proposed programs for customer load control and load management. The announced purpose of requiring the reports is to enable the PSC and its staff to assess the potential and actual impact of such programs on the utilities and their customers. Along with other utilities across the nation, the Company is studying such load management techniques including direct control over certain customer appliances, time of day pricing, peak load pricing, and other current rate designs.

Several bills have recently been filed with the South Carolina General Assembly which, if adopted, would prohibit South Carolina utilities (including the Company) from utilizing fuel surcharges on jurisdictional electric rate schedules and purchase gas cost adjustment clauses on gas rate schedules, eliminate the present ability of utilities to collect rate increases subject to refund pending approval by the PSC and change the process by which membership of the PSC is determined. Similar bills have been filed in prior sessions but were not adopted. The Company cannot predict whether any of such legislation will be adopted or what effect such adoption would have upon the Company, but such effect could be materially adverse.

Rate Matters

Electric - On December 13, 1977 the PSC granted an electric retail rate increase amounting to $21,797,000 annually based on a test year ended December 31, 1976, or approximately 72% of the amount requested in an application by the Company filed November 12, 1976. The order also required refunds to the Company's retail customers of approximately $2.8 million of revenues collected under bond plus interest (such refund was made during February 1978) and approximately $7.0 million from net interchange sales to other utility companies during 1977, plus interest. The rates directed by the PSC were placed into effect with bills rendered during January 1978. In its order the PSC allowed the Company an overall rate of return of 9.33% on total capitalization, including a 13% return on the equity component.

1066 198

Item 1. Business. (Continued)

Rate Matters (Continued)

During January 1978, the Company appealed to the Court of Common Pleas from that portion of the PSC order requiring a refund of $7.0 million and the Court granted a stay of such refund until the Company's appeal could be heard by the Court of Common Pleas. No ruling was made by that Court regarding the order by the PSC to refund $7.0 million pending a determination by the South Carolina Supreme Court as to the timeliness of the Company's petition to the PSC for a rehearing.

Certain parties, including the Attorney General of South Carolina, appealed the portion of the PSC order which granted the rate increase. The Court of Common Pleas upheld that portion of the order of the PSC on September 21, 1978 and the decision was appealed to the South Carolina Supreme Court. The adverse parties withdrew their appeals and the South Carolina Supreme Court issued orders dismissing them on November 3, 1978 and November 10, 1978. Neither the Company's appeal to the Court of Common Pleas nor the appeal by the adverse parties to the South Carolina Supreme Court as to the timeliness of the Company's petition to the PSC for a rehearing of that portion of the PSC's order relating to the $7.0 million refund were affected by these orders.

On January 29, 1979 the South Carolina Supreme Court ruled that the Company's petition to the PSC for a rehearing was timely filed and the Company's appeal can now be heard by the Court of Common Pleas. No date for argument of the appeal has been set.

On March 31, 1978 the Company filed an application with the FERC for a rate increase of approximately 14.0% of revenues to wholesale electric customers. This rate increase would produce additional revenues of approximately $2.3 million annually, based on a projected 1978 test year. On June 14, 1978 the FERC accepted the Company's application to increase such rates. On July 14, 1978 the FERC issued an order allowing the Company to place the proposed rates into effect on November 15, 1978 subject to refund. The amount collected subject to refund was approximately $160,000 at December 31, 1978.

The Company's wholesale customers have opposed the increases and have alleged that the increases would result in an unlawful "price squeeze" which would adversely affect their ability to compete for large retail customers. The FERC has allowed the customers to intervene, and an administrative law judge has set March 27, 1979 as the date for a hearing on justness and reasonableness.

In an order dated January 15, 1979 the PSC suspended use of the Company's automatic electric fuel adjustment clause. Instead the PSC will set the fuel component in base rates at a level which should recover projected fuel costs for the next six months. The new fuel cost recovery procedures require the PSC staff to review actual fuel costs monthly and the PSC to evaluate the effectiveness of the new procedures every three months. Every six months the PSC will hold hearings to make any necessary changes in the fuel component

1066 199

Rate Matters (Continued)

in base rates, including any over or under collection experienced during the preceding six month period. The first hearing is expected to take place in July 1979; however, the Company can request or the PSC can convene a hearing at any time circumstances warrant a reconsideration of the fuel component of the base rate.

In this Order the PSC increased the fuel component in base rates from \$.015 to \$.01625 per KWH effective with bills rendered on and after the first billing cycle of February 1979. In the opinion of the Company's management these changes in the Company's fuel cost recovery procedures will not have a materially adverse effect on the Company, financially or otherwise.

Gas - On September 29, 1978 the PSC issued an order affecting the Company's gas operations as follows:

(1) The Company was authorized to change the basis of its billing from volumes of gas delivered to the heating value of the gas measured in therms starting with the first billing cycle in November 1978. The need for therm billing was brought about by the introduction of imported natural gas into the Company's system. This imported gas has a higher heat value than domestic natural gas which means that a given amount will generate more heat than an equal amount of domestic natural gas. Therefore, the charges billed are for the actual amount of heat used by customers. The switch to therm billing does not increase revenue to the Company.

(2) Effective with the first billing cycle in October 1978, the cost of gas in the Company's base rate was increased to \$0.159 per therm. The change will not increase revenue to the Company nor will it increase a customer's bill. It was done to more nearly reflect in base rates the actual cost of gas, due to increases in price, from the Company's supplier.

The Company's management intends to make application for future rate increases as may be required to support the financing of its construction program.

Environmental Control Matters

Both federal and state authorities have imposed various environmental control requirements relating primarily to airborne pollution and liquid discharge of pollutants, including heat, into waters in the vicinity of the Company's plants. The Company is attempting to insure that its facilities meet applicable environmental regulations and standards. It is not possible to forecast the ultimate effect of environmental quality regulations upon the existing and proposed facilities and operations of the Company. Moreover, developments in these and other areas may require the Company to modify, supplement or replace equipment and facilities, at costs which could be substantial, and may delay or impede construction and operation of new facilities.

1066 200

Environmental Control Matters (Continued)

Air Quality Control. In 1971, pursuant to the Federal Clean Air Act of 1970 ("1970 Act"), the Environmental Protection Agency ("EPA") promulgated primary and secondary ambient air quality standards with respect to certain air pollutants including particulates, sulfur oxides and nitrogen oxides. In keeping with these regulations, South Carolina has adopted implementation plans containing standards limiting emissions of particulates, sulfur oxides and nitrogen oxides, which were generally designed to achieve the primary ambient air quality standards by 1975 and the secondary ambient air quality standards within a reasonable time thereafter. The effect of the South Carolina Department of Health and Environmental Control ("DHEC") standards is that in all portions of the Company's service area, except for Charleston and Aiken Counties, the Company may not burn coal having a sulfur content in excess of 2.18% by weight. For Charleston and Aiken counties, such maximum sulfur content is 1.44%. The Company has been able to purchase sufficient fuel meeting such requirements for all of its plants. EPA has taken the requisite action approving the implementation plans submitted by DHEC.

The Company's air pollution control systems are subject to periodic inspections by DHEC and EPA. Opacity monitors have been installed on all base load fossil fuel plants. Preliminary studies based on incomplete data from the monitors indicate that certain of the Company's fossil fuel units are not in continuous compliance with DHEC regulations. The Company is evaluating various methods for achieving compliance. These include:

(1) reducing load at noncomplying units and transfer of load to complying units;

(2) improving existing electrostatic precipitators;

(3) testing of flue gas conditioning chemicals at coal-fired plants to improve precipitator efficiency; and

(4) obtaining more dependable supply of coal of proper quality (low ash, high BTU content, and with adequate sulfur content, but within regulatory requirements) to ensure that the electrostatic precipitators operate at maximum effectiveness and within existing environmental constraints.

If the preceding measures are not sufficient to achieve compliance with the opacity regulations, then retrofitting of other flue gas treatment devices will be required, including additional electrostatic precipitators or installation of other devices. The cost is not presently determinable but it could be substantial.

By letter dated January 3, 1979 EPA notified the Company of certain violations of the South Carolina Air Pollution Regulations relating to smoke emission at the Company's Canadys Station. The Company is negotiating with DHEC on the terms of an order requiring compliance by July 1, 1979.

1066 201

Environmental Control Matters (Continued)

The Company is unable to predict whether it will be able to obtain continuous compliance at its existing fossil fuel stations without materially affecting its operations as presently conducted. In the future compliance with visual opacity and other air quality regulations could result in higher capital and operating costs.

In June 1973 an evenly divided United States Supreme Court left standing an opinion of a lower Federal court to the effect that EPA could not approve state implementation plans which would permit significant deterioration of ambient air quality in areas in which air quality is better than national primary and secondary standards. Neither the court opinion nor the 1970 Act defines "significant deterioration". Air quality in the areas in which many of the Company's existing and planned generating facilities are located is believed to exceed the national standards. EPA issued regulations effective January 1, 1975 setting up a mechanism for preventing "significant deterioration" of air quality in areas where air quality exceeds the national ambient air quality standards. The regulations provide for designation by each state of three classifications of areas, and for varying limitations on the extent to which changes in air quality in such areas would be deemed to constitute "significant deterioration". The State of South Carolina control standards presently classify areas affecting the Company's operations in a manner required by the EPA regulations. Although the Company believes that it presently is in substantial compliance with applicable regulations (except as noted above), changes in EPA and the State of South Carolina regulations or in the availability of fuel could materially affect the Company's power resources and operating expenses. The 1977 amendments to the 1970 Act (i) require state regulations to prevent significant deterioration of areas cleaner than required by EPA regulations, (ii) establish specific increments for particulates and sulfur dioxide, (iii) require EPA to promulgate by August 1979 increments of, or other means to prevent significant deterioration from, oxides of nitrogen, hydrocarbons, carbon monoxide and photochemicals, and (iv) require new plants to use the best method of continuous emission reduction, regardless of fuel content. Accordingly, the Company believes that the new standards have the potential for restricting the number of sites available for future fossil fuel generating plants and the total generating capability which may be installed at a given site and that they will impose higher capital and operating costs on new generating plants.

Water Quality Control. The Federal Water Pollution Control Act of 1972 as amended in December 1977 ("1972 Act") provides for the imposition of effluent limitations to regulate discharges of pollutants, including heat, into the waters of the United States. With respect to existing plants, the 1972 Act requires that there have been achieved by (i) July 1, 1977 effluent limitations that require application of the "best practicable control technology currently available" and (ii) not later than three years after the effective date, or not later than July 1, 1984, whichever is later, but in no case later than July 1, 1987, effluent limitations that require application of the "best available technology economically achievable".

1066 202

Environmental Control Matters (Continued)

Compliance with applicable effluent limitations for the discharges from point sources at the Company's power plants is achieved by a permit system established under Section 402 of the 1972 Act which utilizes effluent limitations based on guidelines promulgated by the Administrator of EPA. As a result of an appeal of EPA's guidelines relating to "no discharge" of heat and certain chemical limitations, the Administrator of EPA is now reconsidering such guidelines. The Company filed timely applications for permits for its plants and permits have been issued by DHEC for all of the Company's generating stations. The Company has received variances for the discharge of heated water at four of its plants. The Company has completed waste water treatment facilities for all of its operatonal steam electric generating stations, and it believes that it is in substantial compliance with all permits except at the Williams Station, where monitoring of the effluent from the ash pond indicates that the effluent from the pond contains compounds in excess of those allowed by the Company's discharge permit. Chemical and biological studies have been conducted to determine the cause of the excess compounds, and a report has been submitted to DHEC for comment. Further studies and additional chemical treatment systems may be required. The Company is unable to predict the cost of such treatment system until the result of the studies has been obtained. The Company has notified DHEC of the matters described above and DHEC has indicated that no enforcement proceeding is contemplated at this time.

In addition, the 1972 Act requires that the location, design and construction of cooling water intake structures for both new and existing generating plants reflect the "best technology available for minimizing adverse environmental impact". EPA's interpretation that the 1972 Act requires cooling towers at existing plants has been challenged by a group of concerned utilities (including the Company). On November 11,1977 the Court of Appeals for the Fourth Circuit set aside the EPA regulations on the ground that they had been invalidly promulgated. EPA has determined that intake structures at all of the Company's plants, except Williams Station, meet the requirements of the 1972 Act. A decision in regard to Williams Station is pending. The Company is presently unable to determine whether substantial changes in cooling water intake structure for the Williams Station will be required, or the amount of expenditures required to make such changes, but the cost of compliance could be substantial.

In addition to the 1972 Act and the regulations thereunder, the Company must comply with the South Carolina Water Quality Standards. The Company believes it is in substantial compliance with such Standards.

On November 21, 1975 EPA promulgated regulations pursuant to the 1972 Act which would require, among other things, assessments and allocations of the discharge of pollutants, including thermal discharges, and would affect the permits issued under Section 402 of the 1972 Act. An appeal of the regulations is now pending. The Company is unable to predict the effect of the regulations except that they could result in higher capital and operating costs and could restrict sites available for future expansion of the Company's generating facilities.

Item 1. Business. (Continued)

Environmental Control Matters (Continued)

On October 13, 1972 a landowner on the shores of the Company's FERC licensed hydroelectric Saluda project ("Lake Murray") filed a complaint with the FERC alleging a violation of the Company's license due to the Company's failure to prevent unauthorized discharges (and proposed discharges) of effluent into Lake Murray by other persons, corporations and agencies owning or leasing property on Lake Murray, including a state recreational facility which has been granted a lease by the Company (approved by the FERC), a landowner which has been granted an easement by the Company to lay a pipe along the lake bottom for the discharge of treated effluent (the granting of such easement was approved by order of the FERC and such order was affirmed by the U. S. Court of Appeals, District of Columbia Circuit, following a petition for review by the same landowner who brought the October 13, 1972 complaint), other landowners to whom easements have been granted by the Company subject to FERC approval and owners and lessees with whom the Company has no such relationship. The complaint requests, among other things, that the FERC revoke the license for such project. The Company has filed its answer stating that it is in material compliance with the terms of its license, the rules and regulations of the FERC and the rules and regulations of other Federal, State and local agencies having jurisdiction over environmental matters involving Lake Murray. On September 10, 1973 the FERC ordered an investigation into the existing and future uses of the lands and waters of Lake Murray.

On September 30, 1977 an administrative law judge issued an Initial Decision which among other things found that the present water quality within Lake Murray is acceptable, but that in the future there could be land use and water quality problems which might impair the recreational uses and aesthetic qualities of Lake Murray. The Decision recommended among other things that in the re-licensing proceeding for the Project the Company and the FERC develop a land and water management plan that includes water quality controls and a land-use plan providing for a buffer zone around the shoreline of Lake Murray. The Company had filed a brief on exceptions with the FERC seeking clarification of the Initial Decision. The Company is unable to predict when a final decision will be reached but the Company believes that such decision will not have a material effect on the Company's operations.

In the years 1970 through 1978, the Company's expenditures for environmental control facilities amounted to approximately $15,100,000. It is not possible for the Company to estimate all future costs for environmental purposes but it forecasts minimum capitalized expenditures therefor of at least $1,700,000 for 1979 and $96,300,000 for the years 1980 to 1983, inclusive. These expenditures are included in the Company's construction program. See "Construction Program and Financing."

1066 204

Other Matters

The Company is required to continue its coach operations so long as it exercises its existing electric and gas franchise rights in the City of Charleston. For many years the Company's coach operations in the City of Charleston have resulted, and continue to result, in substantial operating losses, amounting to approximately half the operating losses of the coach division (see "Lines of Business"). The Company has had discussions with the Charleston Area Transit Committee ("CATC") looking towards a transfer by the Company to a public body of its coach properties and operations. CATC has proposed to the Company that the Company pay $8,500,000 over the next 15 years and donate the coaches involved in the Charleston operation (with a book value at December 31, 1978 of $138,900) in consideration of its being released of its obligations to continue its coach operations in the City. Negotiations are still proceeding and the Company is unable to predict at this time their final outcome. Any agreement between the Company and CATC would be subject to the approval of the Company's Board of Directors, the PSC and the local governments involved. The accounting treatment of such payments and of the assets transferred would depend, at least in part, upon the provisions of the PSC order issued in connection with the transfer but it is possible, although not certain, that the entire amount of the future payments and assets transferred could be charged to net income in one year.

One of the Company's wholly-owned subsidiaries, Energy Subsidiary, Inc., is primarily engaged in the holding and development of real property. The Company's investment at December 31, 1978 in the subsidiary was approximately $11,700,000. In 1974 the Company announced, following communications with the PSC, that it would not enter into new real property acquisitions but would continue to fund the subsidiary's existing obligations while it makes an orderly disposition of the subsidiary's holdings. The PSC requires the Company to file semi-annual reports on the progress of the divestment of the real property.

The Price-Anderson Indemnification Act, which was passed by Congress in 1957, limits the liability of a power company operating a nuclear reactor to $560 million for one nuclear accident and provides for governmental indemnification above any available privately offered insurance such that the total amount of indemnification is equal to $560 million. The Act provides that all owners of nuclear reactors may be assessed up to $5,000,000 per reactor for each nuclear accident occuring at any reactor in the United States with a limit of two assessments per year (a retroactive premium). The Company's maximum exposure would be $6,667,000 per year under this legislation.

1066 205

Item 1. Business. (Continued)

Other Matters (Continued)

The Department of Energy has asked Congress for authority to acquire or build temporary storage facilities for spent fuel from nuclear reactors. Such facilities would be financed through assessments against utilities with nuclear facilities. The Company cannot predict whether such authority will be granted or the extent to which the Company would be subject to assessment or the ultimate effect of any such procedure upon the Company.

Recently enacted Federal energy legislation seeks, through various regulatory and tax provisions, to achieve the conservation of energy and the development and use of more plentiful domestic fuels. Among other things, this legislation provides for consideration by state regulatory commissions of certain electric rate design policies, new standards governing interconnections and wheeling of power, tax credits to encourage the construction of equipment for the production and use of coal, prohibitions against the use of oil or gas as fuel in existing industrial and utility facilities with coal burning capability, and regulation of the price of intrastate gas by the Federal government. The Company is unable to predict the effect of this legislation upon it.

1066 206

EXECUTIVE OFFICERS OF THE COMPANY

Arthur M. Williams, Chairman of the Board and Chief Executive Officer, Age 64

Mr. Williams has served as Staff Counsel, Vice President and Staff Counsel, Senior Vice President, President, President and Chief Executive Officer; and on May 18, 1977, became Chairman of the Board and continued as Chief Executive Officer. He has been an executive officer since 1959.

During the past five years, he has served as President and Chief Executive Officer and Chairman of the Board and Chief Executive Officer with ulitmate accountability for all phases of the Company's business.

Virgil C. Summer, President and Chief Operating Officer, Age 58

Mr. Summer became President and Chief Operating Officer effective May 18, 1977. He has served in various engineering staff positions in the Company's Electric Operations Department. In 1962, he was named Manager, Production Operations, Engineering and Construction, Vice President in 1966 and Senior Vice President, Operations in 1967. Mr. Summer remained in this position until being named President and Chief Operating Officer in May 1977. He is a registered professional engineer and a Fellow of the American Society of Mechanical Engineers. He has been an executive officer since August 1966.

From January 1973 until May 18, 1977, he served as Senior Vice President-Operations ultimately accountable for planning, construction, engineering and operation of the three types of service rendered by the Company - electric, gas and transit (coach). Upon being elected President and Chief Operating Officer, Mr. Summer assumed overall responsibility for all Company operations, plus sharing with Mr. Williams ultimate accountability for all phases of the Company's business.

Oscar S. Wooten, Executive Vice President-Finance, Age 55

Mr. Wooten has served as Assistant Controller, Assistant Vice President, Vice President, Senior Vice President-Finance; and in May 1977 was named Executive Vice President-Finance. He has been an executive officer since 1967.

During the past five years in which he has served as Senior Vice President-Finance and Executive Vice President-Finance, Mr. Wooten's primary function has been that of raising funds and advising the Company's management on its financial position and problems with respect to financing. In addition, he is directly responsible for the Secretarial, Treasury, Accounting and Data Processing Departments.

Executive Officers of the Company. (Continued)

C. Joseph Fritz, Senior Vice President-Administration, Age 60

Mr. Fritz has served in various engineering and accounting staff positions. He was named Office Engineer in 1957, Assistant to the Vice President and General Manager in 1962, Executive Assistant to the President in 1966, Vice President in 1968 and Senior Vice President-Administration in 1970. He has been an executive officer since 1968.

During the past five years he has served as Senior Vice President-Administration, accountable for the corporate functions of Employee Relations, Special Services, Purchasing and Fuel Supply, Garage and Automotive Equipment, Corporate Communications, Safety and Training, and Economic Research and Performance Analysis.

Grayson C. Meetze, Senior Vice President and General Manager-Operations, Age 59

Mr. Meetze has served as General Purchasing Agent, Manager of Purchasing, Stores and Automotive Equipment, Vice President-Purchasing, Automotive and Transit, Vice President and Assistant to the Senior Vice President-Operations; and effective May 18, 1977 was named Senior Vice President and General Manager-Operations. He has been an executive officer since 1970.

From January 1973 until December 31, 1976 he served as Vice President-Purchasing, Automotive and Transit with accountability for purchasing, stores and automotive equipment, as well as the Company's transit (coach) operations. Effective January 1, 1977 Mr. Meetze became Vice President and Assistant to the Senior Vice President-Operations which position he held until being named Senior Vice President and General Manager-Operations. In this position, he is responsible for assuring proper coordination and effective performance of the Company's electric, gas and transit (coach) operations. He has principal concern for the planning, design, engineering, construction and operation of the three phases of service rendered by the Company from ultimate source to the customer.

William N. Ackerman, Vice President-Gas Operations, Age 51

Mr. Ackerman has served in various Gas Department staff positions; System Gas Engineer, Assistant Manager-Gas Operations, Manager-Gas Operations, General Manager-Gas Operations and Vice President-Gas Operations. He has been an executive officer since January 1, 1977.

Effective July 1, 1970, Mr. Ackerman became General Manager-Gas Operations and on January 1, 1977 became Vice President-Gas Operations. Both positions are accountable for planning, design, construction and operation of the Company's gas transmission and distribution system, including its propane and LNG storage facilities.

1066 208

Executive Officers of the Company. (Continued)

Harry G. Boylston, Jr., Vice President-Marketing and Area Development, Age 54

Mr. Boylston has served in various engineering and marketing staff positions, District Engineer, District Manager, Manager Contracts and New Business, General Manager-Marketing and Area Development and Vice President-Marketing and Area Development. He has been an executive officer since January 1, 1977.

From January 1973 to December 31, 1976, he served as General Manager-Marketing and Area Development; and effective January 1, 1977 was named Vice President-Marketing and Area Development. Both positions are accountable for rate design, rate research, including customer-oriented functions involving rates and area development.

Esca (Ed) H. Crews, Vice President and Group Executive-Engineering Services and Construction, Age 56

Prior to being employed by the Company, Mr. Crews was associated with Gilbert Associates, Inc., Reading, Pennsylvania. While in the employ of Gilbert Associates, he was in charge of constructing various electric power plants throughout the United States and overseas. He became affiliated with the Company in November 1962. Since his employment, he has been Superintendent of Construction; Manager, Construction and Engineering Services; Manager, Engineering Services, Construction and Production; Vice President and Vice President and Group Executive, Engineering Services and Construction. He has been an executive officer since 1968.

During the past five years he has served as Vice President and Vice President and Group Executive, Engineering Services and Construction with accountability for planning, engineering design and construction of the Company's generating stations. In addition, he is responsible for the Company's engineering services.

Frank C. Davis, Vice President-Corporate Communications, Age 63

Mr. Davis has served as Administrative Assistant to the Operating Vice President; Manager, Industrial Relations; General Manager, Commercial Operations (Electric); Assistant Vice President, Gas Promotions and Advertising; and Vice President-Corporate Communications. He has been an executive officer since 1964.

During the past five years he has served as Vice President-Corporate Communications responsible for advertising, public relations, corporate communications with the public and news media and supervision of the Company's Saluda hydro licensed project land management program.

1066 209

Executive Officers of the Company. (Continued)

George H. Fischer, Vice President and General Counsel, Age 55

Mr. Fischer was engaged in private law practice before joining the Company in 1959. Since then, he has served in various legal staff positions; Assistant Staff Counsel; General Counsel and Vice President and General Counsel. He has been an executive officer since 1970.

During the past five years he served as Vice President and General Counsel having accountability for all phases of the Company's Legal Department.

Thomas M. Groetzinger, Vice President and Controller, Age 51

Mr. Groetzinger has served in various accounting staff positions; Supervisor of Taxes; Manager of Taxes; Assistant Controller; Controller; and effective May 19, 1976, was named Vice President and Controller. He has been an executive officer since 1973.

During the past five years he has served as corporate Controller and Vice President and Controller with responsibility for all accounting functions including general, plant, customer and tax accounting, rate proceedings and evaluation, budget planning, statistical analyses and payroll.

D. Ellis Hay, Jr., Vice President-Customer Operations Districts, Age 54

Mr. Hay has served in various engineering staff positions; Distribution Engineer; District Engineer; Associate Engineer; District Manager; Manager-Distribution Operations-Districts and Vice President, Customer Operations-Districts. He has been an executive officer since May 18, 1977.

During the past five years he has served as Manager, Distribution Operations-Districts and Vice President Customer Operations-Districts with responsibility for construction, operation and maintenance of the Company's district distribution system plus supervision of district customer services and affairs.

Malcolm C. Johnson, Vice President and Group Executive-Special Services and Purchasing, Age 59

Mr. Johnson has served as Superintendent, Relays & Communication; Superintendent, Transmission; Manager, Transmission Planning, Operation and Maintenance; Assistant Vice President, Transmission Planning, Operation and Maintenance; Vice President, Electric System Operations, Transmission and Distribution; Vice President, Special Services; and Vice President and Group Executive-Special Services and Purchasing. He has been an executive officer since 1967.

1066 210

Executive Officers of the Company. (Continued)

Malcolm C. Johnson (Continued)

From January 1973 to January 1, 1977 he served as Vice President, Special Services and effective January 1, 1977 was named Vice President and Group Executive-Special Services and Purchasing. Both positions are account able for special studies and long-range planning, including site location for power generation facilities, security and quality assurance in nuclear and non-nuclear areas. Since January 1977 Mr. Johnson has assumed the added responsibilities of purchasing, stores and fuel procurement, including fuel contract negotiations.

Thomas C. Nichols, Jr., Vice President and Group Executive-Power Production and System Operations, Age 50

Mr. Nichols has served in various engineering staff positions; Associate Manager-System Operations and Planning; Manager, Transmission Operations; Manager, System Operations; Manager, Power Supply; General Manager, Production Operations, System Operations and Planning; General Manager, Power Supply, System Operations and Planning; Vice President, Power Supply, System Operations and Planning and Vice President and Group Executive-Power Production and System Operations. He has been an executive officer since January 1, 1977.

From January 1973 until October 31, 1974 he served as Manager, System Operations; effective November 1, 1974 he became General Manager, Production Operations, System Operations and Planning; effective May 1, 1976 he became General Manager, Power Supply, System Operations and Planning; effective January 1, 1977 he was elected Vice President, Power Supply, System Operations and Planning and on May 1, 1977 was named Vice President and Group Executive-Power Production and System Operations. In all of these positions occupied by Mr. Nichols since 1973 he has been directly responsible for the operation and maintenance of the Company's electric power generating facilities, system planning and load forecasting.

Curtis L. Rye, Vice President-Customer Operations, Metro Columbia, Age 49

Mr. Rye has served in various engineering staff positions; Senior Engineer-Distribution Operations; Superintendent Distribution Operations, Metro Columbia; Manager Distribution Operations, Metro Columbia; General Manager, Metro Columbia and Vice President, Customer Operations-Metro Columbia. He has been an executive officer Since May 18, 1977.

During the past five years he has served as General Manager, Metro Columbia and Vice President, Customer Operations-Metro Columbia. Both positions are accountable for operation and maintenance of the Company's metropolitan Columbia electric and gas systems, including supervision of all customer related functions and affairs. In May 1977 Mr. Rye assumed the added responsibility of operation of the Columbia transit (coach) operations.

1066 211

Executive Officers of the Company. (Continued)

B. Marion Smith, Jr., Vice President-Governmental Affairs, Age 47

Mr. Smith served in the Company's Agricultural Development Department and Industrial Development Department before assuming staff positions as Director, Governmental Affairs; General Manager, Governmental Affairs and Vice President, Governmental Affairs. He has been an executive officer since January 1973.

He was elected Vice President-Governmental Affairs effective January 1, 1973, and in this position he is accountable for governmental related functions, public affairs and community resources planning, including community services.

Herman B. Speissegger, Jr., Vice President-Customer Operations, Metro Charleston, Age 53

Mr. Speissegger has served in various engineering staff positions; Senior Sales Engineer, Supervisor, Commercial Sales; Director, Electric Industrial Sales; General Manager, Metropolitan Charleston and Vice President Customer Operations Metro Charleston. He has been an executive officer since May 18, 1977.

During the past five years he has served as General Manager, Metropolitan Charleston and Vice President-Customer Operations Metro Charleston. Both positions are accountable for operation and maintenance of the Company's Metropolitan Charleston electric, gas and transit (coach) systems, including supervision of all customer related functions and affairs.

Donald R. Tomlin, Vice President and Group Executive-Customer Operations, Age 64

Mr. Tomlin has served as Assistant Superintendent, Columbia Distribution; Superintendent, Columbia Distribution; Manager, Distribution Operations; General Manager-Transmission & Distribution Operations; Vice President-Transmission & Distribution Operations and Vice President and Group Executive-Customer Operations. He has been an executive officer since May 19, 1976.

From January 1973 until May 19, 1976 he was General Manager-Transmission & Distribution Operations and effective May 19, 1976 he became Vice President-Transmission & Distribution Operations. In both positions, he was responsible for the operation and maintenance of the Company's entire electric transmission and distribution system. On May 18, 1977 Mr. Tomlin became Vice President and Group Executive-Customer Operations with accountability for operation and maintenance of the Company's electric, gas and transit (coach) systems, including responsibility for customer service, rates, marketing and area development.

1066 212

Executive Officers of the Company. (Continued)

James W. Wedding, Vice President-Computer Services, Age 53

Prior to being employed by the Company, Mr. Wedding was associated for twenty years with International Business Machines Corporation (IBM). He held various positions in the field of data processing including computer design and application of the computer to business problems. During the later years of his employ with IBM, he acted as a consultant for IBM to the utility industry applying the data processing techniques to utility requirements. Since joining the Company in March 1969 he has held the positions of Executive Assistant to the Senior Vice President, Finance and Vice President-Computer Services. He has been an executive officer since 1971.

During the past five years he has served as Vice President-Computer Services responsible for all phases of the Company's data processing and computer services, including analysis, programming and operation.

Hugh W. Weldon, Vice President and Group Executive-Administrative Services, Age 57

Mr. Weldon has served in various administrative staff positions; Personnel Representative; Personnel Director-Charleston Division; Manager, Employee Relations; Vice President, Employee Relations; Vice President-Administrative Services; and Vice President and Group Executive-Administrative Services. He has been an executive officer since 1969.

During the past five years he has served as Vice President, Employee Relations; Vice President-Administrative Services and Vice President and Group Executive-Administrative Services with accountability of employee activities of the Company, labor relations and Company coordinator in negotiating union contracts. In May 1977 he assumed the additional responsibility of management and control of the Company's automotive equipment.

Harold M. Bryant, Secretary, Age 57

Mr. Bryant has served as Personnel Director; Assistant Secretary and Secretary. He has been an executive officer since 1971.

During the past five years he has served as Secretary with accountability for corporate secretarial functions and insurance.

Henry H. Gaddis, Treasurer, Age 53

Mr. Gaddis has served as Senior Accountant; Assistant Treasurer and Treasurer. He has been an executive officer since 1972.

During the past five years he has served as Treasurer with accountability for corporate functions of cash operations and management.

South Carolina Electric & Gas Company

Item 2. Summary Of Operations.

Reference is made to pages 28 - 32 of the 1978 Annual Report to shareholders, which is included in Item 12, for a Summary of Operations for each of the years 1973 through 1978 and "Management's Discussion and Analysis of the Summary of Operations and Statements of Income." Such summary and discussion are incorporated herein by reference.

NOTES TO SUMMARY OF OPERATIONS

(1) Beginning in January 1977, the Company, pursuant to a FERC order which provided, among other things, a formula for computing a maximum allowable allowance for funds used during construction (AFC) rate, reclassified the interest portion of AFC related to borrowed funds in the Summary of Operations from "Other Income" to a reduction in "Interest Charges." The Company did not reclassify AFC into its debt and equity components for periods prior to January 1, 1977 because the Company believes the components would not be comparable to the allocation made after December 31, 1976, utilizing the revised procedure of the FERC order. The rates used for computing AFC were 6.5% for 1978 and 1977 and 8% for 1976, 1975, 1974, and 1973. For comparative purposes, "Allowance for Funds Used During Construction - Equity since January 1, 1977" and "Allowance for Borrowed Funds Used During Construction - since January 1, 1977 (credit)" should be combined.

(2) Pursuant to Staff (of the Securities and Exchange Commission) Accounting Bulletin No. 28, the Company has included in its 1978 Summary of Operations and has restated its 1977 and 1976 Summary of Operations to include approximately $3.2 million in 1978, $1.0 million in 1977 and $.2 million in 1976, representing interest and related fees in "Interest" under "Interest Charges." Such amounts were offset by a like increase in "Allowance for Borrowed Funds Used During Construction - since January 1, 1977 - (credit)" under "Interest Charges" for 1978 and 1977 and "Allowance for Funds Used During Construction: Borrowed and Equity - prior to January 1, 1977" under "Other Income" for 1976. The restatements of 1977 and 1976 had no effect on Net Income. (Also see Note 4 of Notes to Consolidated Financial Statements)

(3) Earnings per share of common stock have been computed by dividing earnings available for common stock by the weighted average number of shares outstanding.

1066 214

Item 3. Properties.

The following table gives information with respect to generating facilities of the Company at December 31, 1978.

Type	Name	Location	Net Generating Capability (Kilowatts)(1)
Steam	Canadys	Canadys, S. C.	422,000
	Hagood	Charleston, S. C.	94,000
	McMeekin	Irmo, S. C.	252,000
	Parr	Parr, S. C.	41,000
	Urquhart	Beech Island, S. C.	250,000
	Wateree	Eastover, S. C.	720,000
	Williams	Goose Creek, S. C.	580,000
Gas Turbines	Burton	Burton, S. C.	30,000
	Faber Place	Charleston, S. C.	9,000
	Hardeeville	Hardeeville, S. C.	15,000
	Canadys	Canadys, S. C.	15,000
	Urquhart	Beech Island, S. C.	30,000
	Coit	Columbia, S. C.	32,000
	Parr (2)	Parr, S. C.	64,000
	Williams (3)	Goose Creek, S. C.	54,000
Hydro	Columbia	Columbia, S. C.	10,000
	Neal Shoals	Carlisle, S. C.	5,000
	Parr Shoals	Parr, S. C.	14,000
	Saluda	Irmo, S. C.	206,000
	Stevens Creek	Martinez, Ga.	9,000
Pumped Storage	Fairfield	Parr, S. C.	512,000
	Total		3,364,000

(1) Summer rating

(2) Two of the four Parr gas turbines are leased and have a net capability of 32,000 kilowatts. This lease expires on June 29, 1996.

(3) The two units at Williams are leased and have a net capability of 54,000 kilowatts. This lease expires on June 29, 1997.

The Company currently has under construction the V. C. Summer Nuclear Station (900 MW capacity, of which the Company owns two-thirds) scheduled for completion in 1980. For additional information see "Construction Program and Financing" under Item 1. Business.

1066 215

Item 3. Properties. (Continued)

The Company owns 417 substations having an aggregate transformer capacity of 13,186,640 KVA. The transmission system consists of 2,704 pole miles of lines and the distribution system 12,142 pole miles of overhead lines and 899 circuit miles of underground lines.

The Company's gas system consists of 610 miles of transmission pipelines and 4,511 miles of 3-inch equivalent distribution pipelines.

Through its wholly-owned subsidiary, South Carolina LNG Company, Inc., the Company owns an LNG plant located at Goose Creek, S. C. During off-peak periods, the LNG facility can liquefy up to 6,000 MCF per day and store one million MCF of natural gas. On peak days, the LNG plant can regasify up to 60,000 MCF per day.

Additionally, the Company has propane storage facilities in Charleston, Columbia and North Augusta, S. C., which can supplement the supply of natural gas by gasifying approximately 58,200 MCF per day.

Item 4. Parents and Subsidiaries.

The Company has no parent.

Listed below are the subsidiaries of the Company as of December 31, 1978:

Name of Company	Kind of Business	State of Incorporation	Percent Voting Stock Owned
Energy Subsidiary, Inc.	Primarily engaged in the holding and development of real property.	South Carolina	100%
South Carolina LNG Co., Inc.	Liquefaction, storage, and gasification of natural gas.	South Carolina	100% (1)

(1) South Carolina LNG Company, Inc. is a wholly-owned subsidiary of South Carolina Electric & Gas Company. South Carolina LNG Company, Inc. has no employees and all of its operating functions are performed by employees of South Carolina Electric & Gas Company.

1066 216

Item 4. Parents and Subsidiaries. (Continued)

The accounts of the Company's wholly-owned subsidiary, South Carolina LNG Company, Inc., are consolidated in the accompanying financial statements.

The Company's investment in its wholly-owned subsidiary, Energy Subsidiary, Inc., is reported in the accompanying financial statements using the equity method of accounting. Separate financial statements of Energy Subsidiary, Inc. are not presented because Energy Subsidiary, Inc. is not a significant subsidiary.

Item 5. Legal Proceedings.

See Notes 2 and 8B of the Notes to the Consolidated Financial Statements. The Company is involved in a proceeding before the FERC involving environmental control issues at its Saluda hydroelectric project. See Item 1, "Business - Environmental Control Matters".

1066 217

Item 6. Increases and Decreases in Outstanding Securities and Indebtedness.

(a) Equity Securities

	At December 31, 1977			Increase (Decrease)			At December 31, 1978	
Cumulative Preferred Stock	Par Value	Shares	Amount	Shares		Amount	Shares	Amount
5% Issued July 1943	$ 50.00	125,234	$ 6,261,700			$	125,234	$ 6,261,700
4.60% Issued October 1950	50.00	27,834	1,391,700	(1,500)	(1)	(75,000)	26,334	1,316,700
4.50% Issued June 1954	50.00	46,400	2,320,000	(1,600)	(1)	(80,000)	44,800	2,240,000
4.60% (Series A) Issued June 1956	50.00	62,052	3,102,600	(2,000)	(1)	(100,000)	60,052	3,002,600
5.125% Issued March 1961	50.00	90,000	4,500,000	(1,000)	(1)	(50,000)	89,000	4,450,000
4.60% (Series B) Issued February 1963	50.00	136,000	6,800,000	(3,400)	(1)	(170,000)	132,600	6,630,000
6% Issued December 1966	50.00	140,800	7,040,000	(3,200)	(1)	(160,000)	137,600	6,880,000
*9.40% Issued November 1970	50.00	306,000	15,300,000	(6,800)	(1)	(340,000)	299,200	14,960,000
*8.12% Issued July 1971	100.00	202,400	20,240,000	(4,400)	(1)	(440,000)	198,000	19,800,000
*7.70% Issued July 1972	100.00	141,000	14,100,000	(3,600)	(1)	(360,000)	137,400	13,740,000
6.875% Issued January 1974	100.00	150,000	15,000,000				150,000	15,000,000
*10.75% Issued December 1975	100.00	200,000	20,000,000				200,000	20,000,000
8.40% Issued December 1976	100.00	200,000	20,000,000				200,000	20,000,000
*8.72% Issued December 1978	50.00			400,000	(2)	20,000,000	400,000	20,000,000
Total		1,827,720	$136,056,000	372,500		$18,225,000	2,200,220	$154,281,000

Common Stock

	4.50	20,358,612	$91,613,754	149,304	(3)	$ 671,868		
				311,807	(4)	1,403,132		
				120,148	(5)	540,666		
				1,500,000	(6)	6,750,000		
		20,358,612	$91,613,754	2,081,259		$9,365,666	22,439,871	$100,979,420

*Securities registered pursuant to 12(g) of the Act.

(1) Total Cumulative Preferred shares retired per purchase or sinking fund requirements.
(2) On December 19, 1978 the Company sold 400,000 shares of 8.72% Cumulative Preferred Stock to the public through a group of underwriters. These securities are registered pursuant to 12(g) of the Act.
(3) Total number of shares issued under provisions of the Company's Employee Stock Purchase-Savings Program.
(4) Total number of shares issued under provisions of the Company's Dividend Reinvestment Program.
(5) Total number of shares issued under provisions of the Company's Employee Stock Ownership Plan.
(6) On February 1, 1978 the Company sold 1,500,000 shares of common stock to the public through a group of underwriters at a public offering price of $18.25 (see 10-Q report for quarter ending March 31, 1978).

Item 6. Increases and Decreases in Outstanding Securities and Indebtedness.

(Continued)

(b) Debt Securities

Sale on February 8, 1978 of $30,000,000 principal amount of First and Refunding Mortgage Bonds 8.90% Series due February 1, 2008 dated February 1, 1978. Previously reported on Form 10-Q for the quarter ended March 31, 1978.

Sale on June 6, 1978 of $40,000,000 principal amount of First and Refunding Mortgage Bonds 8.45% Series due June 1, 1981 dated June 1, 1978. Previously reported on Form 10-Q for the quarter ended June 30, 1978.

(c) Increase or Decrease in Amount of Debt Securities Outstanding During Fourth Quarter

None.

Item 7. Changes in Securities and Changes in Security for Registered Securities.

Previously reported on Forms 10-Q.

Item 8. Defaults Upon Senior Securities.

None.

Item 9. Approximate Number of Equity Security Holders.

(1) Title of Class	(2) Number of Record Holders (as of December 31, 1978)
Cumulative Preferred Stock, par value $50 per share, having no sinking or purchase fund	
5.00% Series, par value $50	982
Cumulative Preferred Stock, par value $100 per share, having no sinking or purchase fund	
8.40% Series, par value $100	463
Cumulative Preferred Stock, par value $50 per share, having a periodic purchase fund	
4.50% Series, par value $50	85
4.60% Series, par value $50	9
4.60% Series A, par value $50	29
4.60% Series B, par value $50	23
5.125% Series, par value $50	18
6.00% Series, par value $50	20
Cumulative Preferred Stock, par value $100 per share, having one-payment sinking fund	
6.875% Series, par value $100	1
Cumulative Preferred Stock, par value $50 per share or $100 per share, having a periodic sinking fund	
8.72% Series, par value $50	3
9.40% Series, par value $50	1,126
8.12% Series, par value $100	1,043
7.70% Series, par value $100	272
10.75% Series, par value $100	1
Common Stock, par value $4.50	54,897(a)

(a) As of December 12, 1978

1066 220

Item 10. Submission of Matters to a Vote of Security Holders.

Previously reported on Form 10-Q.

In accordance with the "Instructions as to Exhibits" to Form 10-K, copies of the Company's proxy soliciting material relating to the annual meeting of stockholders to be held on April 25, 1979 will be furnished to the Commission when it is sent to the stockholders. Copies of the Company's annual report to the stockholders, including the financial statements incorporated in this Form 10-K by reference, are being furnished to the Commission simultaneously with the filing of this Form 10-K.

Item 11. Indemnification of Directors and Officers.

Section 8.18 of the South Carolina Business Corporation Act of 1962 provides as follows:

"Right of Indemnity of Directors, Officers and Others. - (a) A corporation shall have power to indemnify any person who is made a party to any suit, action or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the corporation, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, against expenses, including attorney's fees, actually and reasonably incurred by him in connection with such action, suit of proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the corporation, except that no indemnification shall be made in respect of any claim, judgments, amounts paid in settlement, issue, fine, matter, attorney fees for a criminal proceeding, or as to such person guilty of a violation of a criminal law, or as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper. Provided, that said misconduct did not involve moral turpitude.

(b) The rights and remedy provided by this section shall be exclusive. Any provision of the articles of incorporation, bylaws, or resolution of the corporation of its directors or shareholders, purporting to extend or limit such rights and remedy, shall be invalid.

(c) The right of indemnity shall inure to the estate, executor, administrator, heirs, legatees, or devisees of any person entitled to indemnification hereunder.

(d) Notwithstanding the provisions of Section (b) above, a corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee against any liability

Item 11. (Continued)

asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this section. Provided, however, such payment or payments cannot be made except in accordance with item (a) of this section."

Item 12. Financial Statements, Exhibits Filed, and Reports on Form 8-K

(a) TABLE OF CONTENTS OF CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL FINANCIAL DATA INCLUDED IN ANNUAL REPORT (FORM 10-K) FOR THE YEAR ENDED DECEMBER 31, 1978

The above listed financial statements are consolidated only since the Registrant is primarily an operating company and the subsidiary included in the consolidated financial statements is not a significant subsidiary.

Supplemental schedules other than those listed above are omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements or in the notes thereto.

(b) The Company did not file any reports on Form 8-K during the last quarter of the year ended December 31, 1978.

1066 222

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Haskins+Sells

1250 First National Bank Building
Main at Washington Street
Columbia, South Carolina 29201
(803) 771-7575
Cable DEHANDS

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

South Carolina Electric & Gas Company:

We hereby consent to the incorporation by reference in your Annual Report (Form 10-K) to the Securities and Exchange Commission for the year ended December 31, 1978 of our opinion dated February 7, 1979, as appearing in your 1978 Annual Report to Shareholders.

We also consent to our opinion, referred to above, being considered as comprehending our opinion that the additions to Notes to Consolidated Financial Statements and the supplemental schedules listed in the accompanying table of contents, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

February 7, 1979

1066 223

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South Carolina Electric & Gas Company
Additions to Notes to Consolidated Financial Statements

1. Long-term Debt:

The "Unsecured Notes - Banks" due 1980 bear interest as determined by a formula applied to the applicable prime rate of The Chase Manhattan Bank. If the Notes are not prepaid, aggregate interest in excess of interest computed at 7.625% per annum will be refunded to the Company. Interest paid in excess of 7.625% ($5,540,000 at December 31, 1978 and $4,045,000 at December 31, 1977) is included in "Deferred Debits - Other" in the accompanying consolidated financial statements. Deferred income taxes of $2,831,000 and $2,068,000 applicable to such excess interest payments are included in "Accumulated Deferred Income Taxes" at December 31, 1978 and 1977, respectively.

2. Preferred Stock:

The redemption prices per share of preferred stock are as follows:

	Redemption Price Per Share at December 31, 1978	Redemption Price Per Share Eventual Minimum
Cumulative $100 par value:		
6-7/8% Series	$100.00	$100.00
7.70% Series	105.75	101.00
8.12% Series	106.09	102.03
8.40% Series	108.40	101.00
10-3/4% Series	110.75	100.00
Cumulative $50 par value:		
4.50% Series	51.00	51.00
4.60% Series	50.50	50.50
4.60% Series A	51.00	51.00
4.60% Series B	50.50	50.50
5% Series	52.50	52.50
5.125% Series	51.00	51.00
6% Series	51.00	50.50
9.40% Series	53.525	51.175
8.72% Series	54.36	50.00

Changes in preferred stock outstanding during the two years ended December 31, 1977 and 1978 are summarized as follows:

Period	Shares of $50 Par Value Issued	Shares of $50 Par Value Retired	Shares of $100 Par Value Issued	Shares of $100 Par Value Retired
Year ended December 31:				
1977		19,500		7,400
1978	400,000	19,500		8,000

Additions to Notes to Consolidated Financial Statements. (Continued)

A "Purchase Fund" or "Sinking Fund" must be set aside annually as long as certain series of cumulative preferred stock remain outstanding. Such "Funds" shall equal a percentage of the total par value of the largest number of shares of such stock at any time theretofore outstanding, which monies will be applied to redeem shares of stock at par value. The beginning dates and applicable percentages of such series of cumulative preferred stock are as follows:

Purchase Funds

Series	Beginning Date	Percentage	Annual Amount
4.60%	October 1, 1951	2-1/2%	$ 75,000
4.50%	June 1, 1957	2 %	80,000
4.60%, Series A	June 1, 1958	2 %	100,000
5.125%	April 1, 1963	1 %	50,000
4.60%, Series B	March 1, 1968	2 %	170,000
6.00%	January 1, 1972	2 %	160,000

After the receipt of tenders, any unused portion of the "Purchase Fund" shall revert to the general funds of the Company.

Sinking Funds

Series	Beginning Date	Percentage	Annual Amount
9.40%	October 1, 1973	2 %	$ 340,000
8.12%	July 1, 1974	2 %	440,000
7.70%	July 1, 1975	2 %	300,000
6-7/8%	January 31, 1979	100 %	15,000,000
10-3/4%			
(A)	October 1, 1981	6-1/2%	1,300,000
(B)	October 1, 1995	9 %	1,800,000
8.72%	January 1, 1985	4 %	800,000

Unless the "Purchase Fund" and "Sinking Fund" requirements are met in full, no distribution may be made on the common stock.

3. Common Stock:

The following authorized shares of common stock of the Company were reserved for issuance pursuant to:

	December 31, 1978	December 31, 1977
Stock Purchase-Savings Program for Employees	521,230	670,534
Dividend Reinvestment and Stock Ownership Plan	547,901	254,595
Employees Stock Ownership Plan	384,547	27,255

1066 226

Additions to Notes to Consolidated Financial Statements. (Continued)

4. Supplementary Information:

Maintenance (including repairs) and provision for depreciation and amortization of utility plant are shown separately in the accompanying consolidated statement of income, except for amounts charged to clearing and other accounts, which amounts are not significant.

Rents, advertising expenses and research and development costs are not material. There were no royalties.

Taxes other than income taxes are as follows:

	Year Ended December 31, 1978	1977
	(Thousands of Dollars)	
State electric generation tax	$ 3,954	$ 3,851
General property taxes	13,557	13,156
Special state utility license	645	610
Federal social security taxes	2,568	2,203
Tax for support of South Carolina Public Service Commission	498	455
State gross receipts tax	1,203	1,153
Other taxes	2,179	1,969
Total	24,604	23,397
Less - Amount charged to other accounts	1,186	942
Remainder - Charged to operating expenses	$23,418	$22,455

1066 227

SUPPLEMENTAL FINANCIAL INFORMATION
(Unaudited)

The following replacement cost information for certain of the Company's assets and related depreciation is presented to comply with the reporting requirements of the Securities and Exchange Commission (the "Commission") as set forth in Accounting Series Release No. 190. The Company advises readers of the imprecise nature of these data and of the many subjective judgments required in the replacement cost estimation. This information does not purport to represent the current value of the assets or the amounts which could be realized if the assets were to be sold.

The calculation of replacement costs includes costs for pollution control equipment such as exists in the Company's latest operating units. Such equipment would also result in increases in fuel, operating and maintenance costs, none of which are reflected.

Replacement cost is not, per se, the current value of existing utility plant; it is only an estimate of the cost that would be incurred if such assets were replaced at December 31, 1978 and 1977.

The excess of replacement cost over historical cost does not represent additional book value of common stock.

In addition, the Company is subject to the jurisdiction of regulatory commissions which determine fair rates of return on its investment in utility plant. Under current ratemaking policy, the Company recovers, through future depreciation charges, the historical dollars invested in productive capacity. The ratemaking process does not allow the Company to recover the excess of replacement cost over historical cost.

As these data are limited to selected categories of assets and related depreciation and do not relate to other assets and liability and equity accounts, or to other expense and revenue accounts, there are significant limitations in using this information to evaluate the effect of inflation on the Company. These data should not be used to adjust and compare this Company's balance sheet or income statement with any other company's financial statements.

Subject to the limitations noted above and the inherent imprecision of the data, this information is provided in good faith in compliance with the Commission's rules and regulations.

It should be pointed out that the Commission has cautioned investors and analysts on the simplistic use of replacement cost data. The Commission also stated in its Release that the disclosure of the effect of replacement cost data on net income is not required at this time, because there are substantial theoretical problems in determining an income effect.

Supplemental Financial Information (Continued)

The estimated replacement cost of the Company's productive capacity, depreciated replacement cost and related depreciation expense with comparative historical cost are presented below:

	Actual Historical Cost	Estimated Replacement Cost
	(Thousands of Dollars)	
December 31, 1978:		
Utility plant in service (excluding land, land rights and intangible plant):		
Electric	$1,020,012	$2,058,278
Gas	130,276	304,114
Coach	3,398	12,210
Common	12,187	20,934
Total	1,165,873	2,395,536
Less - Accumulated provision for depreciation	298,928	606,159
Utility Plant in Service - Net	$ 866,945	$1,789,377
Depreciation expenses for the twelve months ended December 31, 1978	$ 32,643	$ 66,117
December 31, 1977:		
Utility plant in service (excluding land, land rights and intangible plant):		
Electric	$ 796,562	$1,728,284
Gas	128,346	281,806
Coach	3,377	8,575
Common	12,597	19,525
Total	940,882	2,038,190
Less - Accumulated provision for depreciation	269,228	623,554
Utility Plant in Service - Net	$ 671,654	$1,414,636
Depreciation expenses for the twelve months ended December 31, 1977	$ 30,339	$ 60,056

The comparable historical cost amounts are reconciled to those shown in the accompanying consolidated balance sheet as follows:

	Recorded Utility Plant 1978	Recorded Utility Plant 1977
	(Thousands of Dollars)	
Amounts for which replacement cost data are provided	$1,165,873	$ 940,882
Land, Land Rights and Intangible Plant	58,735	32,169
Property Held for Future Use	13	13
Construction Work in Progress	399,039	505,555
Nuclear Fuel in Trust	38,220	10,492
Accumulated Provision for Depreciation	(298,928)	(269,228)
Utility Plant - Net	$1,362,952	$1,219,883

1066 229

1. Replacement Cost

A. Production - The replacement cost of the Steam Production Plant was determined by applying the cost per KW of recently installed units by fuel type trended to December 31, 1978 and 1977 by using the Handy-Whitman Index of Public Utility Construction Costs for the South Atlantic Region (hereafter referred to as the Handy-Whitman Index) to the respective generating capacity. Original cost of Hydro Generation, Other Production Plant and Gas Production Facilities was trended to December 31, 1978 and 1977 using the Handy-Whitman Index. Due consideration was given to the necessity for substituting type of generating facilities because of regulatory requirements or Company requirements.

B. Transmission and Distribution - The Handy-Whitman Index was applied to the original cost of electric and gas transmission and distribution facilities.

C. General Plant - Replacement cost of transportation equipment and coach rolling stock was determined on a unit basis. For other general plant the original cost was trended using the GNP Implicit Price Deflator.

2. Depreciated Replacement Cost

The related accumulated depreciation based on the replacement cost was developed by applying the same percentage relationship that existed between gross plant and accumulated depreciation by functional groups on a historical cost basis at December 31, 1978 and 1977 to the current replacement cost of the productive capacity.

3. Depreciation Expense

Depreciation expense for the replacement cost of productive capacity was developed by applying the actual functional class depreciation rates in use to the respective functional class average replacement cost figures. The Company believes that the difference between depreciation based on historical cost and depreciation based on estimated replacement cost can in no way be treated as an additional amount of depreciation expense, because this difference is neither deductible for income tax purposes nor recognized by the regulatory authorities. With earnings of the Company based on historical costs, any additional depreciation created by estimated replacement cost would require increased earnings and thus increased rates for the Company's services.

4. Supplemental Information

Non-capitalized leases are not significant and have been excluded from the replacement cost data. Additionally, land and intangibles are excluded from the replacement cost data since such assets are not consumed in the productive process. Construction Work in Progress representing future productive capacity is also excluded.

Replacement cost data relating to fuel inventories have not been included since changes in cost levels were recovered through the operation of fuel adjustment clauses.

SCHEDULE V

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Property, Plant and Equipment
Year Ended December 31, 1978

Col. A Classification	Col. B Balance at beginning of period	Col. C Additions	Col. D Retirements	Col. E Other Changes add (deduct)	Col. F Balance at close of period
Electric Utility Plant:				(*)	
Intangible Plant	$ 91,081	$ 46,563			$ 137,644
Production Plant - Steam	353,031,042	5,209,640	$ 258,885	$ 172,352	358,154,149
Production Plant - Hydraulic	38,018,752	199,555,971	63,537	(3,744)	237,507,442
Other Production	18,637,671	47,798	2,585	264,958	18,947,842
Transmission	124,478,494	23,378,634	441,472	(36,384)	147,379,272
Distribution	275,687,917	22,407,282	1,456,770	35,859	296,674,288
General	15,970,263	1,377,268	265,618	(1,332)	17,080,581
Held for Future Use	4,470				4,470
Construction Work in Progress	504,900,520	(106,966,674)			397,933,846
Total Electric Plant	1,330,820,210	145,056,482	2,488,867	431,709	1,473,819,534
Gas Utility Plant:					
Intangible Plant	117,621				117,621
Production Plant	8,115,775	1,808	11,174		8,106,409
Storage Plant	14,778,486	48,623			14,827,109
Transmission	27,341,459	34,235	3,435	(384,571)	26,987,688
Distribution	78,601,816	2,677,152	525,675	(53,902)	80,699,391
General	1,669,509	229,547	94,205	596	1,805,447
Construction Work in Progress	191,923	179,602			371,525
Total Gas Plant	130,816,589	3,170,967	634,489	(437,877)	132,915,190
Coach Utility Plant:					
Plant in Service	3,627,107	28,407	7,152		3,648,362
Construction Work in Progress	16,563	(16,096)			467
Total Coach Plant	3,643,670	12,311	7,152		3,648,829
Common Utility Plant:					
Plant in Service	12,883,566	591,760	940,614	798	12,535,510
Held for Future Use	8,873				8,873
Construction Work in Progress	446,248	286,913			733,161
Total Common Plant	13,338,687	878,673	940,614	798	13,277,544
Nuclear Fuel in Trust	10,491,[illegible]	27,727,798			38,219,693
Total Utility Plant	1,489,111,0[illegible]	176,846,231	4,071,122	(5,370)	1,661,880,790
Nonutility Property	2,510,736	7,697,833	11,095	5,370	10,202,844
Total Property, Plant and Equipment	$1,491,621,787	$184,544,064	$4,082,217	$ -0-	$1,672,083,634

(*) Includes accounting reclassification of property and equipment between various utility plant and nonutility plant classifications.

SCHEDULE V (Continued)

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Property, Plant and Equipment
Year Ended December 31, 1977

Col. A Classification	Col. B Balance at beginning of period	Col. C Additions	Col. D Retirements	Col. E Other Changes add (deduct)	Col. F Balance at close of period
Electric Utility Plant:				(*)	
Intangible Plant	$ 91,081				$ 91,081
Production Plant - Steam	352,660,471	$ 877,270	$ 506,699		353,031,042
Production Plant - Hydraulic	37,839,114	197,572	10,516	$ (7,418)	38,018,752
Other Production	18,635,069	6,063	3,461		18,637,671
Transmission	116,153,721	8,609,950	308,434	23,257	124,478,494
Distribution	256,166,634	21,264,387	1,698,664	(44,440)	275,687,917
General	15,509,977	1,283,385	445,440	(377,659)	15,970,263
Held for Future Use	4,470				4,470
Construction Work in Progress	354,890,366	150,010,154			504,900,520
Total Electric Plant	1,151,950,903	182,248,781	2,973,214	(406,260)	1,330,820,210
Gas Utility Plant:					
Intangible Plant	117,621				117,621
Production Plant	8,114,133	1,642			8,115,775
Storage Plant	13,798,984	979,502			14,778,486
Transmission	27,318,510	27,800	4,851		27,341,459
Distribution	77,015,769	1,784,571	198,524		78,601,816
General	1,522,107	240,350	92,948		1,669,509
Construction Work in Progress	132,311	59,612			191,923
Total Gas Plant	128,019,435	3,093,477	296,323		130,816,589
Coach Utility Plant:					
Plant in Service	3,598,044	57,388	47,824	19,499	3,627,107
Construction Work in Progress	45,521	(28,958)			16,563
Total Coach Plant	3,643,565	28,430	47,824	19,499	3,643,670
Common Utility Plant:					
Plant in Service	10,394,639	2,212,166	143,506	420,267	12,883,566
Held for Future Use	8,873				8,873
Construction Work in Progress	261,246	185,002			446,248
Total Common Plant	10,664,758	2,397,168	143,506	420,267	13,338,687
Nuclear Fuel in Trust	6,500,867	3,991,028			10,491,895
Total Utility Plant	1,300,779,528	191,758,884	3,460,867	33,506	1,489,111,051
Nonutility Property	2,527,318	31,104	14,180	(33,506)	2,510,736
Total Property, Plant and Equipment	$1,303,306,846	$191,789,988	$3,475,047	$ -0-	$1,491,621,787

(*) Includes accounting reclassification of property and equipment between various utility plant and nonutility plant classifications.

SCHEDULE VI

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Accumulated Depreciation of Property, Plant and Equipment
Year Ended December 31, 1978

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at beginning of period	Additions	Retirements (*)	Other charges add (deduct)	Balance at close of period
Electric Utility Plant:					
Production Plant - Steam	$111,486,403	$11,084,000	$ (135,205)	$ 150,616	$122,856,224
Production Plant - Hydraulic	13,912,169	1,479,000	63,537	350	15,327,982
Other Production	5,939,966	723,600	2,662	124,064	6,784,968
Transmission	25,827,351	3,101,500	324,725	(25,878)	28,578,248
Distribution	65,879,307	10,405,800	1,517,833	25,878	74,793,152
General	6,252,539	855,900	204,596	1,110	6,904,953
Total Electric Plant	229,297,735	27,649,800	1,978,148	276,140	255,245,527
Gas Utility Plant:					
Production Plant	1,312,278	268,800			1,581,078
Storage Plant	868,955	984,800	11,090		1,842,665
Transmission	10,763,429	1,065,500	3,435	(233,913)	11,591,581
Distribution	21,201,829	2,597,400	675,366	(41,117)	23,082,746
General	696,046	124,100	78,430	(1,103)	740,613
Total Gas Plant	34,842,537	5,040,600	768,321	(276,133)	38,838,683
Coach Utility Plant	2,352,741	159,500	4,032		2,508,209
Common Utility Plant	2,735,384	468,500	867,929	5	2,335,960
Total Utility Plant	269,228,397	33,318,400	3,618,430	12	298,928,379
Nonutility Property	63,021	14,783	817	(12)	76,975
Total Property, Plant and Equipment	$269,291,418	$33,333,183	$3,619,247	$ -0-	$299,005,354

(*) After deduction of net salvage.

1066 233

SCHEDULE VI (Continued)

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Accumulated Depreciation of Property, Plant and Equipment
Year Ended December 31, 1977

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at beginning of period	Additions	Retirements (*)	Other charges add (deduct)	Balance at close of period
Electric Utility Plant:					
Produ tion Plant - Steam	$100,966,862	$11,025,600	$ 506,059		$111,486,403
Production Plant - Hydraulic	13,498,685	426,000	12,516		13,912,169
Other Production	5,219,827	723,600	3,461		5,939,966
Transmission	23,365,333	2,786,400	314,701	$ (9,681)	25,827,351
Distribution	57,833,280	9,686,400	1,650,054	9,681	65,879,307
General	5,742,962	848,700	237,246	(101,877)	6,252,539
Total Electric Plant	206,626,949	25,496,700	2,724,037	(101,877)	229,297,735
Gas Utility Plant:					
Production Plant	1,042,880	268,800	(598)		1,312,278
Storage Plant	(51,263)	950,400	30,182		868,955
Transmission	9,701,436	1,064,400	2,407		10,763,429
Distribution	18,964,732	2,527,200	290,103		21,201,829
General	663,069	108,500	75,523		696,046
Total Gas Plant	30,320,854	4,919,300	397,617		34,842,537
Coach Utility Plant	2,215,615	173,700	48,143	11,569	2,352,741
Common Utility Plant	2,326,208	404,700	92,553	97,029	2,735,384
Total Utility Plant	241,489,626	30,994,400	3,262,350	6,721	269,228,397
Nonutility Property	62,772	11,796	4,826	(6,721)	63,021
Total Property, Plant and Equipment	$241,552,398	$31,006,196	$3,267,176	$ -0-	$269,291,418

(*) After deduction of net salvage.

1066 234

PART II

Items 13 through 15.

These items have been omitted since such information has been or will be filed with the Securities and Exchange Commission in a definitive pro[illegible] statement pursuant to Regulation 14-A.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

South Carolina Electric & Gas Company
(Registrant)

Date February 28, 1979

By /s/ T. M. Groetzinger
(Signature)
T.M. Groetzinger
Vice President & Controller

1066 235

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934.

For Quarter Ended June 30, 1979 Commission File Number 1-3375

South Carolina Electric & Gas Company
(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction of incorporation or organization)

57-0248695
(I.R.S. Employer Identification No.)

328 Main Street, Columbia, South Carolina 29218
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (803) 799-1234

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securites Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x . No ___ .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common: 23,758,299

The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods reported.

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1066 237

SOUTH CAROLINA ELECTRIC & GAS COMPANY

INDEX

PART I

FINANCIAL INFORMATION

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED BALANCE SHEETS
June 30, 1979 and 1978

(Unaudited)

ASSETS

	1979	1978
UTILITY PLANT (including construction work in progress; 1979 - $467,855,852; 1978 - $422,844,661) (Notes 1,3 and 4):		
Electric	$1,539,567,513	$1,403,653,267
Gas	134,882,770	131,960,746
Transportation (coach)	3,651,782	3,644,930
Common	14,061,218	12,836,980
Total	1,692,163,283	1,552,095,923
Less accumulated depreciation and amortization	315,831,874	283,591,227
Utility Plant, net (excluding nuclear fuel in trust)	1,376,331,409	1,268,504,696
Nuclear fuel in trust	40,237,565	32,915,004
Utility Plant, net	1,416,568,974	1,301,419,700
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property (substantially at cost)	9,690,327	2,447,421
Investment in, notes receivable and advances to subsidiary (Note 1)	11,802,285	17,754,851
Other investments and special funds (at cost or less)	86,471	145,721
Total Other Property and Investments	21,579,083	20,347,993
CURRENT ASSETS:		
Cash	2,365,811	4,222,261
Temporary cash investments	3,750,000	2,500,000
Special deposits	41,671,394	767,981
Receivables	44,667,172	43,454,093
Materials and supplies (at average cost or less):		
Fuel	69,208,682	48,882,194
Other	6,415,455	5,609,053
Prepayments	4,874,935	3,095,799
Total Current Assets	172,953,449	108,531,381
DEFERRED DEBITS:		
Unamortized debt expense	3,934,595	4,059,510
Other	15,707,493	11,426,275
Total Deferred Debits	19,642,088	15,485,785
TOTAL	$1,630,743,594	$1,445,784,859

See notes to consolidated financial statements

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED BALANCE SHEETS
June 30, 1979 and 1978

(Unaudited)

LIABILITIES

	1979	1978
STOCKHOLDERS' INVESTMENT (Notes 5 and 6):		
Preferred stock	$ 153,036,000	$ 134,696,000
Common stock (Authorized 30,000,000 shares; Outstanding shares: 1979 - 23,758,299; 1978 - 22,070,467)	106,912,346	99,317,102
Premium on common stock	207,688,426	187,115,767
Other paid-in capital	4,243,848	4,197,992
Capital stock expense (debit)	(5,729,717)	(5,252,987)
Retained earnings:		
Unappropriated	119,352,036	116,625,085
Appropriated	391,858	391,858
Total Stockholders' Investment	585,894,797	537,090,817
LONG-TERM DEBT (Note 3):		
Principal amounts	620,564,279	644,026,383
Less unamortized discount and premium, net	1,026,415	678,107
Long-Term Debt, net	619,537,864	643,348,276
Total Capitalization	1,205,432,661	1,180,439,093
NUCLEAR FUEL TRUST (Note 4)	40,237,565	32,915,004
CURRENT LIABILITIES:		
Short-term borrowings:		
Banks	1,757,300	2,321,900
Other	15,620,369	436,076
Accounts payable and customer rate refunds (Note 2)	32,435,899	33,258,360
Customer deposits	5,782,042	5,580,195
Taxes accrued	6,377,120	7,357,688
Interest accrued	15,720,212	13,954,642
Dividends declared	13,061,135	11,572,614
Current portion of long-term debt (Note 3)	115,634,817	9,537,790
Tax collections payable	847,072	803,962
Other	1,450,068	1,630,402
Total Current Liabilities	208,686,034	86,453,629
DEFERRED CREDITS:		
Accumulated deferred investment tax credits (Note 1)	61,862,372	46,771,987
Accumulated deferred income taxes (Note 1)	104,989,200	96,911,300
Other	9,535,762	2,293,846
Total Deferred Credits	176,387,334	145,977,133
COMMITMENTS AND CONTINGENCIES (Note 6)		
TOTAL	$1,630,743,594	$1,445,784,859

See notes to consolidated financial statements

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

For the Periods Ended June 30, 1979 and 1978
(Unaudited)

	3 Mos. Ended June 30, 1979	3 Mos. Ended June 30, 1978	6 Mos. Ended June 30, 1979	6 Mos. Ended June 30, 1978	12 Mos. Ended June 30, 1979	12 Mos. Ended June 30, 1978
OPERATING REVENUES (Notes 1 and 2):						
Electric	$ 85,369,383	$ 86,352,830	$178,688,122	$179,291,480	$381,766,879	$365,688,137
Gas	29,575,454	22,594,830	67,875,051	55,650,159	114,029,298	94,910,564
Transportation (coach)	533,597	484,490	1,001,653	904,433	2,024,000	1,941,958
Total Operating Revenues	115,478,434	109,432,150	247,564,826	235,846,072	497,820,177	462,540,659
OPERATING EXPENSES:						
Fuel used in electric generation	41,113,761	41,634,328	83,841,901	88,599,774	179,289,531	174,977,906
Power purchased, net (credit)	(2,262,813)	(655,411)	(2,178,506)	(5,136,282)	(2,466,325)	(6,245,803)
Gas purchased for resale	23,058,053	16,471,637	50,192,737	37,478,764	86,169,308	67,340,711
Other operation	11,877,655	9,784,366	23,521,830	18,970,5[illegible]1	44,119,344	38,178,163
Maintenance	6,464,656	5,892,022	11,272,883	10,161,[illegible]54	22,319,037	18,867,129
Depreciation and amortization (Note 1)	8,932,464	7,996,200	17,882,164	15,913,800	34,611,664	30,994,000
Amortization of storm damage expenses (Note 7)	64,833	-	64,833	-	64,833	-
Taxes (Note 1):						
Other than income	6,445,819	5,737,170	13,237,583	11,804,715	24,850,609	22,956,170
State income	394,600	638,800	1,201,300	2,062,100	3,325,400	4,563,600
Federal income (credit)	424,800	(1,547,400)	4,627,900	4,300,200	10,478,100	10,963,400
Provision for deferred income	2,980,700	3,656,000	7,272,700	7,277,800	14,737,131	14,817,536
Deferred taxes (credit)	(2,631,800)	(1,059,400)	(5,376,300)	(3,494,600)	(9,260,070)	(5,984,164)
Investment tax credit adjustments:						
Amount deferred	3,456,000	5,646,300	6,912,000	11,292,600	17,146,630	19,114,694
Amortization of amounts deferred (credit)	(266,944)	(199,444)	(533,889)	(398,889)	(928,037)	(722,537)
Total Operating Expenses	100,051,784	93,995,168	211,939,136	198,832,037	424,457,155	389,820,805
OPERATING INCOME	15,426,650	15,436,982	35,625,690	37,014,035	73,363,022	72,719,854
OTHER INCOME (Note 1):						
Allowance for funds used during construction - equity	4,073,353	5,246,925	7,972,264	10,188,021	16,124,374	19,353,253
Income tax-credit	2,338,700	2,561,700	4,660,400	5,080,600	9,791,800	9,789,400
Other income, net, less income taxes effects (debit)	(67,349)	17,400	63,731	214,027	572,435	(148,398)
Total Other Income	6,344,714	7,826,025	12,696,395	15,482,648	26,488,609	28,994,255
INCOME BEFORE INTEREST CHARGES	21,771,364	23,263,007	48,322,085	52,496,683	99,851,631	101,714,109
INTEREST CHARGES (Note 4):						
Interest on long-term debt	14,612,971	12,516,303	28,333,907	24,282,800	55,508,523	46,752,263
Amortization of debt premium, discount and expense, net	152,509	136,831	303,837	252,120	622,552	605,733
Other interest expense	1,246,314	535,308	2,524,769	1,391,854	3,631,863	2,677,786
Allowance for borrowed funds used during construction - (credit) (Note 1)	(3,119,481)	(2,821,972)	(6,088,215)	(5,275,241)	(11,660,698)	(9,441,801)
Total Interest Charges	12,892,313	10,366,470	25,074,298	20,651,533	48,102,240	40,593,981
NET INCOME	8,879,051	12,896,537	23,247,787	31,845,150	51,749,391	61,120,128
DIVIDENDS ON PREFERRED STOCK	3,073,711	2,634,029	6,162,483	5,287,103	11,475,582	10,605,590
EARNINGS AVAILABLE FOR COMMON STOCK	$ 5,805,340	$ 10,262,508	$ 17,085,304	$ 26,558,047	$ 40,273,809	$ 50,514,538
AVERAGE COMMON SHARES OUTSTANDING	23,466,[illegible]64	22,060,656	23,025,148	21,752,819	22,6[illegible]5,646	21,019,557
EARNINGS PER AVERAGE SHARE OF COMMON STOCK	$ .25	$ .47	$ .74	$1.22	$1.78	$2.40

See notes to consolidated financial statements

1066 241

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the Periods Ended June 30, 1979 and 1978
(Unaudited)

	6 Months Ended June 30, 1979	6 Months Ended June 30, 1978	12 Months Ended June 30, 1979	12 Months Ended June 30, 1978
UNAPPROPRIATED:				
Balance at beginning of period	$121,735,947	$107,897,373	$116,625,085	$ 99,770,551
ADD - Net income	23,247,787	31,845,150	51,749,391	61,120,128
Total	144,983,734	139,742,523	168,374,476	160,890,679
Deduct				
Cash dividends declared:				
Preferred stock	6,162,483	5,287,103	11,475,582	10,605,590
Common stock	19,469,215	17,830,335	37,546,858	33,660,004
Total Deductions	25,631,698	23,117,438	49,022,440	44,265,594
Unappropriated retained earnings at end of period (Note 5)	119,352,036	116,625,085	119,352,036	116,625,085
APPROPRIATED (Note 6):				
Balance at beginning of period	391,858	-	391,858	-
Transfer from amortization reserve	-	359,010	-	359,010
Current provision	-	32,848	-	32,848
Appropriated retained earnings at end of period	391,858	391,858	391,858	391,858
TOTAL RETAINED EARNINGS AT END OF PERIOD	$119,743,894	$117,016,943	$119,743,894	$117,016,943

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Periods Ended June 30, 1979 and 1978
(Unaudited)

	6 Months Ended June 30, 1979	6 Months Ended June 30, 1978	12 Months Ended June 30, 1979	12 Months Ended June 30, 1978
WORKING CAPITAL PROVIDED:				
Net income	$ 23,247,787	$ 31,845,150	$ 51,749,391	$ 61,120,128
Charges (credits) to income not providing or requiring working capital:				
Depreciation and amortization	17,882,164	15,913,800	34,611,664	30,994,000
Deferred income taxes, net	1,896,400	3,783,200	5,477,061	8,833,372
Investment tax credit, net	6,378,111	10,893,711	16,218,593	18,392,157
Allowance for funds used during construction (AFC)	(14,060,479)	(15,463,262)	(27,785,072)	(28,795,054)
Total from Operations	35,343,983	46,972,599	80,271,637	90,544,603
Nuclear fuel trust	2,017,872	22,423,109	7,322,561	25,982,694
Sale of Securities:				
Mortgage bonds	83,856,250	69,497,500	83,856,250	69,497,500
Pollution control revenue bonds	-	-	-	5,155,000
Preferred stock	15,000,000	-	35,000,000	-
Common stock	21,607,129	30,352,606	28,167,903	34,222,874
Decrease in:				
Other property and investments	328,436	-	-	27,386
Other non-current funds	6,993,761	1,170,286	6,677,990	-
Total Working Capital Provided	165,147,431	170,416,100	241,296,341	225,430,057
WORKING CAPITAL APPLIED:				
Utility plant additions (excluding AFC but including Nuclear Fuel Trust)	58,248,239	82,523,877	123,382,736	161,280,373
Cash Dividends:				
Preferred stock	6,162,483	5,287,103	11,475,582	10,605,590
Common stock	19,469,215	17,830,335	37,546,858	33,660,004
Reduction of long-term debt	68,699,813	1,466,851	108,810,412	3,496,330
Retirement of preferred stock	16,245,000	1,360,000	16,660,000	1,775,000
Increase in:				
Other property and investments	-	728,255	1,231,090	-
Other non-current funds	-	-	-	1,858,098
Total Working Capital Applied	168,824,750	109,196,421	299,106,678	212,675,395
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,677,319)	$ 61,219,679	$(57,810,337)	$ 12,754,662
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT:				
Cash	$ (1,651,684)	$ 2,232,146	$ (1,856,450)	$ (2,386,290)
Temporary cash investments	3,750,000	2,500,000	1,250,000	(6,500,000)
Receivables	(2,223,133)	(1,031,995)	1,213,079	4,061,081
Materials and supplies	7,872,318	(2,463,765)	21,132,890	16,074,254
Short-term borrowings	(7,047,262)	38,012,649	(14,619,693)	814,292
Current portion of long-term debt	(67,632,172)	(269,598)	(106,097,027)	(446,523)
Accounts payable and accruals	19,289,165	20,579,668	(1,515,685)	1,155,515
Other, net	43,965,449	1,660,574	42,682,549	(17,667)
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,677,319)	$ 61,219,679	$(57,810,337)	$ 12,754,662

See notes to consolidated financial statements

1000 242

SOUTH CAROLINA ELECTRIC & GAS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. System of Accounts

The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the South Carolina Public Service Commission (PSC).

B. Principles of Consolidation

The accounts of the Company's wholly-owned subsidiary, South Carolina LNG Company, Inc., are consolidated in the accompanying Consolidated Financial Statements.

The Company's investment in its wholly-owned subsidiary, Energy Subsidiary, Inc., is reported in the accompanying Consolidated Financial Statements using the equity method of accounting.

C. Utility Plant

Utility plant is stated at original cost. The cost of additions, renewals and betterments to utility plant, including direct labor, material and indirect charges for engineering, supervision, and an allowance for funds used during construction, are added to utility plant accounts. The original cost of utility property retired or otherwise disposed of is removed from utility plant accounts and along with the cost of removal, less salvage, is charged to accumulated depreciation. The cost of repairs, replacements and renewals of items of property determined to be less than a unit of property is charged to maintenance expense.

D. Allowance for Funds Used During Construction

Allowance for funds used during construction (AFC), a non-cash item, reflects the cost for the period of capital devoted to plant under construction. This cost represents interest charges on borrowed funds and a reasonable rate of return on equity funds so used. This accounting practice results in the inclusion, as a component of construction cost (construction work in progress), of amounts of AFC which will ultimately be included in rate base in establishing rates for utility charges. AFC was calculated using a 6.5% rate in 1979, 1978 and 1977 except for AFC related to nuclear fuel in trust which was capitalized at the actual amount thereof. (See Note 4 - Nuclear Fuel Trust)

E. Depreciation

The Company provides for depreciation for financial reporting purposes on a straight-line basis over the estimated useful lives of utility plant. Annual rates averaged 3.09% and 3.29% for the twelve months ended June 30, 1979 and 1978, respectively.

F. Income Taxes

Deferred income taxes, arising from the use of accelerated amortization and depreciation rather than straight-line tax depreciation, are charged to income currently with corresponding credits to accumulated deferred income taxes and are credited to income in appropriate amounts when subsequent income tax liabilities are greater as a result of this practice.

Income taxes are allocated to "Operating Expenses" or "Other Income." The income tax-credit under "Other Income" results from tax deductions related to interest expense arising principally from investments in construction work in progress.

1066 243

F. Income Taxes (Continued)

Investment tax credits on eligible property as provided by the Revenue Act of 1971 and the Tax Reduction Act of 1975 are being amortized over the lives of the respective assets.

The Company's Federal income tax returns have been examined through 1975.

G. Pension Plan

The Company has a pension plan covering all employees. Total pension contributions, including amortization of unfunded prior service cost, were approximately $4.5 million and $3.7 million for the twelve months ended June 30, 1979 and 1978, respectively. Unfunded prior service cost of approximately $600 thousand, based on the latest actuarial valuation effective January 1, 1979, is being amortized over a twenty-year period ending in 1997.

The Company's policy is to fund pension costs accrued. There was an excess of approximately $9.6 million of actuarially computed value of vested benefits over total plan assets based on the latest actuarial valuation.

H. Revenue Recognition

Customers' meters are read and bills are rendered on a monthly cycle basis. Base rate revenue is recorded during the accounting period when the meters are read. Revenue attributable to gas costs (to the extent collectible through adjustment clauses) is recorded in the month during which the gas is used rather than when the revenue is billed. Revenue attributable to any over or under collections of electric fuel costs in the base rates is recorded in current month revenues.

I. Debt Premium, Discount and Expense

Long-term debt premium, discount and expense are being amortized over the terms of the respective debt issues.

2. RATE MATTERS:

On December 13, 1977, the PSC issued an order which granted a portion of a requested electric retail rate increase and which required a refund of approximately $7 million from net interchange sales to other utility companies, plus interest.

During January 1978, the Company appealed to and was granted a stay by the Court of Common Pleas for that portion of the PSC order requiring refund of the $7 million. On January 29, 1979, the Supreme Court upheld the Court of Common Pleas' determination and remanded the case to the Court of Common Pleas to determine the substantive issue of whether or not the PSC had correctly ordered the Company to refund the $7 million.

Since the refund ordered by the PSC has been eliminated from revenues and the amount thereof recorded as a liability, an adverse determination of the Company's appeal with respect thereto would not have a negative effect on the Company's Consolidated Financial Statements.

On June 15, 1979 the FERC approved a settlement agreement between the Company and its wholesale electric customers which increased revenues by $1.45 million annually effective November 15, 1978 based on the test year ended December 31, 1978. This settlement resulted in a refund with interest of approxmately $417 thousand which was made in June, 1979.

On June 1, 1979 the Company filed an application with the PSC to increase retail rates by 10.77% for electric and 6.05% for gas operations. Annually, these new rates would produce increases of approximately $38.9 million in electric revenues and $6.7 million in gas revenues, based on the test year ended March 31, 1979. The Company placed the new electric rates into effect on July 1, 1979 and plans to place the new gas rates into effect on November 1, 1979 with the revenues collected from both being subject to refund with interest to the extent not finally allowed.

3. LONG-TERM DEBT:

	June 30, 1979	June 30, 1978
	(Thousands of Dollars)	
First & Refunding Mortgage Bonds:		
3-1/8% Series, due 1979	$ 4,000	$ 4,000
10-1/2% Series, due 1979	35,000	35,000
3% Series, due 1980	22,200	22,200
3% Series A, due 1980	4,000	4,000
8.45% Series, due 1981	40,000	40,000
3-3/4% Series, due 1981	3,930	4,020
7% Series, due 1982	50,000	50,000
4-1/8% Series, due 1983	2,740	2,800
9-3/8% Series, due 1984	25,000	25,000
3-1/2% Series, due 1985	3,500	3,575
5-1/2% Series, due 1987	7,300	7,450
4-7/8% Series, due 1988	10,000	10,000
10-1/2% Series, due 1990	13,200	13,800
5% Series, due 1990	10,000	10,000
5% Series, due 1991	8,000	8,000
4-7/8% Series, due 1995	16,000	16,000
5.45% Series, due 1996	15,000	15,000
6% Series, due 1997	15,000	15,000
6-1/2% Series, due 1998	20,000	20,000
8% Series, due 1999	35,000	35,000
9-1/8% Series, due 1999	15,000	15,000
8% Series, due 2001	35,000	35,000
7-1/4% Series, due 2002	30,000	30,000
9-1/8% Series, due 2006	50,000	50,000
8.40% Series, due 2006	50,000	50,000
8-3/8% Series, due 2007	30,000	30,000
8.90% Series, due 2008	30,000	30,000
10-1/8% Series, due 2009	35,000	-
9-7/8% Series, due 2009	50,000	-
Pollution Control Facilties Revenue Bonds:		
4-1/2% Series, until October 1, 1979, thereafter 70% of applicable prime rate until October 1, 1981 and 75% of such prime rate until maturity, due 1987	5,155	5,155
5.95% Series, due 2003	7,500	7,500
First Mortgage Bonds:		
3-7/8% Series, due 1979	-	908
4% Series, due 1981	362	873
5% Consolidated Mortgage Gold Bonds, due 1999 (non-callable)	1,063	1,075
Unsecured Notes - Banks, due 1980 with interest not to exceed 7.625% over the term of the notes	45,000	45,000

1066 245

	June 30, 1979	June 30, 1978
	(Thousands	of Dollars)
First Mortgage Bonds - South Carolina LNG Co., Inc., 10-1/2% Series, due 1990	10,120	10,810
Capitalized lease obligations - vehicles	2,129	1,398
Total	736,199	653,564
Less current portion of long-term debt	115,635	9,538
Total	$620,564	$644,026

Substantially all utility plant is mortgaged in connection with the various issues of long-term debt. Approximately $6.8 million of the current portion of long-term debt at June 30, 1979 may be satisfied by deposit and cancellation of bonds issued upon the basis of bond retirement credits.

4. NUCLEAR FUEL TRUST:

A Trust Agreement dated September 30, 1976 and amended August 1, 1977 between the Company and The Citizens & Southern National Bank of South Carolina as Trustee provides for the financing of the Company's two-thirds ownership share (see Note 6) of the cost of nuclear fuel related to the initial core requirement of the V. C. Summer Nuclear Station. Pursuant to terms of the Agreement, the Company has assigned to the Trust certain contracts for purchase of nuclear fuel and the Trustee will borrow necessary funds up to an aggregate amount of $42 million to purchase the fuel and to make interest payments (at 109% of prime rate plus 1/4 of 1%) when due. The Company is unconditionally obligated to repurchase the fuel from the Trust either prior to initial loading of fuel into the reactor or no later than June 30, 1980. For financial reporting purposes, purchases by the Trust are assumed to have been made on behalf of the Company and the amounts expended by the Trustee (approximately $38.9 million and $32.9 million through June 30, 1979 and 1978, respectively) and certain fees, etc. accrued by the Company (approximately $1.3 million at June 30, 1979 and none at June 30, 1978) are included in the accompanying Consolidated Financial Statements.

Pursuant to Staff (of the Securities and Exchange Commission) Accounting Bulletin No. 28, the Company has included in its 1979 Consolidated Statement of Income and has restated its 1978 Consolidated Statement of Income to include approximately $4.8 million and $1.6 million for the twelve months ended June 30, 1979 and 1978, respectively, representing interest and related fees in "Interest on long-term debt." Such amounts were offset by a like increase in "Allowance for borrowed funds used during construction - credit." This change had no effect on "Net Income."

5. STOCKHOLDERS' INVESTMENT:

	June 30, 1979	June 30, 1978
Common Stock:	(Thousands	of Dollars)
$4.50 par value; Authorized - 30,000,000 shares; Outstanding, 1979 - 23,758,299 shares; 1978 - 22,070,467 shares	$106,912	$ 99,317
Preferred Stock:		
Cumulative $100 par value; Authorized, 1979 - 1,750,000 shares; 1978 - 1,000,000 shares:		
6-7/8% Series (Outstanding 150,000 shares)	-	$ 15,000

1066 246

	June 30, 1979	June 30, 1978
	(Thousands of Dollars)	
7.70% Series (Outstanding, 1979 - 135,000 shares; 1978 - 137,400 shares)	$ 13,500	13,740
8.12% Series (Outstanding, 1979 - 193,600 shares; 1978 - 198,000 shares)	19,360	19,800
8.40% Series (Outstanding 200,000 shares)	20,000	20,000
10-3/4% Series (Outstanding 200,000 shares)	20,000	20,000
Cumulative $50 par value; Authorized, 1979 - 1,944,420 shares; 1978 - 1,957,120 shares:		
4.50% Series (Outstanding, 1979 - 43,200 shares; 1978 - 44,800 shares)	2,160	2,240
4.60% Series (Outstanding, 1979 - 26,334 shares; 1978 - 27,834 shares)	1,317	1,392
4.60% Series A (Outstanding, 1979 - 58,052 shares; 1978 - 60,052 shares)	2,902	3,002
4.60% Series B (Outstanding, 1979 - 129,200 shares; 1978 - 132,600 shares)	6,460	6,630
5% Series (Outstanding 125,234 shares)	6,262	6,262
5.125% Series (Outstanding, 1979 - 88,000 shares; 1978 - 89,000 shares)	4,400	4,450
6% Series (Outstanding, 1979 - 134,400 shares; 1978 - 137,600 shares)	6,720	6,880
8% Series (Outstanding 300,000 shares)	15,000	-
8.72% Series (Outstanding 400,000 shares)	20,000	-
9.40% Series (Outstanding, 1979 - 299,100 shares; 1978 - 306,000 shares)	14,955	15,300
Cumulative $25 par value; Authorized 2,000,000 shares; Outstanding - None	-	-
Total	$153,036	$134,696

The call premium of the respective series of preferred stock in no case exceeds the amount of the annual dividend.

The amount of purchase fund or sinking fund requirements for preferred stock for the succeeding twelve months is approximately $1.7 million at June 30, 1979.

Increases in "Premium on common stock" for the twelve months ended June 30, 1979 ($20.6 million) and June 30, 1978 ($25.6 million) represent the premium on issuance of 1,687,832 and 1,914,117 shares of stock, respectively.

Increases in "Other paid-in capital" for the twelve months ended June 30, 1979 ($46 thousand) and June 30, 1978 ($16 thousand) consist of gains on the reacquisition of 6,800 and 8,000 shares of preferred stock, respectively.

Increases in "Capital stock expense" for the twelve months ended June 30, 1979 ($477 thousand) and June 30, 1978 ($223 thousand) represent expenses in connection with the issuance of common stock ($38 thousand and $251 thousand for the twelve months ended June 30, 1979 and 1978, respectively) and preferred stock ($467 thousand for the twelve months ended June 30, 1979 and none for the twelve months ended June 30, 1978) less $28 thousand for each of the twelve month periods ended June 30, 1979 and 1978, due to retirement of preferred stock through purchase funds and sinking funds.

The Restated Articles of Incorporation of the Company and the indentures underlying certain bond issues contain certain provisions that limit the payment of cash dividends on common stock. The most restrictive of these provisions would have permitted the payment of approximately $116.9 million of cash dividends on common stock at June 30, 1979.

6. COMMITMENTS AND CONTINGENCIES:

A. Construction

In addition to routine commitments of approximately $14.0 million for operating materials and supplies, the Company at June 30, 1979 had commitments for major construction (including nuclear fuel) of approximately $81.7 million (includes one-third interest of South Carolina Public Service Authority) for construction of the V. C. Summer Nuclear Station.

The Company and the South Carolina Public Service Authority (a public corporation of the State of South Carolina) have contracted to become joint owners at the V. C. Summer Nuclear Station on the basis of two-thirds by the Company and one-third by the Authority and to participate, on a like basis, in the costs of construction, costs of operation and in the energy output thereof. The Company's share (approximately $418.2 million and $329.9 million at June 30, 1979 and 1978, respectively) of costs of construction of the nuclear station, which is scheduled for completion in 1980, is included in construction work in progress. Each owner is responsible for financing its own share of the nuclear station.

The Company has made a timely application for an operating license for the V. C. Summer Nuclear Station and the Nuclear Regulatory Commission has granted a petition to intervene in such proceeding to a resident of Fairfield County on environmental and safety grounds. The Company is unable to predict at this time whether proceedings by regulatory and governmental bodies would delay the issuance of such license beyond the date of scheduled operation.

B. Licensed Projects

Licenses granted by the FERC with respect to the hydroelectric projects of the Company provide that after an initial twenty-year period a portion of the earnings on such projects in excess of a specified rate of return is to be set aside in appropriated retained earnings.

The Company is licensee for five hydroelectric projects. The initial license for two of the projects (Columbia and Saluda) expired in 1970 and 1977, respectively, with the Company continuing operations under annual licenses.

1066 248

7. AMORTIZATION OF STORM DAMAGE EXPENSES:

During February 1979 the Company encountered two severe ice storms in its service area resulting in approximately $2.3 million in storm related expenses. On May 31, 1979 the PSC authorized the Company to amortize these expenses over a three-year period beginning in June 1979. The recoverability of these expenses is to be considered in connection with the Company's pending rate increase applications.

8. RECLASSIFICATIONS:

Certain reclassifications, related to the Nuclear Fuel Trust, have been made in the accompanying Consolidated Financial Statements for 1978. (See Note 4 - Nuclear Fuel Trust)

SOUTH CAROLINA ELECTRIC & GAS COMPANY

MANAGEMENT'S ANALYSIS AND DISCUSSION OF OPERATIONS

Comparison of the Second Quarter Ended June 30, 1979, with the Corresponding Quarter in 1978.

(a) Total operating revenues for the second quarter ended June 30, 1979, increased $6.0 million over the corresponding quarter in 1978. Revenues from the sale of electrical energy decreased $1.0 million, while revenues from the sale of natural gas increased $7.0 million. The decrease in electric revenues is attributable to a decrease in the sale of electrical energy to other utilities (sales for resale) and decreased energy consumption by residential customers. The decrease in sales for resale is primarily attributable to the expiration of a contract on February 9, 1979 with Georgia Power Company for the sale of 75,000 KW of firm power. Even with the continued growth in customers, residential usage decreased primarily because average temperatures experienced during the current quarter were lower than those in the corresponding quarter in 1978. Such lower temperatures had the effect of reducing energy consumption for air conditioning. The increase in revenues from the sale of natural gas can be attributed to the recovery of the increased cost of gas from the Company's supplier, which is passed along to gas customers through the gas cost adjustment clause, and to increased consumption by gas customers.

(b) Electric consumption decreased as follows: residential - 2.1%, sales for resale - 31.3%. Commercial, industrial and other consumption increased by 1.9%, 6.0% and 3.0%, respectively. Natural gas consumption had an overall increase of 3.0%.

(c) Operation and maintenance expenses, excluding taxes and depreciation, for the second quarter ended June 30, 1979, showed an increase of $7.1 million over the corresponding quarter in 1978 as detailed below:

All Amounts Shown in Millions of Dollars	Quarter Ended 6-30-78	Quarter Ended 6-30-79	Change
Fuel Used in Electric Generation	$41.6	$41.1	$(.5)
Net Purchased Power	(.7)	(2.3)	(1.6)
Gas Purchased for Resale	16.5	23.0	6.5
Other Operation	9.8	11.9	2.1
Maintenance	5.9	6.5	.6
Total	$73.1	$80.2	$ 7.1

As shown above, fuel used in electric generation decreased $.5 million due to an overall decrease in consumption of energy by electric customers. Net purchased power, due to increased deliveries of electrical power to other utilities, had the effect of decreasing operating expenses by $1.6 million. The increase in gas purchased for resale of $6.5 million is due to the continued upward trend in the price of natural gas and increased consumption

by gas customers. Other operation and maintenance expenses combined for an increase of $2.7 million. This increase can be attributed to continued inflationary pressures on wages and material costs and to the completion of the Company's Fairfield Pumped Storage Project (four units were placed into commercial operation in June 1978 and the remaining four units were placed into commercial operation in December 1978). See Note 7, "Amortization of Storm Damage Expenses" of "Notes to Consolidated Financial Statements" for the accounting of expenses incurred due to the ice storms that occurred in the Company's service area during February 1979.

Comparison of the Second Quarter Ended June 30, 1979, with the Preceding Quarter Ended March 31, 1979.

(d) The Company is of the opinion that current quarter data and preceding quarter data may not be directly comparable because the operating results of the Company are subject to seasonal changes in weather conditions.

(e) Total operating revenues for the second quarter ended June 30, 1979 showed a decrease of $16.6 million from the preceding quarter ended March 31, 1979. Revenues from the sale of electrical energy decreased $7.9 million, while revenues from the sale of natural gas decreased $8.7 million. The decrease in electric revenues is primarily attributable to two factors: (1) decreased consumption of energy by electric heating customers, and (2) the usual increase in energy consumption for air conditioning was adversely affected because the average temperature for May and June 1979 was below normal. The decrease in revenues from the sale of natural gas is primarily attributable to the decrease in consumption by gas heating customers.

(f) Electric consumption decreased as follows: residential 26.5%, commercial 5.4%, sales for resale 23.2%, and other 1.2%. Industrial consumption increased by 7.1%. Natural gas consumption had an overall decrease of 18.5%.

(g) Operation and maintenance expenses, excluding taxes and depreciation, for the second quarter ended June 30, 1979 showed a decrease of $6.2 million from the preceding quarter ended March 31, 1979, as detailed below:

All Amounts Shown in Millions of Dollars	Quarter Ended 3-31-79	Quarter Ended 6-30-79	Change
Fuel Used in Electric Generation	$42.7	$41.1	$(1.6)
Net Purchased Power	.1	(2.3)	(2.4)
Gas Purchased for Resale	27.1	23.0	(4.1)
Other Operation	11.7	11.9	.2
Maintenance	4.8	6.5	1.7
Total	$86.4	$80.2	$(6.2)

1066 251

As shown above, fuel used in electric generation decreased $1.6 million due to the decreased consumption of energy by electric customers. Net purchased power, due to increased deliveries of electrical power to other utilities, had the effect of decreasing operating expenses by $2.4 million. Gas purchased for resale decreased $4.1 million due to a decrease in consumption by gas heating customers. Other operations and maintenance expenses combined for an increase of $1.9 million due to increased activity in scheduled maintenance. See Note 7, "Amortization of Storm Damage Expenses" of "Notes to Consolidated Financial Statements" for the accounting of expenses incurred due to the ice storms that occurred in the Company's service area during February 1979.

Comparison of Six Months Ended June 30, 1979, with the Corresponding Period in 1978.

(h) Total operating revenues for the six months period ended June 30, 1979 increased $11.7 million over the corresponding period for 1978. Revenues from the sale of electrical energy decreased $.6 million and revenues from the sale of natural gas increased $12.3 million. The decrease in electric revenues is primarily attributable to milder than normal weather in the first quarter of 1979 which reduced consumption for heating and lower than average temperatures experienced during May and June of the second quarter in 1979 which reduced consumption for air conditioning. Additionally, electric revenues were adversely affected by two severe ice storms during February 1979, which interrupted electric service, and by the expiration of a contract on February 9, 1979 with Georgia Power Company for the sale of 75,000 KW of firm power. The increase in revenues from the sale of natural gas is attributable to increased consumption by gas customers and the recovery of the increased cost of gas from our supplier through the Company's gas cost adjustment clause.

(i) Electric consumption decreased as follows: residential 3.3%, sales for resale 29.0%. Commercial, Industrial and Other consumption increased .2%, 5.3% and 5.8%, respectively. Consumption of natural gas showed an overall increase of 4.0%.

(j) Operation and maintenance expenses, excluding taxes and depreciation, for the six months period ended June 30, 1979, increased $16.6 million over the corresponding period in 1978 as detailed below:

All Amounts Shown in Millions of Dollars	6 Months Ended 6-30-78	6 Months Ended 6-30-79	Change
Fuel Used in Electric Generation	$ 88.6	$ 83.9	$(4.7)
Net Purchased Power	(5.1)	(2.2)	2.9
Gas Purchased for Resale	37.5	50.2	12.7
Other Operation	19.0	23.5	4.5
Maintenance	10.1	11.3	1.2
Total	$150.1	$166.7	$16.6

As shown above, fuel used in electric generation decreased $4.7 million due to the decrease in consumption of electrical energy by other utilities

1066 252

(sales for resale) and residential customers. Net purchased power, due to decreased deliveries of electric power to other utilities, had the effect of increasing operating expenses by $2.9 million. Gas purchased for resale showed an increase of $12.7 million due primarily to increased consumption by gas customers and the increased cost of natural gas from the Company's supplier. Continuing inflationary pressures on wages and material costs and the completion of the Company's Fairfield Pumped Storage Project (see paragraph (c)) combined to increase other operation and maintenance expenses by $5.7 million. See Note 7, "Amortization of Storm Damage Expenses" of "Notes to Consolidated Financial Statements" for the accounting of expenses incurred due to the ice storms that occurred in the Company's service area during February 1979.

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Part II

OTHER INFORMATION

Item 1. Legal Proceedings.

On January 29, 1979 the South Carolina Supreme Court ruled that the Company's petition to the South Carolina Public Service Commission (PSC) for a rehearing regarding the order by the PSC to refund $7.0 million (see Note 2, "Rate Matters" of "Notes to Consolidated Financial Statements") was timely filed, and the Company's appeal could be heard by the Court of Common Pleas. Arguments on the Company's appeal were heard on June 25, 1979, and the Company is awaiting a decision.

Items 2 to 4, inclusive, are not applicable.

Item 5. Increase in Amount Outstanding of Securities or Indebtedness.

(a) - (b) On May 23, 1979 the Board of Directors of the Company authorized an issue of $50,000,000 principal amount of First and Refunding Mortgage Bonds, 9-7/8% Series due June 1, 2009. Such bonds were issued on June 13, 1979 under a Thirty-second Supplemental Indenture dated as of June 1, 1979 (see Exhibit 1). Bonds in the principal amount of $716,445,000 had been previously issued under and pursuant to the terms of the Indenture of South Carolina Power Company (assumed by South Carolina Electric & Gas Company) dated as of January 1, 1945, as supplemented; and the principal amount of bonds last reported outstanding was $614,870,000 and as of July 1, 1979, $575,870,000 principal amount of bonds was outstanding exclusive of the $50,000,000 issued as indicated above.

The aggregate net cash proceeds from the Company's offering and sale of $50,000,000 principal amount of First and Refunding Mortgage Bonds 9-7/8% Series due June 1, 2009 was approximately $49,250,000, plus accrued interest from June 1, 1979, and before deduction of expenses estimated at $107,000.

(c) The names of the principal underwriters, none of which are affiliates of the Company, are as follows:

Kidder, Peabody & Co., Incorporated
Bache Halsey Stuart Shields Inc.
The First Boston Corporation
Bear, Stearns & Co.
Blyth Eastman Dillon & Co. Inc.
Dillon, Read & Co. Inc.
Donaldson, Lufkin & Jenrette Securities Corporation
Goldman, Sachs & Co.
E. F. Hutton & Company
Lazard Freres & Co.
Lehman Brothers Kuhn Loeb Inc.
Loeb Rhoades, Hornblower & Co.
Robert Fleming Incorporated
Ladenburg, Thalmann & Co., Inc.
Moseley, Hallgarten, Estabrook & Weeden, Inc.
New Court Securities Corporation
Nomura Securities Internati[illegible] nc
Oppenheimer & Co., Inc.
Stuart Brothers
Thomson McKinnon Securities Inc.
Tucker, Anthony & R. L. Day, Inc.
Wheat, First Securities, Inc.
American Securities Corporation
Dain, Kalman & Quail, Incorporated

1066 254

(c) Underwriters (Continued)

Merrill Lynch, Pierce, Fenner & Smith Incorporated
Paine, Webber, Jackson & Curtis Incorporated
L. F. Rothschild, Unterberg, Towbin
Salomon Brothers
Smith Barney, Harris Upham & Co.
Shearson Hayden Stone Inc. Incorporated
Warburg Paribas Becker Inc.
Wertheim & Co., Inc.
Dean Witter Reynolds Inc.
The Robinson-Humphrey Company, Inc.
ABD Securities Corporation
Atlantic Capital Corporation
Basle Securities Corporation
J. C. Bradford & Co.
Alex. Brown & Sons
A. G. Edwards & Sons, Inc.
Fahnestock & Co.
Frost, Johnson, Read & Smith, Inc.
Interstate Securities Corporation
Johnson, Lane, Space, Smith & Co., Inc.
Laidlaw Adams & Peck Inc.
McCarley & Company, Inc.
Wm. E. Pollock & Co., Inc.
McDonald & Company
Prescott, Ball & Turben, Inc.
Anderson & Strudwick, Incorporated
Craigie Incorporated
First Southwest Company
Freeman Securities Company, Inc.
Herzfeld & Stern
Howard, Weil, Labouisse, Friedrichs Incorporated
Kirkpatrick, Pettis, Smith, Polian Inc.
Thomas & Company, Inc.
Burton J. Vincent, Chesley & Co.

(d) Of the approximately \$49,250,000 net proceeds from 2009 Series A Bonds, \$39,000,000 was applied to the payment at maturity of \$4,000,000 principal amount of a 3-1/8% Series and \$35,000,000 principal amount of a 10-1/2% Series of First and Refunding Mortgage Bonds, due July 1, 1979. The balance of such net proceeds will be used to retire a like amount of the Company's short-term indebtedness incurred or to be incurred as a result of construction expenditures.

(e) These securities are registered under the Securities Act of 1933, as amended.

Item 6 is not applicable.

Item 7. Submission of Matters to a Vote of Security Holders

(a) The annual meeting of stockholders of the ompany was held on April 25, 1979. In order to provide sufficient time for the receipt of additional proxies concerning a proposed amendment to the Company's Restated Articles of Incorporation, the meeting was adjourned until 11:00 a.m. on May 23, 1979 at which time the remaining business was completed and the annual meeting adjourned.

(b) The following individuals were elected Directors of the Company to serve until the next annual meeting: J. K. Addy, W. B. Bookhart, Jr., W. R. Bruce, Sr., K. W. French, J. B. Guess, III, B. A. Hagood, J. F. Hassell, Jr., Avram Kronsberg, J. H. Lumpkin, F. C. McMaster, E. W. Pike, Jr., J. B. Rhodes, J. E. Schachte, Jr., V. C. Summer, W. H. Taylor, A. M. Williams, and O. S. Wooten.

(c) 1. The adoption of the resolution that all actions taken by the directors and officers of the Company from April 26, 1978 to May 23, 1979 be ratified, confirmed, and approved in every respect. Holders of 17,150,216 shares of common stock voted in person or by proxy in favor of the resolution and there were no votes cast against the resolution.

1366 255

2. Article V of the Company's Restated Articles of Incorporation was amended to increase the authorized number of shares of $100 par value preferred stock which the Company may issue from 1,000,000 to 1,750,000 shares. Article V as amended is as follows:

   "The total number of shares which the Company shall be authorized to issue is 35,698,020, of which 2,000,000 shall be Preferred Stock of the par value of $25 per share, issuable in series, 1,948,020 shall be Preferred Stock of the par value of $50 per share, issuable in series, 1,750,000 shall be Preferred Stock of the par value of $100 per share, issuable in series, and 30,000,000 shall be Common Stock of the par value of $4.50 per share."

   The vote on the amendment was 16,917,978 in favor of and 410,979 against.

Item 8. Other Materially Important Events.

A. Rate Matters

On June 1, 1979 the Company filed with the PSC an application for a rate increase for substantially all of its electric retail customers and an application for a rate increase for substantially all of its gas customers. The electric rate application seeks an increase of approximately 10.77% of base revenues, which would produce additional revenues of approximately $38,891,000 annually based on the Company's operations for the test year ended March 31, 1979. The Company placed this increase in effect on July 1, 1979, subject to refund with interest to the extent not finally allowed. The gas rate application seeks an increase of approximately 6.05% of gas revenues, which would produce additional revenues of approximately $6,749,000 annually based on the Company's operations for the test year ended March 31, 1979. The Company plans to place this increase in effect on November 1, 1979, subject to refund with interest to the extent not finally allowed.

There can be no assurance that all or any part of the requested increases will be granted.

On June 15, 1979 the FERC approved a settlement agreement between the Company and its wholesale electric customers which increased revenues by $1.45 million annually effective November 15, 1978 based on the test year ended December 31, 1978. This settlement resulted in a refund with interest of approximately $417 thousand which was made in June 1979.

B. Construction

The Company has revised its construction program to defer the in-service date for two proposed 550 MW coal-fired units from the mid-1980's to the latter part of the 1980's. It also plans to retain in service 131 MW of internal combustion turbines used for peak load generation

1066 256

previously scheduled for retirement in 1981 and to add as peaking units 300 MW of internal combustion turbines in the mid-1980's. As a result, the Company's previously announced $804 million construction program for the years 1980-1983 will be reduced by $349 million.

The Company's construction program, which is subject to continuing review and adjustment, for 1979 and for the four-year period 1980-1983 as now scheduled involves costs estimated as follows (estimates include allowance for funds used during construction estimated at $24,751,000 for 1979 and $37,083,000 for the 1980-1983 period and the cost of nuclear cores, estimated at $95,09[illegible],000 for the 1979-1983 period):

Type of Facilities	1979	1980-1983
	(thousands of dollars)	
Electric		
Generation	$ 97,717	$212,626
Transmission	20,484	68,924
Distribution	29,836	143,410
Other	4,976	10,600
Total Electric	153,013	435,560
Gas	7,187	19,214
Transportation (Coach)	287	301
Total Construction	$160,487	$455,075

In addition to the cash requirements for its construction program, during the years 1980-1983 the Company has an aggregate of $203,019,000 of long-term debt maturing (including sinking fund maturities, of which $27,784,000 are expected to be satisfied by certifying property additions) and $10,760,000 of purchase or sinking fund requirements for preferred stock.

C. Environmental

South Carolina Department of Health and Environmental Control (DHEC) regulations and various voluntary compliance orders entered into by the Company and DHEC required installation at the Company's baseload fossil-fuel plants by July 1, 1979 of continuous recording stack monitors to measure visual opacity of stack exhausts. The Company completed installation of the monitors at all its plants except for Unit No. 3 of Canadys Station where delays in delivery of construction materials prevented timely installation of the stack monitor. The Company estimates that the monitor can be installed during the latter part of August, 1979. DHEC has been notified of the delay and reasons therefor. The Company does not expect enforcement action by DHEC.

Item 9. Exhibits and Reports

A. Exhibits

1. Conformed copy of Thirty-second Supplemental Indenture with respect to Item 5(a)-(b).

B. Reports

There were no reportable events during the current quarter that required a Form 8-K to be filed.

1066 257

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
(Registrant)

/s/ T. M. Groetzinger
T. M. Groetzinger
Vice President & Controller

August 13, 1979

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934.

For Quarter Ended June 30, 1979 Commission File Number 1-3375

South Carolina Electric & Gas Company
(Exact name of registrant as specified in its charter)

South Carolina — (State or other jurisdiction of incorporation or organization)

57-0248695 — (I.R.S. Employer Identification No.)

328 Main Street, Columbia, South Carolina 29218
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (803) 799-1234

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securites Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x . No ____ .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common: 23,758,299

The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods reported.

1066 259

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SOUTH CAROLINA ELECTRIC & GAS COMPANY

INDEX

1066 241

PART I

FINANCIAL INFORMATION

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED BALANCE SHEETS
June 30, 1979 and 1978

(Unaudited)

ASSETS

	1979	1978
UTILITY PLANT (including construction work in progress; 1979 - \$467,855,852; 1978 - \$422,844,661) (Notes 1,3 and 4):		
Electric	\$1,539,567,513	\$1,403,653,267
Gas	134,882,770	131,960,746
Transportation (coach)	3,651,782	3,644,930
Common	14,061,218	12,836,980
Total	1,692,163,283	1,552,095,923
Less accumulated depreciation and amortization	315,831,874	283,591,227
Utility Plant, net (excluding nuclear fuel in trust)	1,376,331,409	1,268,504,696
Nuclear fuel in trust	40,237,565	32,915,004
Utility Plant, net	1,416,568,974	1,301,419,700
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property (substantially at cost)	9,690,327	2,447,421
Investment in, notes receivable and advances to subsidiary (Note 1)	11,802,285	17,754,851
Other investments and special funds (at cost or less)	86,471	145,721
Total Other Property and Investments	21,579,083	20,347,993
CURRENT ASSETS:		
Cash	2,365,811	4,222,261
Temporary cash investments	3,750,000	2,500,000
Special deposits	41,671,394	767,981
Receivables	44,667,172	43,454,093
Materials and supplies (at average cost or less):		
Fuel	69,208,682	48,882,194
Other	6,415,455	5,609,053
Prepayments	4,874,935	3,095,799
Total Current Assets	172,953,449	108,531,381
DEFERRED DEBITS:		
Unamortized debt expense	3,934,595	4,059,510
Other	15,707,493	11,426,275
Total Deferred Debits	19,642,088	15,485,785
TOTAL	\$1,630,743,594	\$1,445,784,859

See notes to consolidated financial statements

1066 262

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED BALANCE SHEETS
June 30, 1979 and 1978

(Unaudited)

LIABILITIES

	1979	1978
STOCKHOLDERS' INVESTMENT (Notes 5 and 6):		
Preferred stock	$ 153,036,000	$ 134,696,000
Common stock (Authorized 30,000,000 shares; Outstanding shares: 1979 - 23,758,299; 1978 - 22,070,467)	106,912,346	99,317,102
Premium on common stock	207,688,426	187,115,767
Other paid-in capital	4,243,848	4,197,992
Capital stock expense (debit)	(5,729,717)	(5,252,987)
Retained earnings:		
Unappropriated	119,352,036	[illegible]5,625,085
Appropriated	391,858	391,858
Total Stockholders' Investment	585,894,797	537,090,817
LONG-TERM DEBT (Note 3):		
Principal amounts	620,564,279	644,026,383
Less unamortized discount and premium, net	1,026,415	678,107
Long-Term Debt, net	619,537,864	643,348,276
Total Capitalization	1,205,432,661	1,180,439,093
NUCLEAR FUEL TRUST (Note 4)	40,237,565	32,915,004
CURRENT LIABILITIES:		
Short-term borrowings:		
Banks	1,757,300	2,321,900
Other	15,620,369	436,076
Accounts payable and customer rate refunds (Note 2)	32,435,899	33,258,360
Customer deposits	5,782,042	5,580,195
Taxes accrued	6,377,120	7,357,688
Interest accrued	15,720,212	13,954,642
Dividends declared	13,061,135	11,572,614
Current portion of long-term debt (Note 3)	115,634,817	9,537,790
Tax collections payable	847,072	803,962
Other	1,450,068	1,630,402
Total Current Liabilities	208,686,034	86,453,629
DEFERRED CREDITS:		
Accumulated deferred investment tax credits (Note 1)	61,862,372	46,771,987
Accumulated deferred income taxes (Note 1)	104,989,200	96,911,300
Other	9,535,762	2,293,846
Total Deferred Credits	176,387,334	145,977,133
COMMITMENTS AND CONTINGENCIES (Note 6)		
TOTAL	$1,630,743,594	$1,445,784,859

See notes to consolidated financial statements

1066 263

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED STATEMENTS OF INCOME

For the Periods Ended June 30, 1979 and 1978
(Unaudited)

	3 Mos. Ended June 30, 1979	3 Mos. Ended June 30, 1978	6 Mos. Ended June 30, 1979	6 Mos. Ended June 30, 1978	12 Mos. Ended June 30, 1979	12 Mos. Ended June 30, 1978
OPERATING REVENUES (Notes 1 and 2):						
Electric	$ 85,369,383	$ 86,352,830	$178,688,122	$179,291 480	$381,766,879	$365,688,137
Gas	29,575,454	22,594,830	67,875,051	55,65[illegible],159	114,029,298	94,910,564
Transportation (coach)	533,597	84,490	1,001,653	904,433	2,024,000	1,941,958
Total Operating Revenues	115,478,434	109,432,150	247,564,826	235,846,072	497,820,177	462,540,[illegible]59
OPERATING EXPENSES:						
Fuel used in electric generation	41,113,761	41,634,328	83,841,901	88,599,774	179,289,531	174,977,906
Power purchased, net (credit)	(2,262,813)	(655,411)	(2,178,506)	(5,136,28[illegible])	(2,466,325)	(6,245,803)
Gas purchased for resale	23,058,053	16,471,637	50,15[illegible],737	37,478,764	86,169,308	67,340,711
Other operation	11,877,655	9,784,366	23,521,830	18,970,501	44,119,344	38,178,163
Maintenance	6,464,656	5,892,022	11,272,883	10,161,554	22,319,037	18,867,129
Depreciation and amortization (Note 1)	8,932,464	7,996,200	17,882,164	15,913,800	34,[illegible]11,664	30,994,000
Amortization of storm damage expenses (Note 7)	64,833	-	64,833	-	64,833	-
Taxes (Note 1):						
Other than income	6,445,819	5,737,170	13,237,583	11,804,715	24,850,609	22,956,170
State income	394,600	638,800	1,201,300	2,062,100	3,325,400	4,563,600
Federal income (credit)	424,800	(1,547,400)	4,627,900	4,300,200	10,478,100	10,963,400
Provision for deferred income	2,980,700	3,656,000	7,272,700	7,277,800	14,737,131	14,817,536
Deferred taxes (credit)	(2,631,800)	(1,059,400)	(5,376,300)	(3,494,600)	(9,260,070)	(5,984,164)
Investment tax credit adjustments:						
Amount deferred	3,456,000	5,646,300	6,912,000	11,292,600	17,146,630	19,114,694
Amortization of amounts deferred (credit)	(266,944)	(199,[illegible]4)	(533,889)	(398,889)	(928,037)	(722,537)
Total Operating Expenses	100,051,784	93,995,[illegible]3	211,939,136	198,832,037	424,457,155	389,820,805
OPERATING INCOME	15,426,650	15,436,982	35,625,690	37,014,035	73,363,022	72,719,854
OTHER INCOME (Note 1):						
Allowance for funds used during construction - equity	4,073,363	5,246,925	7,972,264	10,188,021	16,124,374	19,353,253
Income tax-credit	2,338,700	2,561,700	4,660,400	5,080,600	9,791,800	9,789,400
Other income, net, less income taxes effects (debit)	(67,349)	17,400	63,731	214,027	572,435	(148,398)
Total Other Income	6,344,714	7,826,025	12,696,395	15,482,648	26,488,609	28,994,255
INCOME BEFORE INTEREST CHARGES	21,771,364	23,263,007	48,322,085	52,496,683	99,851,631	101,714,109
INTEREST CHARGES (Note 4):						
Interest on long-term debt	14,612,971	12,516,303	28,333,907	24,282,800	55,508,523	46,752,263
Amortization of debt premium, discount and expense, net	152,509	136,831	303,837	252,120	622,552	605,733
Other interest expense	1,246,314	535,308	2,524,769	1,391,854	3,631,863	2,677,786
Allowance for borrowed funds used during construction - (credit) (Note 1)	(3,119,481)	(2,821,972)	(6,088,215)	(5,275,[illegible]41)	(11,660,698)	(9,441,801)
Total Interest Charges	12,892,313	10,366,470	25,074,298	20,651,533	48,102,240	40,593,981
NET INCOME	8,879,051	12,896,537	23,247,787	31,845,150	51,749,391	61,120,128
DIVIDENDS ON PREFERRED STOCK	3,073,711	2,634,029	6,162,483	5,287,103	11,475,582	10,605,590
EARNINGS AVAILABLE FOR COMMON STOCK	$ 5,805,340	$ 10,262,508	$ 17,085,304	$ 26,558,047	$ 40,273,809	$ 50,514,538
AVERAGE COMMON SHARES OUTSTANDING	23,466,664	22,060,656	23,025,148	21,752,819	22,665,646	21,019,557
EARNINGS PER AVERAGE SHARE OF COMMON STOCK	$ .25	$ .47	$ .74	$1.22	$1.78	$2.40

See notes to consolidated financial statements

1066 264

SOUTH CAROLINA ELECTRIC & GAS COMPANY

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the Periods Ended June 30, 1979 and 1978
(Unaudited)

	6 Months Ended June 30, 1979	6 Months Ended June 30, 1978	12 Months Ended June 30, 1979	12 Months Ended June 30, 1978
UNAPPROPRIATED:				
Balance at beginning of period	$121,735,947	$107,897,373	$116,625,085	$ 99,770,551
ADD - Net income	23,247,787	31,845,150	51,749,391	61,120,128
Total	144,983,734	139,742,523	168,374,476	160,890,679
Deduct				
Cash dividends declared:				
Preferred stock	6,162,483	5,287,103	11,475,582	10,605,590
Common stock	19,469,215	17,830,335	37,546,858	33,660,004
Total Deductions	25,631,698	23,117,438	49,022,440	44,265,594
Unappropriated retained earnings at end of period (Note 5)	119,352,036	116,625,085	119,352,036	116,625,085
APPROPRIATED (Note 6):				
Balance at beginning of period	391,858	-	391,858	-
Transfer from amortization reserve	-	359,010	-	359,010
Current provision	-	32,848	-	32,848
Appropriated retained earnings at end of period	391,858	391,858	391,858	391,858
TOTAL RETAINED EARNINGS AT END OF PERIOD	$119,743,894	$117,016,943	$119,743,894	$117,016,943

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Periods Ended June 30, 1979 and 1978
(Unaudited)

	6 Months Ended June 30, 1979	6 Months Ended June 30, 1978	12 Months Ended June 30, 1979	12 Months Ended June 30, 1978
WORKING CAPITAL PROVIDED:				
Net income	$ 23,247,787	$ 31,845,150	$ 51,749,391	$ 61,120,128
Charges (credits) to income not providing or requiring working capital:				
Depreciation and amortization	17,882,164	15,913,800	34,611,664	30,994,000
Deferred income taxes, net	1,896,400	3,783,200	5,477,061	8,833,372
Investment tax credit, net	6,378,111	10,893,711	16,218,593	18,392,157
Allowance for funds used during construction (AFC)	(14,060,479)	(15,4[illegible]3,262)	(27,785,072)	(28,795,054)
Total from Operations	35,343,983	46,9[illegible]2,599	80,271,637	90,544,603
Nuclear fuel trust	[illegible]17,872	22,4[illegible]3,109	7,322,561	25,982,694
Sale of Securities:				
Mortgage bonds	83,[illegible],250	69,497,500	83,856,250	69,497,500
Pollution control revenue bonds	-	-	-	5,155,000
Preferred stock	15,000,000	-	35,000,000	-
Common stock	21,607,129	30,352,606	28,167,903	34,222,874
Decrease in:				
Other property and investments	328,436	-	-	27,386
Other non-current funds	6,993,761	1,170,286	6,677,990	-
Total Working Capital Provided	165,147,431	170,416,100	241,296,341	225,430,057
WORKING CAPITAL APPLIED:				
Utility plant additions (excluding AFC but including Nuclear Fuel Trust)	58,248,239	82,523,877	123,382,736	161,280,373
Cash Dividends:				
Preferred stock	6,162,483	5,287,103	11,475,582	10,605,590
Common stock	19,469,215	17,830,335	37,546,858	33,660,004
Reduction of long-term debt	68,699,813	1,466,851	108,810,412	3,496,330
Retirement of preferred stock	16,245,000	1,360,000	16,660,000	1,775,000
Increase in:				
Other property and investments	-	728,255	1,231,0[illegible]	-
Other non-current funds	-	-	-	1,858,098
Total Working Capital Applied	168,824,750	109,196,421	299,106,678	212,675,395
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,677,319)	$ 61,219,679	$(57,810,337)	$ 12,754,662
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT:				
Cash	$ (1,651,684)	$ 2,232,146	$ (1,856,450)	$ ([illegible],386,290)
Temporary cash investments	3,750,000	2,500,000	1,250,000	(6,500,000)
Receivables	(2,223,133)	(1,031,995)	1,213,079	4,061,081
Materials and supplies	7,872,318	(2,463,765)	21,132,890	16,074,254
Short-term borrowings	(7,047,262)	38,012,649	(14,619,693)	814,292
Current portion of long-term debt	(67,632,172)	(269,598)	(106,097,027)	(446,523)
Accounts payable and accruals	19,289,165	20,579,668	(1,515,685)	1,155,515
Other, net	43,965,449	1,660,574	42,682,549	(17,667)
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,677,319)	$ 61,219,679	$(57,810,337)	$ 12,754,662

See notes to consolidated financial statements

1066 265

SOUTH CAROLINA ELECTRIC & GAS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. System of Accounts

The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the South Carolina Public Service Commission (PSC).

B. Principles of Consolidation

The accounts of the Company's wholly-owned subsidiary, South Carolina LNG Company, Inc., are consolidated in the accompanying Consolidated Financial Statements.

The Company's investment in its wholly-owned subsidiary, Energy Subsidiary, Inc., is reported in the accompanying Consolidated Financial Statements using the equity method of accounting.

C. Utility Plant

Utility plant is stated at original cost. The cost of additions, renewals and betterments to utility plant, including direct labor, material and indirect charges for engineering, supervision, and an allowance for funds used during construction, are added to utility plant accounts. The original cost of utility property retired or otherwise disposed of is removed from utility plant accounts and along with the cost of removal, less salvage, is charged to accumulated depreciation. The cost of repairs, replacements and renewals of items of property determined to be less than a unit of property is charged to maintenance expense.

D. Allowance for Funds Used During Construction

Allowance for funds used during construction (AFC), a non-cash item, reflects the cost for the period of capital devoted to plant under construction. This cost represents interest charges on borrowed funds and a reasonable rate of return on equity funds so used. This accounting practice results in the inclusion, as a component of construction cost (construction work in progress), of amounts of AFC which will ultimately be included in rate base in establishing rates for utility charges. AFC was calculated using a 6.5% rate in 1979, 1978 and 1977 except for AFC related to nuclear fuel in trust which was capitalized at the actual amount thereof. (See Note 4 - Nuclear Fuel Trust)

E. Depreciation

The Company provides for depreciation for financial reporting purposes on a straight-line basis over the estimated useful lives of utility plant. Annual rates averaged 3.09% and 3.29% for the twelve months ended June 30, 1979 and 1978, respectively.

F. Income Taxes

Deferred income taxes, arising from the use of accelerated amortization and depreciation rather than straight-line tax depreciation, are charged to income currently with corresponding credits to accumulated deferred income taxes and are credited to income in appropriate amounts when subsequent income tax liabilities are greater as a result of this practice.

Income taxes are allocated to "Operating Expenses" or "Other Income." The income tax-credit under "Other Income" results from tax deductions related to interest expense arising principally from investments in construction work in progress.

1066 266

F. Income Taxes (Continued)

Investment tax credits on eligible property as provided by the Revenue Act of 1971 and the Tax Reduction Act of 1975 are being amortized over the lives of the respective assets.

The Company's Federal income tax returns have been examined through 1975.

G. Pension Plan

The Company has a pension plan covering all employees. Total pension contributions, including amortization of unfunded prior service cost, were approximately \$4.5 million and \$3.7 million for the twelve months ended June 30, 1979 and 1978, respectively. Unfunded prior service cost of approximately \$600 thousand, based on the latest actuarial valuation effective January 1, 1979, is being amortized over a twenty-year period ending in 1997.

The Company's policy is to fund pension costs accrued. There was an excess of approximately \$9.6 million of actuarially computed value of vested benefits over total plan assets based on the latest actuarial valuation.

H. Revenue Recognition

Customers' meters are read and bills are rendered on a monthly cycle basis. Base rate revenue is recorded during the accounting period when the meters are read. Revenue attributable to gas costs (to the extent collectible through adjustment clauses) is recorded in the month during which the gas is used rather than when the revenue is billed. Revenue attributable to any over or under collections of electric fuel costs in the base rates is recorded in current month revenues.

I. Debt Premium, Discount and Expense

Long-term debt premium, discount and expense are being amortized over the terms of the respective debt issues.

2. RATE MATTERS:

On December 13, 1977, the PSC issued an order which granted a portion of a requested electric retail rate increase and which required a refund of approximately \$7 million from net interchange sales to other utility companies, plus interest.

During January 1978, the Company appealed to and was granted a stay by the Court of Common Pleas for that portion of the PSC order requiring refund of the \$7 million. On January 29, 1979, the Supreme Court upheld the Court of Common Pleas' determination and remanded the case to the Court of Common Pleas to determine the substantive issue of whether or not the PSC had correctly ordered the Company to refund the \$7 million.

Since the refund ordered by the PSC has been eliminated from revenues and the amount thereof recorded as a liability, an adverse determination of the Company's appeal with respect thereto would not have a negative effect on the Company's Consolidated Financial Statements.

On June 15, 1979 the FERC approved a settlement agreement between the Company and its wholesale electric customers which increased revenues by \$1.45 million annually effective November 15, 1978 based on the test year ended December 31, 1978. This settlement resulted in a refund with interest of approximately \$417 thousand which was made in June, 1979.

1066 267

On June 1, 1979 the Company filed an application with the PSC to increase retail rates by 10.77% for electric and 6.05% for gas operations. Annually, these new rates would produce increases of approximately $38.9 million in electric revenues and $6.7 million in gas revenues, based on the test year ended March 31, 1979. The Company placed the new electric rates into effect on July 1, 1979 and plans to place the new gas rates into effect on November 1, 1979 with the revenues collected from both being subject to refund with interest to the extent not finally allowed.

3. LONG-TERM DEBT:

	June 30, 1979	June 30, 1978
	(Thousands of Dollars)	
First & Refunding Mortgage Bonds:		
3-1/8% Series, due 1979	$ 4,000	$ 4,000
10-1/2% Series, due 1979	35,000	35,000
3% Series, due 1980	22,200	22,200
3% Series A, due 1980	4,000	4,000
8.45% Series, due 1981	40,000	40,000
3-3/4% Series, due 1981	3,930	4,020
7% Series, due 1982	50,000	50,000
4-1/8% Series, due 1983	2,740	2,800
9-3/8% Series, due 1984	25,000	25,000
3-1/2% Series, due 1985	3,500	3,575
5-1/2% Series, due 1987	7,300	7,450
4-7/8% Series, due 1988	10,000	10,000
10-1/2% Series, due 1990	13,200	13,800
5% Series, due 1990	10,000	10,000
5% Series, due 1991	8,000	8,000
4-7/8% Series, due 1995	16,000	16,000
5.45% Series, due 1996	15,000	15,000
6% Series, due 1997	15,000	15,000
6-1/2% Series, due 1998	20,000	20,000
8% Series, due 1999	35,000	35,000
9-1/8% Series, due 1999	15,000	15,000
8% Series, due 2001	35,000	35,000
7-1/4% Series, due 2002	30,000	30,000
9-1/8% Series, due 2006	50,000	50,000
8.40% Series, due 2006	50,000	50,000
8-3/8% Series, due 2007	30,000	30,000
8.90% Series, due 2008	30,000	30,000
10-1/8% Series, due 2009	35,000	-
9-7/8% Series, due 2009	50,000	-
Pollution Control Facilties Revenue Bonds:		
4-1/2% Series, until October 1, 1979, thereafter 70% of applicable prime rate until October 1, 1981 and 75% of such prime rate until maturity, due 1987	5,155	5,155
5.95% Series, due 2003	7,500	7,500
First Mortgage Bonds:		
3-7/8% Series, due 1979	-	908
4% Series, due 1981	362	873
5% Consolidated Mortgage Gold Bonds, due 1999 (non-callable)	1,063	1,075
Unsecured Notes - Banks, due 1980 with interest not to exceed 7.625% over the term of the notes	45,000	45,000

1066 268

	June 30, 1979	June 30, 1978
	(Thousands of Dollars)	
First Mortgage Bonds - South Carolina LNG Co., Inc., 10-1/2% Series, due 1990	10,120	10,810
Capitalized lease obligations - vehicles	2,129	1,398
Total	736,199	653,564
Less current portion of long-term debt	115,635	9,538
Total	$620,564	$644,026

Substantially all utility plant is mortgaged in connection with the various issues of long-term debt. Approximately $6.8 million of the current portion of long-term debt at June 30, 1979 may be satisfied by deposit and cancellation of bonds issued upon the basis of bond retirement credits.

4. NUCLEAR FUEL TRUST:

A Trust Agreement dated September 30, 1976 and amended August 1, 1977 between the Company and The Citizens & Southern National Bank of South Carolina as Trustee provides for the financing of the Company's two-thirds ownership share (see Note 6) of the cost of nuclear fuel related to the initial core requirement of the V. C. Summer Nuclear Station. Pursuant to terms of the Agreement, the Company has assigned to the Trust certain contracts for purchase of nuclear fuel and the Trustee will borrow necessary funds up to an aggregate amount of $42 million to purchase the fuel and to make interest payments (at 109% of prime rate plus 1/4 of 1%) when due. The Company is unconditionally obligated to repurchase the fuel from the Trust either prior to initial loading of fuel into the reactor or no later than June 30, 1980. For financial reporting purposes, purchases by the Trust are assumed to have been made on behalf of the Company and the amounts expended by the Trustee (approximately $38.9 million and $32.9 million through June 30, 1979 and 1978, respectively) and certain fees, etc. accrued by the Company (approximately $1.3 million at June 30, 1979 and none at June 30, 1978) are included in the accompanying Consolidated Financial Statements.

Pursuant to Staff (of the Securities and Exchange Commission) Accounting Bulletin No. 28, the Company has included in its 1979 Consolidated Statement of Income and has restated its 1978 Consolidated Statement of Income to include approximately $4.8 million and $1.6 million for the twelve months ended June 30, 1979 and 1978, respectively, representing interest and related fees in "Interest on long-term debt." Such amounts were offset by a like increase in "Allowance for borrowed funds used during construction - credit." This change had no effect on "Net Income."

5. STOCKHOLDERS' INVESTMENT:

	June 30, 1979	June 30, 1978
	(Thousands of Dollars)	
Common Stock:		
$4.50 par value; Authorized - 30,000,000 shares; Outstanding, 1979 - 23,758,299 shares; 1978 - 22,070,467 shares	$106,912	$ 99,317
Preferred Stock:		
Cumulative $100 par value; Authorized, 1979 - 1,750,000 shares; 1978 - 1,000,000 shares:		
6-7/8% Series (Outstanding 150,000 shares)	-	$ 15,000

1066 269

	June 30, 1979	June 30, 1978
	(Thousands of Dollars)	
7.70% Series (Outstanding, 1979 - 135,000 shares; 1978 - 137,400 shares)	$ 13,500	13,740
8.12% Series (Outstanding, 1979 - 193,600 shares; 1978 - 198,000 shares)	19,360	19,800
8.40% Series (Outstanding 200,000 shares)	20,000	20,000
10-3/4% Series (Outstanding 200,000 shares)	20,000	20,000
Cumulative $50 par value; Authorized, 1979 - 1,944,420 shares; 1978 - 1,957,120 shares:		
4.50% Series (Outstanding, 1979 - 43,200 shares; 1978 - 44,800 shares)	2,160	2,240
4.60% Series (Outstanding, 1979 - 26,334 shares; 1978 - 27,834 shares)	1,317	1,392
4.60% Series A (Outstanding, 1979 - 58,052 shares; 1978 - 60,052 shares)	2,902	3,002
4.60% Series B (Outstanding, 1979 - 129,200 shares; 1978 - 132,600 shares)	6,460	6,630
5% Series (Outstanding 125,234 shares)	6,262	6,262
5.125% Series (Outstanding, 1979 - 88,000 shares; 1978 - 89,000 shares)	4,400	4,450
6% Series (Outstanding, 1979 - 134,400 shares; 1978 - 137,600 shares)	6,720	6,880
8% Series (Outstanding 300,000 shares)	15,000	-
8.72% Series (Outstanding 400,000 shares)	20,000	-
9.40% Series (Outstanding, 1979 - 299,100 shares; 1978 - 306,000 shares)	14,955	15,300
Cumulative $25 par value; Authorized 2,000,000 shares; Outstanding - None	-	-
Total	$153,036	$134,696

The call premium of the respective series of preferred stock in no case exceeds the amount of the annual dividend.

The amount of purchase fund or sinking fund requirements for preferred stock for the succeeding twelve months is approximately $1.7 million at June 30, 1979.

Increases in "Premium on common stock" for the twelve months ended June 30, 1979 ($20.6 million) and June 30, 1978 ($25.6 million) represent the premium on issuance of 1,687,832 and 1,914,117 shares of stock, respectively.

Increases in "Other paid-in capital" for the twelve months ended June 30, 1979 ($46 thousand) and June 30, 1978 ($16 thousand) consist of gains on the reacquisition of 6,800 and 8,000 shares of preferred stock, respectively.

Increases in "Capital stock expense" for the twelve months ended June 30, 1979 ($477 thousand) and June 30, 1978 ($223 thousand) represent expenses in connection with the issuance of common stock ($38 thousand and $251 thousand for the twelve months ended June 30, 1979 and 1978, respectively) and preferred stock ($467 thousand for the twelve months ended June 30, 1979 and none for the twelve months ended June 30, 1978) less $28 thousand for each of the twelve month periods ended June 30, 1979 and 1978, due to retirement of preferred stock through purchase funds and sinking funds.

The Restated Articles of Incorporation of the Company and the indentures underlying certain bond issues contain certain provisions that limit the payment of cash dividends on common stock. The most restrictive of these provisions would have permitted the payment of approximately $116.9 million of cash dividends on common stock at June 30, 1979.

6. COMMITMENTS AND CONTINGENCIES:

A. Construction

In addition to routine commitments of approximately $14.0 million for operating materials and supplies, the Company at June 30, 1979 had commitments for major construction (including nuclear fuel) of approximately $81.7 million (includes one-third interest of South Carolina Public Service Authority) for construction of the V. C. Summer Nuclear Station.

The Company and the South Carolina Public Service Authority (a public corporation of the State of South Carolina) have contracted to become joint owners at the V. C. Summer Nuclear Station on the basis of two-thirds by the Company and one-third by the Authority and to participate, on a like basis, in the costs of construction, costs of operation and in the energy output thereof. The Company's share (approximately $413.2 million and $329.9 million at June 30, 1979 and 1978, respectively) of costs of construction of the nuclear station, which is scheduled for completion in 1980, is included in construction work in progress. Each owner is responsible for financing its own share of the nuclear station.

The Company has made a timely application for an operating license for the V. C. Summer Nuclear Station and the Nuclear Regulatory Commission has granted a petition to intervene in such proceeding to a resident of Fairfield County on environmental and safety grounds. The Company is unable to predict at this time whether proceedings by regulatory and governmental bodies would delay the issuance of such license beyond the date of scheduled operation.

B. Licensed Projects

Licenses granted by the FERC with respect to the hydroelectric projects of the Company provide that after an initial twenty-year period a portion of the earnings on such projects in excess of a specified rate of return is to be set aside in appropriated retained earnings.

The Company is licensee for five hydroelectric projects. The initial license for two of the projects (Columbia and Saluda) expired in 1970 and 1977, respectively, with the Company continuing operations under annual licenses.

7. AMORTIZATION OF STORM DAMAGE EXPENSES:

During February 1979 the Company encountered two severe ice storms in its service area resulting in approximately $2.3 million in storm related expenses. On May 31, 1979 the PSC authorized the Company to amortize these expenses over a three-year period beginning in June 1979. The recoverability of these expenses is to be considered in connection with the Company's pending rate increase applications.

8. RECLASSIFICATIONS:

Certain reclassifications, related to the Nuclear Fuel Trust, have been made in the accompanying Consolidated Financial Statements for 1978. (See Note 4 - Nuclear Fuel Trust)

SOUTH CAROLINA ELECTRIC & GAS COMPANY

MANAGEMENT'S ANALYSIS AND DISCUSSION OF OPERATIONS

Comparison of the Second Quarter Ended June 30, 1979, with the Corresponding Quarter in 1978.

(a) Total operating revenues for the second quarter ended June 30, 1979, increased $6.0 million over the corresponding quarter in 1978. Revenues from the sale of electrical energy decreased $1.0 million, while revenues from the sale of natural gas increased $7.0 million. The decrease in electric revenues is attributable to a decrease in the sale of electrical energy to other utilities (sales for resale) and decreased energy consumption by residential customers. The decrease in sales for resale is primarily attributable to the expiration of a contract on February 9, 1979 with Georgia Power Company for the sale of 75,000 KW of firm power. Even with the continued growth in customers, residential usage decreased primarily because average temperatures experienced during the current quarter were lower than those in the corresponding quarter in 1978. Such lower temperatures had the effect of reducing energy consumption for air conditioning. The increase in revenues from the sale of natural gas can be attributed to the recovery of the increased cost of gas from the Company's supplier, which is passed along to gas customers through the gas cost adjustment clause, and to increased consumption by gas customers.

(b) Electric consumption decreased as follows: residential - 2.1%, sales for resale - 31.3%. Commercial, industrial and other consumption increased by 1.9%, 6.0% and 3.0%, respectively. Natural gas consumption had an overall increase of 3.0%.

(c) Operation and maintenance expenses, excluding taxes and depreciation, for the second quarter ended June 30, 1979, showed an increase of $7.1 million over the corresponding quarter in 1978 as detailed below:

All Amounts Shown in Millions of Dollars	Quarter Ended 6-30-78	Quarter Ended 6-30-79	Change
Fuel Used in Electric Generation	$41.6	$41.1	$(.5)
Net Purchased Power	(.7)	(2.3)	(1.6)
Gas Purchased for Resale	16.5	23.0	6.5
Other Operation	9.8	11.9	2.1
Maintenance	5.9	6.5	.6
Total	$73.1	$80.2	$ 7.1

As shown above, fuel used in electric generation decreased $.5 million due to an overall decrease in consumption of energy by electric customers. Net purchased power, due to increased deliveries of electrical power to other utilities, had the effect of decreasing operating expenses by $1.6 million. The increase in gas purchased for resale of $6.5 million is due to the continued upward trend in the price of natural gas and increased consumption

by gas customers. Other operation and maintenance expenses combined for an increase of $2.7 million. This increase can be attributed to continued inflationary pressures on wages and material costs and to the completion of the Company's Fairfield Pumped Storage Project (four units were placed into commercial operation in June 1978 and the remaining four units were placed into commercial operation in December 1978). See Note 7, "Amortization of Storm Damage Expenses" of "Notes to Consolidated Financial Statements" for the accounting of expenses incurred due to the ice storms that occurred in the Company's service area during February 1979.

Comparison of the Second Quarter Ended June 30, 1979, with the Preceding Quarter Ended March 31, 1979.

(d) The Company is of the opinion that current quarter data and preceding quarter data may not be directly comparable because the operating results of the Company are subject to seasonal changes in weather conditions.

(e) Total operating revenues for the second quarter ended June 30, 1979 showed a decrease of $16.6 million from the preceding quarter ended March 31, 1979. Revenues from the sale of electrical energy decreased $7.9 million, while revenues from the sale of natural gas decreased $8.7 million. The decrease in electric revenues is primarily attributable to two factors: (1) decreased consumption of energy by electric heating customers, and (2) the usual increase in energy consumption for air conditioning was adversely affected because the average temperature for May and June 1979 was below normal. The decrease in revenues from the sale of natural gas is primarily attributable to the decrease in consumption by gas heating customers.

(f) Electric consumption decreased as follows: residential 26.5%, commercial 5.4%, sales for resale 23.2%, and other 1.2%. Industrial consumption increased by 7.1%. Natural gas consumption had an overall decrease of 18.5%.

(g) Operation and maintenance expenses, excluding taxes and depreciation, for the second quarter ended June 30, 1979 showed a decrease of $6.2 million from the preceding quarter ended March 31, 1979, as detailed below:

All Amounts Shown in Millions of Dollars	Quarter Ended 3-31-79	Quarter Ended 6-30-79	Change
Fuel Used in Electric Generation	$42.7	$41.1	$(1.6)
Net Purchased Power	.1	(2.3)	(2.4)
Gas Purchased for Resale	27.1	23.0	(4.1)
Other Operation	11.7	11.9	.2
Maintenance	4.8	6.5	1.7
Total	$86.4	$80.2	$(6.2)

1066 274

As shown above, fuel used in electric generation decreased $1.6 million due to the decreased consumption of energy by electric customers. Net purchased power, due to increased deliveries of electrical power to other utilities, had the effect of decreasing operating expenses by $2.4 million. Gas purchased for resale decreased $4.1 million due to a decrease in consumption by gas heating customers. Other operations and maintenance expenses combined for an increase of $1.9 million due to increased activity in scheduled maintenance. See Note 7, "Amortization of Storm Damage Expenses" of "Notes to Consolidated Financial Statements" for the accounting of expenses incurred due to the ice storms that occurred in the Company's service area during February 1979.

Comparison of Six Months Ended June 30, 1979, with the Corresponding Period in 1978.

(h) Total operating revenues for the six months period ended June 30, 1979 increased $11.7 million over the corresponding period for 1978. Revenues from the sale of electrical energy decreased $.6 million and revenues from the sale of natural gas increased $12.3 million. The decrease in electric revenues is primarily attributable to milder than normal weather in the first quarter of 1979 which reduced consumption for heating and lower than average temperatures experienced during May and June of the second quarter in 1979 which reduced consumption for air conditioning. Additionally, electric revenues were adversely affected by two severe ice storms during February 1979, which interrupted electric service, and by the expiration of a contract on February 9, 1979 with Georgia Power Company for the sale of 75,000 KW of firm power. The increase in revenues from the sale of natural gas is attributable to increased consumption by gas customers and the recovery of the increased cost of gas from our supplier through the Company's gas cost adjustment clause.

(i) Electric consumption decreased as follows: residential 3.3%, sales for resale 29.0%. Commercial, Industrial and Other consumption increased .2%, 5.3% and 5.8%, respectively. Consumption of natural gas showed an overall increase of 4.0%.

(j) Operation and maintenance expenses, excluding taxes and depreciation, for the six months period ended June 30, 1979, increased $16.6 million over the corresponding period in 1978 as detailed below:

All Amounts Shown in Millions of Dollars	6 Months Ended 6-30-78	6 Months Ended 6-30-79	Change
Fuel Used in Electric Generation	$ 88.6	$ 83.9	$(4.7)
Net Purchased Power	(5.1)	(2.2)	2.9
Gas Purchased for Resale	37.5	50.2	12.7
Other Operation	19.0	23.5	4.5
Maintenance	10.1	11.3	1.2
Total	$150.1	$166.7	$16.6

As shown above, fuel used in electric generation decreased $4.7 million due to the decrease in consumption of electrical energy by other utilities

(sales for resale) and residential customers. Net purchased power, due to decreased deliveries of electric power to other utilities, had the effect of increasing operating expenses by $2.9 million. Gas purchased for resale showed an increase of $12.7 million due primarily to increased consumption by gas customers and the increased cost of natural gas from the Company's supplier. Continuing inflationary pressures on wages and material costs and the completion of the Company's Fairfield Pumped Storage Project (see paragraph (c)) combined to increase other operation and maintenance expenses by $5.7 million. See Note 7, "Amortization of Storm Damage Expenses" of "Notes to Consolidated Financial Statements" for the accounting of expenses incurred due to the ice storms that occurred in the Company's service area during February 1979.

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Part II

OTHER INFORMATION

Item 1. Legal Proceedings.

On January 29, 1979 the South Carolina Supreme Court ruled that the Company's petition to the South Carolina Public Service Commission (PSC) for a rehearing regarding the order by the PSC to refund $7.0 million (see Note 2, "Rate Matters" of "Notes to Consolidated Financial Statements") was timely filed, and the Company's appeal could be heard by the Court of Common Pleas. Arguments on the Company's appeal were heard on June 25, 1979, and the Company is awaiting a decision.

Items 2 to 4, inclusive, are not applicable.

Item 5. Increase in Amount Outstanding of Securities or Indebtedness.

(a) - (b) On May 23, 1979 the Board of Directors of the Company authorized an issue of $50,000,000 principal amount of First and Refunding Mortgage Bonds, 9-7/8% Series due June 1, 2009. Such bonds were issued on June 13, 1979 under a Thirty-second Supplemental Indenture dated as of June 1, 1979 (see Exhibit 1). Bonds in the principal amount of $716,445,000 had been previously issued under and pursuant to the terms of the Indenture of South Carolina Power Company (assumed by South Carolina Electric & Gas Company) dated as of January 1, 1945, as supplemented; and the principal amount of bonds last reported outstanding was $614,870,000 and as of July 1, 1979, $575,870,000 principal amount of bonds was outstanding exclusive of the $50,000,000 issued as indicated above.

The aggregate net cash proceeds from the Company's offering and sale of $50,000,000 principal amount of First and Refunding Mortgage Bonds 9-7/8% Series due June 1, 2009 was approximately $49,250,000, plus accrued interest from June 1, 1979, and before deduction of expenses estimated at $107,000.

(c) The names of the principal underwriters, none of which are affiliates of the Company, are as follows:

Kidder, Peabody & Co., Incorporated
Bache Halsey Stuart Shields Inc.
The First Boston Corporation
Bear, Stearns & Co.
Blyth Eastman Dillon & Co. Inc.
Dillon, Read & Co. Inc.
Donaldson, Lufkin & Jenrette Securities Corporation.
Goldman, Sachs & Co.
E. F. Hutton & Company
Lazard Freres & Co.
Lehman Brothers Kuhn Loeb Inc.
Loeb Rhoades, Hornblower & Co.
Robert Fleming Incorporated
Ladenburg, Thalmann & Co., Inc.
Moseley, Hallgarten, Estabrook & Weeden, Inc.
New Court Securities Corporation
Nomura Securities International, Inc
Oppenheimer & Co., Inc.
Stuart Brothers
Thomson McKinnon Securities Inc.
Tucker, Anthony & R. L. Day, Inc.
Wheat, First Securities, Inc.
American Securities Corporation
Dain, Kalman & Quail, Incorporated

1066 277

(c) Underwriters (Continued)

Merrill Lynch, Pierce, Fenner & Smith Incorporated
Paine, Webber, Jackson & Curtis Incorporated
L. F. Rothschild, Unterberg, Towbin
Salomon Brothers
Smith Barney, Harris Upham & Co.
Shearson Hayden Stone Inc. Incorporated
Warburg Paribas Becker Inc.
Wertheim & Co., Inc.
Dean Witter Reynolds Inc.
The Robinson-Humphrey Company, Inc.
ABD Securities Corporation
Atlantic Capital Corporation
Basle Securities Corporation
J. C. Bradford & Co.
Alex. Brown & Sons
A. G. Edwards & Sons, Inc.
Fahnestock & Co.
Frost, Johnson, Read & Smith, Inc.
Interstate Securities Corporation
Johnson, Lane, Space, Smith & Co., Inc.
Laidlaw Adams & Peck Inc.
McCarley & Company, Inc.
Wm. E. Pollock & Co., Inc.
McDonald & Company
Prescott, Ball & Turben, Inc.
Anderson & Strudwick, Incorporated
Craigie Incorporated
First Southwest Company
Freeman Securities Company, Inc.
Herzfeld & Stern
Howard, Weil, Labouisse, Friedrichs Incorporated
Kirkpatrick, Pettis, Smith, Polian Inc.
Thomas & Company, Inc.
Burton J. Vincent, Chesley & Co.

(d) Of the approximately $49,250,000 net proceeds from 2009 Series A Bonds, $39,000,000 was applied to the payment at maturity of $4,000,000 principal amount of a 3-1/8% Series and $35,000,000 principal amount of a 10-1/2% Series of First and Refunding Mortgage Bonds, due July 1, 1979. The balance of such net proceeds will be used to retire a like amount of the Company's short-term indebtedness incurred or to be incurred as a result of construction expenditures.

(e) These securities are registered under the Securities Act of 1933, as amended.

Item 6 is not applicable.

Item 7. Submission of Matters to a Vote of Security Holders

(a) The annual meeting of stockholders of the Company was held on April 25, 1979. In order to provide sufficient time for the receipt of additional proxies concerning a proposed amendment to the Company's Restated Articles of Incorporation, the meeting was adjourned until 11:00 a.m. on May 23, 1979 at which time the remaining business was completed and the annual meeting adjourned.

(b) The following individuals were elected Directors of the Company to serve until the next annual meeting: J. K. Addy, W. B. Bookhart, Jr., W. R. Bruce, Sr., K. W. French, J. B. Guess, III, B. A. Hagood, J. F. Hassell, Jr., Avram Kronsberg, J. H. Lumpkin, F. C. McMaster, E. W. Pike, Jr., J. B. Rhodes, J. E. Schachte, Jr., V. C. Summer, W. H. Taylor, A. M. Williams, and O. S. Wooten.

(c) 1. The adoption of the resolution that all actions taken by the directors and officers of the Company from April 26, 1978 to May 23, 1979 be ratified, confirmed, and approved in every respect. Holders of 17,150,216 shares of common stock voted in person or by proxy in favor of the resolution and there were no votes cast against the resolution.

1066 278

2. Article V of the Company's Restated Articles of Incorporation was amended to increase the authorized number of shares of $100 par value preferred stock which the Company may issue from 1,000,000 to 1,750,000 shares. Article V as amended is as follows:

"The total number of shares which the Company shall be authorized to issue is 35,698,020, of which 2,000,000 shall be Preferred Stock of the par value of $25 per share, issuable in series, 1,948,020 shall be Preferred Stock of the par value of $50 per share, issuable in series, 1,750,000 shall be Preferred Stock of the par value of $100 per share, issuable in series, and 30,000,000 shall be Common Stock of the par value of $4.50 per share."

The vote on the amendment was 16,917,978 in favor of and 410,979 against.

Item 8. Other Materially Important Events.

A. Rate Matters

On June 1, 1979 the Company filed with the PSC an application for a rate increase for substantially all of its electric retail customers and an application for a rate increase for substantially all of its gas customers. The electric rate application seeks an increase of approximately 10.77% of base revenues, which would produce additional revenues of approximately $38,891,000 annually based on the Company's operations for the test year ended March 31, 1979. The Company placed this increase in effect on July 1, 1979, subject to refund with interest to the extent not finally allowed. The gas rate application seeks an increase of approximately 6.05% of gas revenues, which would produce additional revenues of approximately $6,749,000 annually based on the Company's operations for the test year ended March 31, 1979. The Company plans to place this increase in effect on November 1, 1979, subject to refund with interest to the extent not finally allowed.

There can be no assurance that all or any part of the requested increases will be granted.

On June 15, 1979 the FERC approved a settlement agreement between the Company and its wholesale electric customers which increased revenues by $1.45 million annually effective November 15, 1978 based on the test year ended December 31, 1978. This settlement resulted in a refund with interest of approximately $417 thousand which was made in June 1979.

B. Construction

The Company has revised its construction program to defer the in-service date for two proposed 550 MW coal-fired units from the mid-1980's to the latter part of the 1980's. It also plans to retain in service 131 MW of internal combustion turbines used for peak load generation

previously scheduled for retirement in 1981 and to add as peaking units 300 MW of internal combustion turbines in the mid-1980's. As a result, the Company's previously announced $804 million construction program for the years 1980-1983 will be reduced by $349 million.

The Company's construction program, which is subject to continuing review and adjustment, for 1979 and for the four-year period 1980-1983 as now scheduled involves costs estimated as follows (estimates include allowance for funds used during construction estimated at $24,751,000 for 1979 and $37,083,000 for the 1980-1983 period and the cost of nuclear cores, estimated at $95,093,000 for the 1979-1983 period):

Type of Facilities	1979	1980-1983
	(thousands of dollars)	
Electric		
Generation	$ 97,717	$212,626
Transmission	20,484	68,924
Distribution	29,836	143,410
Other	4,976	10,600
Total Electric	153,013	435,560
Gas	7,187	19,214
Transportation (Coach)	287	301
Total Construction	$160,487	$455,075

In addition to the cash requirements for its construction program, during the years 1980-1983 the Company has an aggregate of $203,019,000 of long-term debt maturing (including sinking fund maturities, of which $27,784,000 are expected to be satisfied by certifying property additions) and $10,760,000 of purchase or sinking fund requirements for preferred stock.

C. Environmental

South Carolina Department of Health and Environmental Control (DHEC) regulations and various voluntary compliance orders entered into by the Company and DHEC required installation at the Company's baseload fossil-fuel plants by July 1, 1979 of continuous recording stack monitors to measure visual opacity of stack exhausts. The Company completed installation of the monitors at all its plants except for Unit No. 3 of Canadys Station where delays in delivery of construction materials prevented timely installation of the stack monitor. The Company estimates that the monitor can be installed during the latter part of August, 1979. DHEC has been notified of the delay and reasons therefor. The Company does not expect enforcement action by DHEC.

Item 9. Exhibits and Reports

A. Exhibits

1. Conformed copy of Thirty-second Supplemental Indenture with respect to Item 5(a)-(b).

B. Reports

There were no reportable events during the current quarter that required a Form 8-K to be filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
(Registrant)

/s/ T. M. Groetzinger
T. M. Groetzinger
Vice President & Controller

August 13, 1979

5.b. Describe aspects of the company's regulatory environment including, but not necessarily limited to, the following: test year utilized (describe nature and timing); prescribed treatment of allowance for funds used during construction and of construction work in progress (indicate percentage and amount included in rate base); form of rate base (original cost, fair value, other (describe); accounting for deferred income taxes and investment tax credits; and fuel adjustment clauses in effect or proposed.

RESPONSE

Test Period: Historical; latest 12 month period for which data is available; some post test period adjustment allowed.

Rate Base: End of period original cost; period end construction work in progress (100%) in rate base with the allowance for funds used during construction generated, in the test period, by such construction included in operating return.

Accounting: Normalization utilized for tax timing differences: Investments tax credits normalized and amortized over life of property.

Fuel Adjustment Clauses:

Retail - Fuel component in rates is set by the commission, after hearing, based on projected fuel cost.

Wholesale - As prescribed by Part 35.14 of the Regulations under the Federal Power Act.

5.c. Describe the nature and amount of the Company's most recent rate relief action and the anticipated effect on revenues. In addition, indicate the nature, status, and amount of any pending rate relief proceedings, if any. Use the attached form to provide this information. Provide copies of the hearing examiner's report and recommendation and the interim and final rate orders and opinions, including all exhibits referred to therein. Provide copies of the submitted, financially-related testimony and exhibits of the staff and company in the most recent rate relief action or pending rate relief request.

RESPONSE

See following page and document.

ATTACHMENT FOR ITEM NO. 5.c.

RATE DEVELOPMENTS

Granted:	Electric(1)	Gas	Steam
Test year utilized	12 Months ending Dec. 31, 1976		
Annual amount of revenue increase requested test year basis (000's)	$ 30,364		
Date petition filed	Nov. 12, 1976		
Annual amount of revenue increase allowed-test year basis (000's)	$ 21,797		
Percent increase in revenues allowed	9.54%		
Date of final order	Dec. 13, 1977		
Effective date	Dec. 13, 1976		
Rate base finding (000's)	$865,401		
Construction work in progress included in Rate base (000's)	$319,668		
Rate of return on rate base authorized	9.33%		
Rate of return on common equity authorized	13.0 %		

Revenue Effect (000's)

Amount received in year granted	$ 16,722 (2)
Amount received in subsequent year (If not available, annualize amounts received in year granted)	$ 23,649

Pending Requests

	Electric	Gas
Test year utilized	12 Months ending March 31, 1979	12 Months ending March 31, 1979
Amount (000's)	$ 38,981	$ 6,749
Percent increase	10.77%	6.05%
Date petition filed	June 1, 1979	August 31, 1979 (3)
Date by which decision must be issued	July 2, 1980	January 2, 1980
Rate of return on rate base requested	9.60%	9.60%
Rate of return on common equity requested	13.00%	13.00%
Amount of rate base requested (000)	$1,172,844	$88,624
Amount of construction work in progress requested for inclusion in rate base (000)	$ 382,757	$ 592

(1) Applicable to S. C. retail operations only.

(2) Granted increase was reduced by $6,926,692 in year granted for revenue due to purchase and interchange power transactions.

(3) Original petition filed June 1, 1979. Amended petition filed August 31, 1979.

POOR ORIGINAL

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NOS. 76-645-E and 18,362 - ORDER NO. 77-831

December 13, 1977

IN RE: Application of South Carolina Electric & Gas Company for Approval of Revised Rate Schedules, Tariffs and Contracts	)	ORDER APPROVING RATES AND CHARGES
and	)	
IN RE: South Carolina Electric & Gas Company Electric Fuel Adjustment Clause.	)	

I.

INTRODUCTION

This matter comes before the South Carolina Public Service Commission ("the Commission") by way of an Application filed on November 12, 1976, by South Carolina Electric & Gas Company ("the Company"), seeking the approval of certain proposed rate schedules, tariffs and contracts for the electrical services rendered by the Company. The revised rates and charges represented an approximate 13.25% increase in the Company's previously approved base rates.[1] According to the Company's Application, the proposed rates and charges would have produced additional revenues of some $30,363,500 had they been in effect for the twelve months period ending December 31, 1976. The Company proposed to place the revised rates and charges in effect for service rendered on and after December 13, 1976.

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[1] See, Order Nos. 18,394 and 18,427, issued in Docket Nos. 17,577 and 17,711, on June 16 and June 25, 1975, respectively; and, Order No. 19,002, issued in Docket No. 18,362, on February 4, 1976.

1066 285

On November 16, 1976, the Commission issued its Order No. 19,703, in the instant Docket, whereby the Commission suspended the effective date of the proposed rates and charges for a period of one year, until December 13, 1977, unless in the meantime the Commission rendered its final Order making disposition of the issues raised by the Company's Application. The Commission's action was authorized by S. C. Code Ann., § 58-27-870 (1976).[2]

On November 29, 1976, the Company filed a Petition with the Commission, stating the Company's intention of placing a portion of the proposed increase in rates and charges in effect for service rendered on and after December 13, 1976, pursuant to an Undertaking, as authorized by S. C. Code Ann., § 58-27-880 (1976).[3] The Company's Petition was accompanied by an Undertaking, under the terms of which the Company declared itself bound to refund to its customers such refunds as might be ordered upon the final determination by the Commission in this proceeding. The effect of the Company's Petition was a 10.66% increase in the Company's base rates.

On December 1, 1976, the Commission issued its Order No. 19,736, in which the Commission, after a review of the Undertaking and of the Company's financial solvency and net worth, found the Undertaking to be sufficient to protect the interests of the Company's customers and of the public and to secure such refunds with interest as might be ordered

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[2] Formerly, S. C. Code Ann., § 24-37 (1962), as amended.

[3] Formerly, S. C. Code Ann., § 24-38 (1962), as amended.

POOR ORIGINAL

by the Commission after hearing. The Commission thereupon approved the Company's Undertaking and required the Company to publish notice of the implementation of the rates and charges in effect under bond. The Company subsequently filed copies of retail electric rate schedules to reflect the 10.66% increase in effect under bond.

On December 21, 1976, the Commission issued its Order No. 19,776, whereby the Commission established twelve months ending December 31, 1976, as the appropriate test year period for consideration in this proceeding. The Company was ordered to file its financial exhibits and information to reflect the Commission's determination of the test year period. The date of March 1, 1977, was established for the submission of such material.

The Commission staff, pursuant to R.103-853 of the Commission's Rules of Practice and Procedure, filed with the Commission, and served on the Company, Information Data Requests on January 3, 1977, and February 8, 1977, seeking to secure certain additional information relative to the Company's Application. On April 1, 1977, the Company submitted to the Commission and the staff its responses to the Staff's Information Data Requests.[4]

On March 17, 1977, the Commission issued its Order No. 77-197, in which the Commission directed the Company to file on or before April 15, 1977, the prepared testimony and exhibits which were to be offered by the Company in the public hearing in this matter. On April 15, 1977, the

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[4] The Company's Responses were introduced in evidence during the hearing in this proceeding. See, Hearing Exhibit No. 2.

POOR ORIGINAL

Company filed the prepared testimony and exhibits to be offered in the proceeding, in compliance with Order No. 77-197 and R.103-869C. The testimony and exhibits filed by the Company included certain alternate rate schedules.[5]

On March 31, 1977, the Commission's Executive Director directed the Company to cause to be published a prepared Notice of Filing once a week for three consecutive weeks in newspapers of general circulation in the Company's service area. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties desiring to participate in the proceeding to file the appropriate pleading on or before May 25, 1977. The Company was likewise instructed to notify directly all customers affected by the Application. On May 17, 1977, the Company furnished affidavits indicating that the Notice of Filing had been duly published in accordance with the instructions of the Executive Director.[6] In addition, the Company certified that the Notice of Filing had been mailed to each affected customer.

On June 8, 1977, the Commission staff ("the staff") filed a Petition proposing a schedule of rates for the consideration of the Commission in addition to the Company's original rate schedules and to the alternate rate schedules filed by the Company. The staff's Petition likewise sought

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[5] See, Section XIII, infra.

[6] The Notice of Filing was published in Vol. I, No. 2 of the State Register, dated April 22, 1977.

POOR ORIGINAL

the consolidation of the public hearing in the instant proceeding with the regular semi-annual hearing relative to the operation of the Company's fuel adjustment clause.[7] On June 8, 1977, the Commission issued Order No. 77-425 whereby the relief requested by the staff in the form of the consolidation of the respective proceedings was granted. The Commission further ordered that public notice be given of this consolidation and of the scheduled date for the commencement of the hearing in this proceeding. The Executive Director subsequently directed the Company to publish a prepared Notice of Hearing in newspapers of general circulation in the same manner as the previously published Notice of Filing. The Notice of Hearing indicated the consolidation of the general ratemaking proceeding with the fuel adjustment clause matter, noted the three separate rate schedules filed for the consideration of the Commission, and indicated that a public hearing had been scheduled to begin on July 12, 1977.[8] The Notice of Hearing was provided to all intervenors and protestants to the proceeding on June 9, 1977. The Notice of Hearing was likewise published in the State Register.[9]

On June 14, 1977, the staff filed an amendment to its Petition of June 8, 1977, making a revision in the Schedule A attached thereto.

On June 20, 1977, the Company filed a Petition seeking certain relief in the nature of an order establishing a date for the filing and service of testimony and exhibits

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[7] See, Order No. 19,002, issued in Docket No. 18,362, on February 4, 1976.

[8] See, Hearing Exhibit No. 88.

[9] Vol. I, No. 5, dated June 20, 1977.

POOR ORIGINAL

POOR ORIGINAL

by the Commission staf. and by the various intervenors. On June 28, 1977, the Commission issued its Order No. 77-48_, whereby the relief sought by the Company was denied.

On July 7, 1977, two intervenors in the proceeding filed a joint Petition with the Commission, seeking certain relief in the nature of the grant of a monetary sum from the Commission for the retention of an expert consultant to appear on behalf of these intervenors. The joint Petition further requested the Commission to schedule night hearings in several communities within the Company's service area. The Commission thereafter issued its Order No. 77-488, dated July 7, 1977, whereby the Commission denied the monetary relief sought by the intervenors and found it inadvisable at that time to schedule the requested night hearings.

On July 7, 1977, the Company submitted certain affidavits of publication to demonstrate compliance with the terms of Order No. 19,736, previously issued in the instant Docket, which required the Company to make public notification of the implementation of a portion of the proposed rates and charges pursuant to the Undertaking filed on November 29, 1976.

Pursuant to notice duly given in accordance with applicable provisions of law and with the Commission's Rules of Practice and Procedure, a public hearing relative to the Company's Application and to the fuel adjustment clause was commenced on Tuesday, July 12, 1977, and was concluded on August 12, 1977. Harry M. Lightsey, Jr., Patricia T. Marcotsis and Hubert E. Long, represented the Company; Harry B. Burchstead, Jr., and James W. Johnson, Jr., Assistant Attorneys General, represented the intervenor, the Attorney General of South Carolina; Roy W. Smith, an intervenor,

represented his interests; Tom Turnipseed and Hemphill P. Pride, II, represented the intervenor, the People Are Coming Sponsoring Committee ("the People Are Coming"); Robert Guild represented the intervenor, the Midlands Welfare Rights Organization ("MWRO"); Fred R. Fanning, Jr., represented the intervenor, Holly Hill Lumber Company ("Holly Hill"); Gerald C. Smoak represented the intervenor, Gifford-Hill Company, Inc. ("Gifford-Hill"); Robert T. Bockman, General Counsel, and William E. Booth, III, Staff Counsel, represented the Commission and the Commission staff.

The Commission conducted night hearings in Aiken, Columbia, Charleston and Beaufort, South Carolina, to allow persons unable to appear at the hearing in the Commission's offices in Columbia the opportunity to offer testimony and evidence relative to the proposed rate increase or the fuel adjustment charge. On July 21, 1977, during the course of the hearings, the Commission formally notified all protestants in the proceeding that their testimony would be heard on July 28, 1977. Testimony was received from several protestants on that date. (Tr., Vol. XX, pp. 127-144).

The record in this proceeding includes forty-four volumes of transcribed testimony and one hundred and three (103) exhibits, which pertain to various facets of the Company's electrical operations, including its need for capital and the cost of capital, and the Company's present and proposed rates of return. Briefs in the matter were filed by the Company, the Attorney General, Roy W. Smith, Holly Hill and Gifford-Hill.

POOR ORIGINAL

II.

THE COMPANY

South Carolina Electric & Gas Company, organized and doing business in the State of South Carolina, is authorized by law to operate as a public utility engaged in the generation, transmission, distribution and sale of electricity, as well as in the purchase, transmission, distribution and sale of natural gas. The Company also furnishes bus transportation in metropolitan Columbia and Charleston. The instant proceeding concerns only the retail electrical operations of the Company.

The Company provides retail electric service to over 125 communities and wholesale electric service to three municipalities, in a service area consisting of some 12,000 square miles, with a population in excess of 1,300,000 persons. Within its territory, the Company provides electric service to approximately 275,000 residential customers, approximately 36,000 commercial customers, and approximately 800 industrial customers. As of December 31, 1976, the Company owned and operated seven (7) steam generating stations which utilize fossil fuel, sixteen (16) internal combustion turbine generators, and five (5) hydroelectric plants, with a total generating capacity of 2,852 MW. In addition to its generating facilities, the Company owns and operates an integrated transmission network and distribution system throughout its service area. The Company's system is interconnected with the facilities of adjacent electrical utilities to provide for the interchange of power.

The Company's currently approved rates and charges were authorized by the Commission's Order No. 18,427, issued on June 25, 1975, in Docket Nos. 17,577 and 17,711, which were filed pursuant to the Commission's findings in its Order No. 18,394, issued on June 16, 1975. The Company's Application herein asserts that the currently approved rates and charges are insufficient to allow the Company to earn a fair and reasonable return on its investment. Furthermore, the Company contends that the currently approved rates do not permit the recovery of the cost of providing electric service, including a fair and reasonable rate of return on the Company's investment. The Company also maintains that inflation has increased operating and interest costs, creating an erosion of the return on common equity invested in the Company "substantially below" a fair and reasonable rate necessary to attract additional capital to finance its construction needs. The Company's Application also cites the prerequisite for significant investments for environmental protection equipment for its generating facilities to comply with various regulatory standards.[10]

III.

CONSTRUCTION PROGRAM

The record before the Commission demonstrates the ac[illegible] significance of the nature and scope of the Company's construction program, relative both to the tangible issues

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10 See, Petition for Electric Rate Adjustments, filed by the Company on November 12, 1976, pp. 1-3.

in this ratemaking pr ceeding and to future operations of the Company with their itant effect upon the ratepayers in South Carolina. The Chairman of the Board of Directors and Chief Executive Officer, Mr. Arthur M. Williams, succinctly characterized the pervasive interrelationship of the construction program with the Company's equest for rate relief:

> Our Company is experiencing load growth substantially above the national average. Since our primary objective is to take whatever steps are necessary to provide reliable service to our customers, we must continue with our construction program designed to meet our customers' needs. In order to construct the additional necessary facilities, we must be able to attract capital at the least possible cost. Without adequate rate relief our financial condition may deteriorate to a point where it will be difficult to attract this new capital at reasonable rates. (Tr., Vol. I, Williams, p. 60).

POOR ORIGINAL

The Company's President and Chief Operating Officer, Mr. Virgil C. Summer, indicated that the Company's planned expenditures for electrical generation, transmission and distribution facilities for the five-year period, 1977-1981, will amount to $621,675,000. For the ten-year period, 1977-1986, the Company's anticipated construction expenditures will reac the figure of $1,184,225,000 (Tr., Vol. XVII, Summer, p. 117). The projected annual expenditures for the ten-year period appear in the following table:

TABLE A

GROSS CONSTRUCTION DOLLAR EXPENDITURES
ELECTRICAL OPERATIONS
(Estimated)

1977	$177,350,000
1978	145,899,000
1979	126,358,000
1980	82,172,000
1981	89,896,000
1982	165,069,000
1983	177,261,000
1984	99,861,000
1985	59,556,000
1986	60,803,000
Total	$1,184,225,000

(Source: Hearing Exhibit No. 2, Tab 20)

The projected construction budget represents a sizeable expenditure of capital. For the first three years of the period, external financing will provide approximately 70% of the necessary annual capital (Tr., Vol. VI, Wooten, p. 20).

The Company presently has under construction the Fairfield 480 MW Pumped Storage Project ("the Fairfield Project") and the V. C. Summer No. 1, 900 MW Nuclear Generating Unit ("the Summer Unit").[11] This generating complex comprises the principal portion of the Company's construction budget through 1980. For example, of the $177,350,000 in the construction budget for 1977, nearly $125,000,000 is allocated for the Fairfield Project and the Summer Unit (Hearing Exhibit No. 41). In December 1976, the Company revised the original completion dates for the Fairfield Project and the Summer Unit. The construction schedule for the Fairfield Project provides for the availability of 240 MW of capacity in 1978, with the remaining 240 MW available in 1979. The Summer Unit, originally scheduled for completion in May 1979, will be operational by May 1980 (Tr., Vol. XVII, Summer, pp. 115-116).

The Company's ten-year construction forecast includes the proposal for a 500 MW coal-fired generating unit scheduled for completion in 1984. Furthermore, the Company's present load forecast includes the addition of a second 500 MW coal-fired unit which is still under study and has not been incorporated in the ten-year construction budget (Tr., Vol. XVII, Summer, pp. 117-118).

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[11] One-third of the Summer Unit is being financed, and will be owned, by the South Carolina Public Service Authority (the "SCPSA").

The Company's planned construction projects and the associated capital expenditures represent the Company's calculated response to the anticipated need for electric power imposed by the demands of its present and prospective customers. The Company's witness Mr. Thomas C. Nichols, Jr., Vice President and Group Executive for Power Production and System Operations, articulated the necessity for reliance on long-range planning:

> The Company has an obligation to supply all of the electric requirements of its present customers, and also any new customers who desire to locate in its service area. In addition, the Company must supply these requirements at the locations desired by the customers. In order to fulfill its obligations to its customers, the Company must install sufficient generating, transmission, and distribution substation capacity to supply all of its customers, wherever located, with reliable service.
>
> Extensive planning is required to determine what facilities are needed and when they should be in service. The lead time of a nuclear generating unit is approximately 11 to 12 years, and 5 to 6 years for a fossil unit. Major transmission lines may require as much as 4 years to construct and be put into service, and large power transformers require several years to build and place in service. All of this emphasizes the necessity of long-range planning.
>
> (Tr., Vol. IV, Nichols, pp. 27-28).

POOR ORIGINAL

The importance of reasonable and reliable evaluations of the future demands for electricity, upon which the Company's construction programs and expenditures are founded, cannot be overemphasized. Indeed, the record in this proceeding reflects clearly that the Company, the intervenors, and the staff recognized this crucial relationship, and offered considerable testimony relating to the methodology and accuracy of the forecasted peak demand for energy within the Company's service area. This Commission, too, continues to acknowledge

the significance of proper forecasting of demand, and the deleterious effects of inaccurate projections:

> If the initial forecast, relating to future peak load ..., goes awry, then the customer pays dearly. If the Company fails to project necessary load requirements and reserve capacity, the customer may find himself without a supply of electricity. On the other hand, if the Company overestimates the future demand, the same customer eventually will pay through increased rates for the inflated cost of capital, expended for unneeded generating and associated facilities. Additionally, idle capacity reduces the utilization factor and increases the average unit cost of power to the customer.
>
> Order No. 18,394, supra, at p. 7.

Such adverse, possible consequences require the Company to exercise considerable care in the manner of its forecasting, and likewise require the Commission to maintain close scrutiny over the projected and actual results of such forecasting:

> Because of the severe impact of the cost of an ongoing construction program on the utility and the ratepayer, the Commission is particularly concerned that the Company's expansion closely tracks that which is prudent and necessary. It is obvious that the most thorough study of load requirements cannot accurately predict events ten years away. For this reason, they are updated annually, and the Company construction budget is revised. But extensive studies, employing all relevant factors, can and must be undertaken and used. Only then can the Company state with certainty that it has done all that is feasible to assure that no construction dollars have been unnecessarily expended.
>
> Order No. 18,394, supra, at pp. 9-10.

The Company's plans for its construction program are based upon ten-year forecasts of peak demand growth trends, derived principally through the use of an econometric model which is corroborated by an extrapolation technique. The econometric model utilized by the Company was developed and

POOR ORIGINAL

1066 297

initially implemented in 1975, and is intended to quantify the relationship between various activities in certain identifiable economic sectors[12] and the sale of electricity within the Company's service area (See, Tr., Vol, IV, Nichols, pp. 10-13). The econometric model is designed to project energy demands which are then converted to peak demand by the application of a projected load factor. The econometric model used by the Company was tested empirically by comparing the actual energy sales for the period 1959-1974 with energy sales derived by the model using the programmed economic data for the same period.[13] A similar comparison was made between the experienced and the derived territorial peak demands for the same period.[14] The year 1976 represented the first projected year for the econometric model. The model's prediction for energy sales deviated from the actual by 1.6%; for peak demand, the model's results deviated from the actual by 0.25% (Tr., Vol. IV, Nichols, p. 15).

By use of the econometric model, the Company has forecasted an average annual energy sales rate of growth of 8.7% from 1975 to 1980 and a rate of growth of 7.8% from 1980 to 1986. The average annual basic territorial demand rate of growth projected by the operation of the econometric model for the period 1976 through 1986 is 7.1% (Tr., Vol. IV, Nichols, p. 15).

[12] The economic sectors utilized were: (1) Finance, insurance and real estate; (2) Transportation, communications and public utilities; (3) Professional services; (4) Manufacturing; (5) Contract construction; (6) Wholesale and retail trade; and (7) Services (Tr., Vol. IV, Nichols, p. 13).

[13] See, Hearing Exhibits Nos. 3 and 4.

[14] See, Hearing Exhibits Nos. 3 and 5.

POOR ORIGINAL

The Company's witness concludes that the present construction program, as projected through 1986, is essential to provide the generation capacity necessary to meet the forecasted load growth and to maintain system reserves at a satisfactory level (Tr., Vol. IV, Nichols, p. 18).

Mr. H. M. Harris, Jr., a witness for the Commission staff, offered testimony relative to the projected growth of peak demand (Tr., Vol. XIX, Harris, pp. 113-114). According to this witness, a reasonable projected rate of growth for the ten-year period 1977-1986 is "approximately 7%," a figure derived by the use of econometric and non-econometric methodologies. This result nearly matches the projections made by the Company.

Mr. Jesse L. Riley, witness for the People Are Coming and MWRO, criticized the methodology and results of the Company's forecast of load growth, asserting that the forecast should incorporate specifically certain factors such as customer growth, price elasticity, usage saturation and a discretionary income concept. This witness contended that the forecast made by the Company would encourage the construction and maintenance of excess capacity at the expense of the Company's customers (Tr., Vol. XXXVII, Riley). This conclusion was supported by Mr. Henry W. Eckhart, who appeared on behalf of the People Are Coming and MWRO, and who asserted that a forecasting methodology should include a factor for price elasticity (Tr., Vol. XXXVII, Eckhart).

Integral to the forecasting of load growth is the concept of the adequacy of system reserves. It is the long-established policy of the Company to maintain a minimum level of reserve equal to the Company's largest generating unit or approximately 20% of the forecasted total system load,

whichever is the greater (Tr., Vol. IV, Nichols, p. 19). According to the Company's load forecast and projected construction program, this level will be exceeded by varying amounts in eight of the ten years in the period 1977-1986.[15] The largest deviation from the 20% norm would occur in 1980, upon initial commercial operation of the Summer Unit (Tr., Vol. IV, Nichols, p. 21).

The People Are Coming's witness Eckhart took issue with the Company's calculation of its reserve margin in order to substantiate his assertion that the Company has "substantial excess generating capacity" (Tr., Vol. XXXVII, Eckhart). According to this witness, the Company's determination of reserve capacity includes several adjustments for forced reductions, "difficulties experienced by the supplier", and contract and opportunity sales, which he would disregard for computation of system reserve.

The Commission has carefully considered these related issues concerning the Company's derivation of its reserve capacity, and concludes that the various components of the capacity included by the Company are necessary for the protection of the Company's present and future customers. The record reveals that on June 29 and 30, 1977, the Company experienced the concurrent outage of two base load generating facilities, consisting of a total of 910 MW, a phenomenon for which planning is difficult (Tr., Vol. IV, Nichols, pp. 79-80). Furthermore, the Commission finds the reserve policy and projected reserves to be reasonable at this time. The Commission acknowledges the fact that upon commercial operation

[15] See, Hearing Exhibit No. 11.

of a new base load generating facility there is a temporary effect of a dramatic increase in reserve capacity (Tr., Vol. IV, Nichols, p. 21). However, the Commission feels that such temporary departure is justified in light of the demonstrated need for the proposed generating facilities. Nonetheless, the Commission will continue to oversee the reasonableness of the future operation and projections of the Company's reserve policy.

This Commission has stated previously that it is axiomatic that even the most sophisticated and rigorous analysis of projected load requirements cannot precisely predict events ten years in the future. The Company likewise acknowledges the imprecision inherent in such endeavors and consequently engages in systematic reviews of its projections and makes adjustments in its construction programs in consonance with the findings of such reviews (Tr., Vol. IV, Nichols, pp. 22, 28, and 81). This empirical review provides an element of flexibility to the construction program, given the significant lead time involved in planning and constructing generation, transmission and distribution facilities, and thereby operates to balance the need for additional capacity with the projected demand.

The record in this proceeding and the Commission's findings thereon do not wed the Commission inextricably to the methodology or results of the forecast of load growth presented by any party. However, the Commission is of the opinion that the projections made by the Company, and independently derived by the staff, are reasonable for the purposes of this proceeding. The Commission consequently finds likewise reasonable the Company's general construction program, as

POOR ORIGINAL

premised upon the currently forecasted load growth. The Commission will expect the Company to exercise the utmost care in reviewing and revising its forecasts of load growth and concomitant construction program. The Company, the intervenors, and the general public can be assured that the Commission and staff will continue to maintain the scrutiny and review demanded by the Commission's statutory responsibilities.

IV.

TEST YEAR

A fundamental principle of the ratemaking process is the establishment of a test year period. Ideally, such a period should be represented by the most recent twelve months preceding the date of filing a rate adjustment application for which data is available. While the rates and charges finally approved will have prospective effect only, this Commission has consistently adhered to the view that the immediate past experience, characterized by identifiable operating results for a complete twelve months period, provides the most reliable guide for the immediate future. The reliance upon the test year concept, however, is not designed to preclude the recognition and use of other historical data which may precede or postdate the selected twelve month period.

Integral to the use of an average year, representing normal operating conditions to be anticipated in the future, is the necessity to make normalizing adjustments to the historic test year figures. Only those adjustments which have reasonable and definite characteristics, and which tend to influence reflected operating experience, are made to give proper consideration to revenues, expenses and investment.

Adjustments may be allowed for (a) items occurring in the historic test year, but which will not recur in the future; (b) to give effect to items of an extraordinary nature by either normalizing or annualizing such items to reflect more accurately their annual impact; and (c) to give effect to any other item which should have been included or excluded during the historic test year.

In the instant proceeding, the Company's Application proposed the use of a test year period of the twelve months ending December 31, 1976. The Application consequently included certain exhibits demonstrating the Company's actual operations for the nine months ending September 30, 1976, adjusted to reflect the subsequent three months. Whereupon, the Commission issued its Order No. 19,776 on December 21, 1976, establishing the calendar year 1976 as the appropriate test year period for this proceeding and requiring the Company to submit by March 1, 1977, data to reflect its operations for the twelve months ending December 31, 1976, which the Commission found to be reasonable for the purposes of this ratemaking proceeding. The exhibits filed by the Company in response to Order No. 19,776, indicated that the rates proposed by the Company would generate additional revenues of $30,269,340.

V.

RATE BASE

Pursuant to S. C. Code Ann., § 58-27-180 (1976), the Commission has the authority after hearing to "ascertain and fix" the value of the property of an electrical utility. In the context of a ratemaking proceeding, such authority is exercised in the determination of the electrical utility's rate base.

The rate base is the total net value of the electrical utility's tangible and intangible capital or property value, for ratemaking purposes, on which the electrical utility is entitled to earn a fair and reasonable rate of return. The rate base, in this proceeding, is composed of the value of the Company's property used and useful in providing electricity to the public, plus construction work in progress, materials and supplies and an allowance for cash working capital, less reserve for depreciation and amortization, accumulated deferred income tax (liberalized depreciation) and customer deposits. The Accounting Department of the Utilities Division of the Commission staff, prior to date of hearing, conducted an audit and examination of the Company's books, and verified all account balances from the Company's General Ledger, including rate base items, with plant additions and retirements. On the basis of this audit, the exhibits, and the testimony contained in the entire record of the hearing, the Commission can determine and find proper balances for rate base and other items.

When the rate base has been established, the Company's total operating income for return is applied to the rate base to determine what adjustments, if any, to the present rate structure are necessary to generate earnings sufficient to produce a fair rate of return. The rate base should reflect the actual investment made by investors in the Company's property and the value upon which stockholders will receive a return on their investment.

The Commission's findings and conclusions relative to the Company's retail rate base appear in the following subsections:

A. Plant in Service

This Commission has traditionally used the accounting methodology recognized as "original cost less depreciation" in the determination of the value of an electrical utility's plant in service. The record of this proceeding presents no justification for a departure from this methodology which was used by the Company in calculating its gross plant in service of $743,636,439 (Hearing Exhibit No. 32).

The Commission staff recommended a reduction of $9,230 from the gross plant in service to account for receipts from the sale of timber recognized on the Company's books after the test year period (Tr., Vol. XXIV, Hammond, p. 66). The Commission considers the staff's adjustment to be proper and necessary to reflect accurately the Company's gross plant in service as of December 31, 1976. Accordingly, the Commission finds $743,627,209 to be the appropriate figure for the Company's gross plant in service in this proceeding.

B. Reserve for Depreciation and Amortization

In determining the proper rate base for electrical utilities, the Commission uses the gross plant in service dedicated to providing public service reduced by the reserve for depreciation and amortization. The "per books" reserve allocated to the Company's retail electric operations was $190,674,514.

The Company and the Commission staff recommended that the "per books" reserve be adjusted by the addition of $336,213, to reflect depreciation for the test year, as if the plant in service at year end had been in service for the entire test year period.[16] The Commission finds such adjustment to be reasonable and proper, hereby adopting it

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16 Compare Hearing Exhibit No. 32 (Groetzinger) with Hearing Exhibit No. 42 (Hammond), at p. 23.

for the purposes of this proceeding. The reserve for depreciation and amortization consequently becomes $191,010,727.

The gross plant in service of $743,627,209, less the reserve for depreciation and amortization of $191,010,727, results in a net plant in service of $552,616,482.

C. Construction Work in Progress

The concept and treatment of construction work in progress ("CWIP") as a rate base item were topics of considerable attention in the record of the proceeding before the Commission. Pursuant to the Commission's Directive of November 13, 1974, which denominated, inter alia, the rate base items considered appropriate by the Commission for electrical utilities, the reasonable and necessary costs of construction of utility plant not yet in service may be considered as a proper rate base item. This Commission has uniformly allowed such costs to be included in an electrical utility's rate base.[17]

On September 30, 1977, the People Are Coming and MWRO, Roy W. Smith, and the South Carolina Environmental Coalition (collectively, "the Movants") filed a written motion in this Docket, seeking, in pertinent part, certain relief in the form of the exclusion from the Company's rate base of the funds expended by the Company for the construction of the Summer Unit. On October 21, 1977, the Commission issued its Order No. 77-721, whereby the Commission denied in part the relief requested, and reserved for disposition in this Order the matter of the proper treatment of the construction expenditures

POOR ORIGINAL

17 Contrary to the position advanced by Holly Hill in its Brief at p. 4. See, e.g., Order No. 18,394, supra; and Order No. 19,526, issued in Docket Nos. 18,361 and 18,387, In Re: Application of Carolina Power & Light Company, on September 15, 1976.

1066 306

for the Summer Unit.[18]

In Section III, supra, the Commission discussed the need for the Company's construction program in the perspective of the forecasted load growth. The Commission found therein that the construction program, which included the completion of the Summer Unit by mid-1980, was reasonable to meet the requirements for electrical energy within the Company's service area, and maintain a satisfactory system reserve. The Commission, therefore, finds, based upon the record in this proceeding, the assertions of the Movants that the Summer Unit is unnecessary and unreasonable and will create excessive generating capacity to be without merit.

The Movants contended likewise that the cost of construction of the Summer Unit is "unreasonable and excessive" and should be disallowed. As the Commission finds in section XV, infra, those costs, while greater than originally anticipated by the Company, or neither unreasonable nor excessive at the present time.

POOR ORIGINAL

In consequence, the Commission finds it reasonable to include the funds expended by the Company for the construction of the Summer Unit, as of the end of the test year period,[19] in the Company's rate base as CWIP for ratemaking purposes,

Therefore, the Commission finds that CWIP is a proper element to be included in the rate base as reflected on the Company books, and an offset adjustment should be made to

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[18] The motion requested the Commission "to disallow from lawful consideration" the funds expended for the construction of the Summer Unit, and to order the Company to cease further expenditures for the Summer Unit or, in the alternative, to order that such future expenditures not be charged to the Company's ratepayers. Order No. 77-721 reserved only the treatment of construction funds for disposition herein.

[19] As of December 31, 1976, this amount was $192,199,000 (Tr., Vol. XVII, Summer, p. 118).

1066 307

total income for return by that portion of the allowance for funds used during construction and income tax credit, applicable to CWIP at the end of the test year. On the basis of the record before us, the proper figure for CWIP to be included is $319,668,268.

D. Materials and Supplies

The Commission considers "materials and supplies" a proper item to be included in an electrical utility's rate base. One significant element of this item is the fuel supply inventory. In some prior ratemaking proceedings, fuel stocks were adjusted by increasing or decreasing this account by the dollar amount representing the Commission's determination of the reasonable capital outlay for an adequate fuel inventory. That adjustment is based on the uncontroverted fact that the Company must expend considerable capital for fuel stocks to secure a reliable fuel supply for generation purposes. Since the costs of the inventory are not recovered until after the fuel is burned, the Company is permitted to earn a return on this inventory item, normalized to reflect test year costs.

The Company's per books materials and supplies allocated to the retail electric operations amounted to $30,399,751. In this proceeding, both the Company and the Commission staff recommended that the appropriate adjustment be derived by pricing the inventory volume on December 31, 1976, at the December 1976 purchase price of fuel received, a methodology consistent with previous decisions of this Commission.[20] As a result, the Company's fuel supply account is properly increased by $940,553 for the Company's retail operations. The total figure for the materials and supplies item in the Company's rate base is $31,340,304.

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[20] *See*, Order No. 18,394, *supra*, at pp. 14-15.

E. Working Capital Allowance

The Commission has traditionally considered an allowance for working capital to be an appropriate item for inclusion in the rate base of an electrical utility. By adopting a working capital allowance, the Commission recognizes the capital outlay related to the routine operations of the Company.

Based on a Directive of the Commission to the staff, dated November 13, 1974, the staff proposed a computation of the working capital allowance of $14,965,781, derived as follows: cash allowance of $17,660,119 (1/8 of operation and maintenance expenses, less the net of purchased and interchange power); minimum bank balances of $4,283,287; prepayments of $1,604,191; less average tax accruals of $8,581,816 (See, Hearing Exhibit No. 42, at p. 32).

The calculation of the working capital allowance offered by the Commission staff represents several adjustments of the working capital allowance computed by the Company.[21] The Company included a figure of $5,176,542 for minimum bank balances. According to the Company's witness, T. M. Groel[illegible]nger, Vice President and Controller, that amount included more than the compensating balances required by the banks with whom the Company carries lines of credit:

> Q. Page 1 of 6, yes, line 28, Minimum Bank Balance.
>
> A. The Company, in arriving at that adjustment, determined the amount necessary to carry its credit lines using amounts determined by the banks. When you do have credit lines, they require minimum bank balances.

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21 See, Hearing Exhibit No. 42, at p. 35.

POOR ORIGINAL

1066 309

Q. Is this merely the compensating balances that are required for your company?

A. No, we have in there also a small amount -- I can't locate my paper on it for some reason, but I do have the detail on that; but anyway the small amount that we've got in the local banks, it's a million dollars or somewhere in that neighborhood, that --

Q. That's the small amount you're talking about?

A. The small amount, a million dollars, yes, sir -- that we don't think it would be practical to call this money in every day. We would call it in once a week, and these are district office collections and things of this type that come into the Company once a week. So, we have included that amount in there.

Q. And you interpret including this amount, this million dollars or so, as being consistent with this Commission's directive of November 13, 1974?

A. That's the way we interpreted it, yes, sir.

(Tr., Vol. XIII, Groetzinger, pp. 66-67).

POOR ORIGINAL

The Commission staff proposed that the Company be allowed only the "actual, required compensating balances" in the working capital computation (Tr., Vol. XXIV, Hammond, p. 67, emphasis added).

The Commission is of the opinion, and so finds, that the minimum bank balance of $4.283,287 derived by the Commission staff conforms to the standard in the Commission's Directive of November 13, 1974, and more appropriately addresses the rationale for a working capital allowance which is designed to permit a cash flow for those necessary expenses associated with routine operations.

Furthermore, the staff's calculation of average tax accruals differed from the Company's treatment of that item in the working capital allowance. The Company included only the average of the accrued tax account for federal income taxes, $3,967,615 (Tr., Vol. XIII, Groetzinger, p. 68; Hearing Exhibit No. 32).

1066 310

The Commission staff proposed to include accruals of "taxes other than income" as well as income taxes (Tr., Vol. XXIV, Hammond, p. 67). This figure amounted to $8,581,816.

The Commission is of the opinion, and so finds, that the staff's treatment of the average tax accruals is more in concert with the Directive of the Commission. The Commission acknowledges that such treatment represents a departure from that previously accorded this Company.[22] However, the inclusion of the average of all tax accruals in the working capital allowance is consistent with the position of the Commission in ratemaking proceedings for electrical utilities subsequent to this Company's last general rate case,[23] and better accomplishes the object of the concept for the working capital allowance.

The Company proposed to adjust the working capital allowance by $1,308,555 to compensate for expenses incurred during the thirty-day "lag" between the time when the fuel costs above the base rate are incurred and the time when such costs are recovered through the operation of the Company's fuel adjustment clause (Tr., Vol. XII, Groetzinger, p. 42).

The Commission's action herein, by increasing the fuel component in the Company's base rates from 9 mills to 11 mills per KWH, as proposed by both the Commission staff and by the Company,[24] will serve to eliminate the need for such adjustment.[25]

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[22] See, Tr., Vol. XXIV, Hammond, pp. 85-86.

[23] See, In Re: Application of Duke Power Company, Docket No. 17,567; and, In Re: Application of Carolina Power & Light Company, Docket Nos. 18,361 and 18,387.

[24] See, Vol. XIII, Groetzinger, p. 42; and, Tr., Vol. XXIV, Hammond, p. 68.

[25] See, Section XII, infra.

POOR ORIGINAL

1066 311

The Company also adjusted the working capital allowance to reflect the revaluation of its inventory of fuel stocks to the December 1976 purchase price (Tr., Vol. XIII, Groetzinger, p. 41). The Commission staff opposed such adjustment by contending that the combined effect of the adjustment for the fuel inventory revaluation in the Materials and Supplies item and of the operation of the Company's fuel adjustment clause removed the justification for this proposed adjustment (Tr., Vol. XXIV, Hammond, p. 67).

The Commission is of the opinion, and so finds, that the position advanced by the staff is more reasonable and comports with the Commission's findings in the Company's previous ratemaking proceeding.[26] To permit the Company's proposed adjustment in addition to the adjustment made to the Materials and Supplies item in the rate base would have the effect of allowing a double recovery, which the Commission considers unwarranted.

Finally, the Commission has adopted an adjustment to the Company's operation and maintenance expenses by the reclassification of an amount of $5,635 to an account not chargeable to the Company's ratepayers (See, Section X, infra). This adjustment has the effect of reducing the proper cash allowance from $17,660,119 to $17,659,415. In turn, this revision will result in a modification of the total working capital allowance from $14,965,781 to $14,965,077.

F. Accumulated Deferred Income Taxes

The accumulated reserves for liberalized depreciation constitute a form of cost-free capital, and, consequently, an element upon which the Commission feels investors are not entitled to earn a rate of return. The Commission, therefore,

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[26] See, Order No. 18,394 at p. 16.

finds it reasonable to reduce the Company's rate base by the figure of $49,152,344, as proposed by the Company and by the staff.

G. Customer Deposits

The amount representing customer deposits also is considered by this Commission to be an element on which the Company's investors are not entitled to earn a return, and should be excluded from the Company's rate base. The Commission finds that the rate base should be reduced by the amount of $4,036,338, as proposed by the Company and by the staff. The Commission has treated the interest on customer deposits as an operating expense in computing the Company's rate of return.

H. Original Cost Rate Base

The Company's retail rate base, as herein adjusted and determined by the Commission, is set forth as follows:

TABLE B

ORIGINAL COST RATE BASE

December 31, 1976

Gross Plant in Service	$743,627,209
Reserve for Depreciation and Amortization	(191,010,727)
Net Plant	$552,616,482
Construction Work in Progress	319,668,268
Materials and Supplies	31,340,304
Working Capital Allowance	14,965,077
Accumulated Deferred Income Tax (Lib. Deprec.)	(49,152,344)
Customer Deposits	(4,036,338)
TOTAL RATE BASE	$865,401,449

POOR ORIGINAL

VI.

CAPITAL STRUCTURE

Reference to the Company's capital structure was made in the testimony and exhibits of several witnesses for the Company and of the Commission staff. The capital structure,

per books, as reviewed by the Commission, is as follows:

TABLE C

CAPITALIZATION - PER BOOKS

December 31, 1976

	AMOUNT (Thousands)	RATIO
Total Debt*	$553,800	55.57%
Preferred Stock	137,771	13.82%
Common Equity	305,072	30.61%
TOTAL	$996,643	100.00%

*Includes short-term debt of $17,254.

The Commission notes that the Company issued both debt and equity securities subsequent to the end of the test year period, but prior to the hearing in this proceeding (Tr., Vol. II, Williams, pp. 15-18). The Commission, therefore, considers that the capitalization ratios most appropriate for the purposes of this proceeding should be the capitalization ratios as of May 31, 1977.

The Company presented "for informational purposes" a proposal for the incorporation in the common equity portion of the capitalization an amount to reflect the Company's accumulated deferred investment tax credit[27] (Tr., Vol. XIII, Groetzinger, pp. 71-73). This action was based upon a proposed regulation of the Internal Revenue Service and a letter from the Internal Revenue Service to the State of New Mexico Public Service Commission. The Commission will evaluate the proposal as it was offered and will, for the purposes of this proceeding, consider the common equity portion of the Company's capital structure without the addition of the accumulated deferred investment tax credit.

POOR ORIGINAL

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[27] See, Hearing Exhibit No. 34.

Table D, infra, reflects the capitalization and resultant ratios of the Company on May 31, 1977, after the exclusion of $18,275,000 from the common equity portion. This amount represents investment in, and advances to, Energy Subsidiary, Inc., the Company's wholly-owned land subsidiary of $14,866,000. In addition, there is excluded an amount of $3,409,000 which represents a note which was assumed by the Company from a subsidiary partnership of Energy Subsidiary, Inc. This adjustment effectively removes property not used and useful in providing utility service to the customers of the Company. The adjusted capitalization and resultant ratios in Table D have been used by the Commission in determining a fair rate of return for the Company in this proceeding.

TABLE D

ADJUSTED CAPITALIZATION

May 31, 1977

POOR ORIGINAL

	AMOUNT (Thousands)	RATIO
Total Debt*	$588,256	55.64%
Preferred Stock	137,391	12.99%
Common Equity	331,698	31.37%
TOTAL	$1,057,345	100.00%

*Includes short-term debt of $6,758.

By utilizing the adjusted capitalization and resultant ratios appearing in Table D, and thereby making allowances for the new issues of securities, the Commission has given consideration to matters beyond the historic test period. The Commission finds such action to be reasonable in attempting to permit the Company to earn a fair rate of return and likewise provide the Company the opportunity to maintain that fair rate

1066 315

of return despite the effects of attrition. The Commission has employed this approach in the past as a method to compensate for inflationary pressure.[28]

VII.

COST OF CAPITAL

A. Long Term Debt

This Company, as well as all other regulated utilities, is directly affected by changes in interest rates. As the Company's witness Oscar S. Wooten, Executive Vice President, Finance, indicated (Tr., Vol. VI, Wooten, p. 31):

> The Company has experienced a continuing increase in its embedded cost of long-term debt in recent years. This results when new issues of debt have to be sold at higher prices than the overall average cost of existing issues.

Marked increases in interest charges are subsequently reflected in corresponding increases in the embedded cost of senior capital as illustrated by the following table:

TABLE E

EMBEDDED COST OF
LONG TERM DEBT

YEAR	YEAR-END COST
1967	4.41%
1968	4.66%
1969	5.51%
1970	6.06%
1971	6.33%
1972	6.47%
1973	6.60%
1974	6.95%
1975	7.38%
1976	7.70%
1977 (May 31)	7.60%

(Source: Hearing Exhibit No. 42, pp. 46-49).

[28] See, e.g., Order No. 18,394, supra, at pp. 18-19.

POOR ORIGINAL

1064 316

For the purposes of this proceeding, the Commission staff proposed to include the amount of short-term debt with the long term debt. In addition, the staff assigned to the short-term debt the same cost rate as the 7.60% embedded cost of the Company's long term debt as of May 31, 1977 (Hearing Exhibit No. 42, p. 44, as revised). The Company contended that the inclusion of short-term debt was improper because of the "great fluctuations in the amount of short-term debt outstanding at any point in time during the test year." The Company further asserted that short-term debt is an intermediate form of financing which is purposefully converted to long-term securities as often as possible, and that the volatility of interest rates on short-term obligations precludes the assignment of a composite cost rate.[29]

The Commission has determined that the amount and cost rate of short-term capital should be reflected in the Company's capital structure for rate of return purposes. Furthermore, the Commission considers the staff's proposal to be a reasonable approach to include the short-term debt in the capitalization, which should be adopted in this proceeding.

The Commission notes the effect of the most recent issues of debt in reducing the Company's embedded cost rate (Tr., Vol. VI, Wooten, pp. 75-77), and has considered this reduction in the embedded cost in its final determination of a fair and reasonable rate of return in this proceeding.

The major institutional rating services have given the Company an A bond rating. Furthermore, the Company's witness Wooten indicated that the Company's financial

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[29] See, the Company's Brief at p. 17.

position in terms of its bond rating had improved relative to conditions in the 1974-75 period (Tr., Vol. VII, Wooten, p. 12). The Commission cannot ignore the interrelationship among a utility's bond rating, the investors' appraisal of a utility's bond issues in the marketplace, and the consequent cost of debt capital. Lower bond ratings may result in measurably higher costs to a utility which ultimately increase costs to consumers for many years in the future. Higher interest rates operate to reduce the earnings coverage of fixed charges for a utility. The fixed charge coverage is perceived as only one index of financial stability by the investor, the utility, the public and the regulatory agency. The Company's debt coverage ratio of earnings to fixed charges, computed by use of the SEC methodology, for the period 1967-1976 is demonstrated by the following table:

TABLE F

DEBT COVERAGE RATIO
OF EARNINGS TO FIXED CHARGES

YEAR	RATIO
1967	4.99X
1968	4.74X
1969	3.62X
1970	2.66X
1971	2.41X
1972	2.56X
1973	2.37X
1974	2.30X
1975	2.83X
1976	2.64X

(Source: Hearing Exhibit No. 2, items 18a and 18b).

B. Preferred Stock

The Company's embedded cost of preferred stock increased from 5.11% in 1967 to 7.89% at the end of the test period, used in this proceeding. The Company has a charter restriction in regard to the issuance of preferred stock,

to the extent that if the Company's net earnings are not at least 1.5 times the sum of the interest requirements on the Company's indebtedness plus the preferred stock dividend requirements immediately after a sale, the Company is prohibited from the issuance of additional preferred stock. The Company's witness Wooten indicated that the Company had projected an increase in the embedded cost of preferred stock to 7.90% by the end of 1977, "and without rate relief preferred coverage will drop to 1.41 . . . ." (Tr., Vol. VI, Wooten, p. 34). The following table manifests the embedded cost of preferred stock for the period 1967 through May 31, 1977:

TABLE G

EMBEDDED COST OF PREFERRED STOCK

YEAR	YEAR-END COST
1967	5.11%
1968	5.12%
1969	5.12%
1970	6.56%
1971	7.08%
1972	7.22%
1973	7.22%
1974	7.18%
1975	7.78%
1976	7.89%
1977 (May 31)	7.91%

(Source: Exhibit No. 42, pp. 50-52).

For the purposes of this proceeding, the Commission has used 7.91% as the cost for the Company's preferred stock, as reflected in Table G as of May 31, 1977.

C. Common Equity

One of the principal issues in any ratemaking determination involves the proper earnings to be allowed on the common equity investment of the regulated utility. In this

POOR ORIGINAL

1066 319

proceeding, the Commission was offered the expert testimony of several witnesses relating to the fair and reasonable rate of return for common equity for the Company. These financial experts presented detailed explanations of a number of methodological approaches to the determination of the cost of equity capital for the Company.

This Commission has frequently stated that it adheres to no particular theory or methodology for the determination of a fair rate of return on common equity.[30] Rather, the Commission must carefully analyze the abstract theories in application in a practical context. As the Company's witness Dr. Stephen F. Sherwin succinctly acknowledged:

> Now, in approaching the estimation of the cost of equity capital, I concur with the frequently expressed views of this Commission that there is no formula, and that the process of estimating the cost of equity capital is essentially one of sifting multiple facets of factual evidence which, in my opinion, should serve as constraints on the exercise of judgment.
>
> (Tr., Vol. VIII, p. 93).

Dr. Sherwin incorporated three discrete standards in his analysis of the fair and reasonable rate of return in this proceeding, all of which rested on certain assumptions regarding prospective economic conditions relating to the rate of growth of "real" gross national product, the future annual rate of inflation and the yield of A-rated long-term bonds of public utilities (Tr., Vol. VIII, Sherwin, pp. 94-95). The standards utilized by Dr. Sherwin may be characterized as a composite of

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[30] See, e.g., Order No. 19,526, supra, at pp. 23-24; and, Order No. 18,394, supra, at p. 24.

three criteria of a fair rate of return: the opportunity for earnings commensurate with the earnings experience of comparable companies, the maintenance of credit and support of financial integrity, and the attraction of capital on fair and reasonable terms (Tr., Vol. VIII, Sherwin, p. 92). By utilizing these criteria, Dr. Sherwin testified that the fair rate of return for the Company, based on the Company's common equity ratio of 31.37%, as of May 31, 1977, would be 14.25% (Tr., Vol. VIII, Sherwin, p. 92).[31]

The Company's witness Francis E. Jeffries offered additional testimony designed to determine a fair rate of return for the Company. Mr. Jeffries' approach combined an evaluation of investor requirements, an analysis of the investment risks of the Company, a review of the return earned on alternate investments, and the Company's need to attract capital. His results were tested by an investigation of the equity-debt risk spread (Tr., Vol. XI, Jeffries, pp. 45-46). Based upon his analysis, Mr. Jeffries concluded that the "appropriate" rate of return on common equity for the Company is in the range of 14.0% to 14.5% at the present time (Tr., Vol. XI, Jeffries, p. 70).

The staff's expert witness, Dr. R. Glenn Rhyne, Director of the Commission's Department of Research, also presented testimony and exhibits relative to the cost of equity capital and the overall rate of return to permit the Company the opportunity to earn a fair return sufficient to enable the Company to serve its customers and meet the needs of investors. Dr. Rhyne employed two independent methods in deriving the conclusions expressed in his testimony in regard to the cost of

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[31] Dr. Sherwin's prefiled testimony included a recommendation of 14.5%, which was reduced to 14.25% due to "developments in the capital markets" occurring since the preparation of his prefiled testimony (Tr., Vol. VIII, Sherwin, p. 93).

POOR ORIGINAL

equity capital: the capital asset pricing model ("CAPM") and the discounted cash flow ("DCF") approach. Based upon a combination of those methods, Dr. Rhyne concluded that "the most likely" cost of equity for the Company was between 12.0% and 12.60% (Tr., Vol. XXIII, Rhyne, p. 96).[32]

The testimony and exhibits of the financial expert witnesses for the Company and staff approached their investigations within the parameters of the language of the United States Supreme Court in its decision in Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), at 603:

> [T]he return to the equity owner should be commensurate with the return on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, as to maintain its credit and to attract capital.

While the independent studies of each witness commenced with those standards, the methods employed produced quite different results, thereby presenting the Commission with a range of between 11.40%, the lowest estimate in Dr. Rhyne's DCF approach, and 14.5%, the highest estimate of Mr. Jeffries' study.

The Company's witnesses indicated that while the Company's condition necessitated rate relief, there has been "no significant indication that investors have lost confidence yet" (Tr., Vol. I, Williams, pp. 78-79). Nor has there been recent difficulty in marketing the Company's securities (Tr., Vol. I, Williams, pp. 79-80). As the Company's witness Wooten indicated, "The last real problem we had in attracting equity capital was in early 1975" (Tr., Vol. VI, Wooten, p. 68).

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32 The CAPM produced a "best estimate" of 12.60%, with an upper limit of 13.24% and a lower limit of 12.00%; the DCF procedure "suggested" a cost of equity between 11.40% and 12.60% (Tr., Vol. XXIII, Rhyne, p. 96).

While the Company's witnesses attribute the apparent recent investor confidence to the fact that a portion of the Company's proposed rates are in effect under bond,[33] the Commission considers the recent experiences of the Company to be significant in our analysis of the fair rate of return on the Company's common equity.

The Commission cannot determine the fair and reasonable return on common equity for the Company in isolation. Rather, the Commission must carefully consider a variety of relevant factors, including identifiable trends in the market relating to the costs of labor, materials and capital; comparisons of past earnings with present earnings and prospective earnings; the prices for which the Company's service must be rendered; the returns of other enterprises and the reasonable opportunities for investment therein; the financial policy and capital structure of the Company and its ability to attract capital; the competency and efficiency of the Company's management; the inherent protection against destructive competition afforded the Company through the operation of the regulatory process; and the public demand for growth and expansion which is particularly significant in evaluating the construction program of the Company for the foreseeable future.

In its determination of a fair and reasonable rate of return, the Commission maintains the ultimate responsibility of setting the rates to be charged for the electrical service provided by the Company. The exercise of that responsibility involves the balancing of the interests of the consumer and the investor. The Commission heard the testimony of consumers

[33] See, e.g., Tr., Vol. II, Williams, p. 19.

POOR ORIGINAL

throughout the Company's service area, articulating a concern about the increasing costs of all forms of energy, including electricity, which create a heavy burden for many residential customers with limited or fixed incomes.[34] The Commission must gravely balance the interests of the consumer in regard to the price of electrical service with the interests of the same consumer in regard to the reliability and adequacy of the supply of electrical energy. The Commission has kept these interests paramount throughout this proceeding.

Upon thorough review of the factors necessary for a proper determination of this matter and according each factor its appropriate significance, the Commission has determined that the rate schedules presented for approval by the Company, which produce additional revenues of $30,269,340 and generate a rate of return on common equity of 14.54%, are unlawful and unreasonable. That return on common equity and the associated rate schedules cannot be approved based upon the evidence in this proceeding.

It, therefore, becomes the Commission's responsibility to set a fair and reasonable rate of return on common equity from which can be derived the lawful rates for the Company for its retail operations. This responsibility must be discharged in accordance with statutory and judicial standards, and based upon the numerous factors identified herein, and applied in accord with the informed judgment of the Commission.

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34 <u>See</u>, <u>e.g.</u>, Tr., Vol. XXII, Bell, pp. 18-22; Vol. XXV, Harmon, pp. 27-29; Pope, pp. 36-37; Miller, pp. 56-57; Vol. XXXIII, Gobel, pp. 32-35; Reeves, pp. 54-55. <u>See also</u>, Tr., Vol. XLII.

POOR ORIGINAL

In light of all relevant issues in the record of this proceeding, the Commission is of the opinion that a fair and proper return on common equity falls within the range of 12.5% to 13.0%, and that the rate of return of 13.0% on common equity produced by the additional revenues of $21,796,559, as approved *infra*,[35] is fair and reasonable.

The rate of return on common equity allowed in this Order falls within the range presented in Dr. Rhyne's testimony, which the Commission considers a reasonable expectation for the equity owner and, therefore, in accordance with the standards of the *Hope* decision. A return within the range found fair and reasonable is sufficient to protect the financial integrity of the Company, preserve the property of the investor, and permit the Company to continue to provide reliable service to present and future customers at reasonable rates.

The Commission acknowledges that the rate of return on common equity represents the same return allowed in the Company's most recent ratemaking proceeding[36] when the financial condition of the Company was measurably less salutary (Tr., Vol. I, Williams, p. 66-67). The Company's witnesses, however, indicated that the Company had been unable to earn the 13.0% return previously allowed (Tr., Vol. I, Williams, p. 70; Vol. VI, Wooten, p. 14). The Commission is of the opinion that its action herein will permit the Company to earn a return up to 13.0% which the Commission has determined to to be reasonable.

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[35] *See*, Section XIII, *infra*.

[36] *See*, Order No. 18,394, *supra*, at p. 26.

POOR ORIGINAL

1066 325

In arriving at this rate of return, the Commission is concerned only with the return to be earned on the common equity allocated to that portion of the Company's operations subject to the Commission's jurisdiction in this proceeding. Sales of electricity on a wholesale basis to other electrical suppliers are subject to the jurisdiction of the Federal Energy Regulatory Commission. The Commission has made its findings based on the jurisdictional retail electric operations of the Company, and has not considered any other operations or property. Furthermore, indicated in Section VI, supra, the Company's investment related to Energy Subsidiary, Inc., has been excluded for computation of rate of return.

VIII.

RATE OF RETURN

An important function of ratemaking is the determination of the overall rate of return which the utility should be granted. This Commission has utilized the following definition of "rate of return" in previous Orders, and continues to do so in this proceeding:

> For regulatory purposes, the rate of return is the amount of money earned by a regulated company, over and above operating costs, expressed as a percentage of the rate base. In other words, the rate of return includes interest on long-term debt, dividends on preferred stock, and earnings on common stock and surplus. As Garfield and Lovejoy have put it "the return is that money earned from operations which is available for distribution among the various classes of contributors of money capital. In the case of common stockholders, part of their share may be retained as surplus."
>
> Phillips, The Economics of Regulation, pp. 260-261 (1969).

The amount of dollars permitted to be earned by the Company through its rate structure, depends upon the rate base

POOR ORIGINAL

1066 326

and the allowed rate of return on the rate base. As discussed in the preceding section of this Order, the primary issue between the regulated utility and regulatory body most frequently involves the determination of a reasonable return on common equity, since the other components of the overall rate of return, i.e., dividends on preferred stock and cost of debt, are fixed. Although the determination of the return on common equity provides the necessary component from which the rate of return on rate base can be derived, the overall rate of return, as set by this Commission, must be fair and reasonable.

The United States Supreme Court, in the decision of Bluefield Water Works & Improvement Co., v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), delineated general guidelines for determining the fair rate of return in utility regulation. In the Bluefield decision, the Court stated:

> What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgement, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risk and uncertainties; but it has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time, and become too high or too low by changes affecting opportunities

> for investment, the money market, and business generally. 262 U.S. at 692-693.

During the following years, the Supreme Court refined these precepts, and in the landmark Hope decision, supra, the Court restated its view:

> We held in Federal Power Commission v. Natural Pipeline Co. ... that the Commission was not bound to the use of any single formula or combination of formulae in determining its rates. Its ratemaking function, moreover involves the making of 'pragmatic adjustments' (cite omitted) .... Under the statutory standard of 'just and reasonable' it is the result reached, not the method employed which is controlling (cites omitted) ....
>
> The ratemaking process under the Act, i.e., the fixing of 'just and reasonable' rates involves a balancing of the investor and the consumer interests. Thus we stated in the Natural Gas Pipeline Co. case, that regulation does not insure that the business shall produce net revenues. (cite omitted). But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividend on the stock. (cite omitted). By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital. 320 U.S. at 602-603.

The vitality of these decisions has not been eroded, as indicated by the language of the more recent decision of the Supreme Court in In Re Permian Basin Area Rate Cases, 390 U.S. 747 (1968). This Commission has consistently operated within the guidelines set forth in the Hope decision.

The record in this proceeding demonstrates that the non-jurisdictional operations of the Company have a lower rate

POOR ORIGINAL

of return when compared to the average rate of return for various classes of jurisdictional retail customers. (Tr., Vol. XIX, Harris, p. 105; Hearing Exhibit No. 42, p. H-4). It would appear that the Company has acknowledged this fact and has recently engaged in certain actions to remedy the situation, including a renegotiation of its DuPont contract No. 2 and the preparation of an application for a rate increase before the Federal Energy Regulatory Commission ("FERC") for the Company's wholesale for resale customers (Tr., Vol. XV, Boyleston, pp. 118-120). This Commission will maintain a definite interest in the development and outcome of those activities since the associated rates clearly affect the overall rate of return for the total Company. As the Commission has demonstrated on several occasions in recent ratemaking proceedings involving its principal jurisdictional electrical utilities, rates cannot, and will not, be approved which have the effect of subsidizing non-jurisdictional operations through earnings derived from utility operations within the Commission's jurisdiction.[37] It is the overall rate of return of the entire Company that a potential investor analyzes. To the extent that the Company fails to earn a proper return on its non-jurisdictional service, there is a direct, adverse impact on the retail customer. The Commission will expect the Company to continue to take all reasonable steps to ameliorate the effects of this situation.

The rate of return which the Commission has herein found to be fair and reasonable in this proceeding should maintain the Company's competitive position in the capital markets.

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[37] See, e.g., Order No. 19,526, supra, at pp. 29-30; Order No. 18,394, supra, at p. 29.

POOR ORIGINAL

Patently, however, the Company must insure that its expenses remain at the lowest level consistent with reliable service and exercise appropriate managerial efficiency in all phases of its operations. The Commission has manifested its abiding concern for the establishment and continuation of efficiency programs on the part of its jurisdictional entities. By its Directive of August 27, 1974, the Commission urged the derivation of cost control studies, the adoption of cost reduction programs, and the elimination and reduction of costs "in all possible ways."

The Company's witnesses indicated that the Company had instituted recently a number of programs to increase efficiency and reduce operating costs. In addition, the Company has established a Department of Economic Research and Performance Analysis to compile economic data and operating statistics for comparison with comparable utilities and industrial firms (Tr., Vol. I, Williams, pp. 56-57; pp. 95-101; Tr., Vol. XVII, Summer, pp. 129-130). While the Company was unable to provide specific quantitative results of the operations of its various efficiency and cost reduction programs,[38] the record of this proceeding indicates that the Company has undertaken its cost reduction efforts in the spirit of the Commission's Directive and in the interest of efficient and economical service to Company's ratepayers.

Nevertheless, the Company may take notice of the fact that the Commission is not inclined to be completely satisfied with the cost reduction and efficiency programs of any jurisdictional entity. The Company should continue to implement and enhance such programs in the future as an index

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[38] See, Tr., Vol. I, Williams, p. 98-99; Vol. XVIII, Summer, at p. 35.

POOR ORIGINAL

1066 330

of good management practice in the interests of the ratepayers and the Company itself.

The Commission staff witnesses, H. M. Harris, Jr., and Sam C. Hammond, Accounting Manager of the Utilities Division, endorsed the undertaking of a management audit of the Company by an independent firm under the aegis and direction of the Commission (Tr., Vol. XXIII, Harris, pp. 40-41; Tr., Vol. XXVI, Hammond, pp. 50-51, 60). Such an audit would be designed to determine the efficiency and validity of the Company's management policies and practices.

The Commission has considered thoroughly the staff's testimony relating to a management audit of the Company. The Commission has determined that such an undertaking would be inadvisable at this time. The Commission recognizes that the Company has recently engaged in a reorganization of the structure, responsibilities and personnel of its top-level management positions (Tr., Vol. II, Williams, pp. 3-5; Vol. XVIII, Summer, pp. 36, 73-75). While clearly not foreclosing a future requirement for a management audit, the Commission has determined that the results of such a study would be more meaningful after the Company has had a reasonable opportunity to operate within the recently reorganized framework. Therefore, the Commission will refrain from any requirement for a management audit in the context of this proceeding. In any respect, the Commission feels that the most affirmative measure of the "management efficiency" of any electrical utility remains its ability to provide adequate and reliable service to its customers at a reasonable price.

The Commission has found that the capitalization ratios as of May 31, 1977, are appropriate and should be used in this

POOR ORIGINAL

1066 331

proceeding in a determination of the Company's overall rate of return.[39] The Commission has likewise found that the embedded cost rates for debt and preferred stock of 7.60% and 7.91%, respectively, should be utilized in the determination of a fair rate of return.[40] The cost rate of the Company's equity capital has been found to be 13.0%.[41]

Using these findings, the overall rate of return on rate base for the Company's retail electric operations may be derived as computed in the following table:

TABLE H

OVERALL RATE OF RETURN

	Ratio	Cost	Weighted Cost
Total Debt	55.64%	7.60%	4.23%
Preferred Stock	12.99%	7.91%	1.03%
Common Equity	31.37%	13.00%	4.07%
TOTAL	100.00%		9.33%

IX.

ACCOUNTING AND PRO FORMA ADJUSTMENTS

Certain adjustments affecting revenues and expenses were included in the exhibits and testimony offered by the Company and by the staff. A number of such adjustments were proposed and considered by the Commission. This Order will address only those accounting and pro forma adjustments which differed between the Company and the staff.

[39] See, Section VI, supra.

[40] See, Section VII, supra.

[41] Id.

The Commission staff adjusted the Company's operation and maintenance expenses by a figure of $60,816 for the Company's retail operations. This adjustment reflected the total of certain items expensed during the test period, which were reimbursable to the Company subsequent to the test period (Hearing Exhibit No. 42, p. 10). The Commission is of the opinion, and so finds, that this adjustment made by the staff is proper in the context of this proceeding and should be approved.

The staff made an adjustment to the Company's operation and maintenance expenses of $105,374 for the Company's retail operations to eliminate certain legal fees expensed during the test period which pertained to a pending legal action to enforce certain contract obligations related to the supply of uranium fuel for the Summer Unit.[42] The staff contended that the expense should be capitalized and, therefore, recovered over a future period rather than in one year (Hearing Exhibit No. 42, p. 10). The Commission agrees with the staff's treatment of this expense item, and will approve the reduction of operation and maintenance expenses for this amount.

The staff reclassified certain advertising expenses of $36,060 included by the Company in Account No. 930.1, General Advertising Expenses. The amount so reclassified represented general advertising expenses for other than conservation purposes, and the staff's adjustment has the effect of eliminating such expenses for ratemaking consideration.

This Commission has previously stated its belief that electrical utility advertising, except for the promotion of energy conservation, is beneficial neither to the ratepayer nor

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[42] See, Section XIII, infra.

POOR ORIGINAL

to the utility.[43] The Commission finds no reason for departure from that position, and, therefore, finds the staff's adjustment to be reasonable for the purposes of this proceeding. The total advertising expense properly included in Account No. 930.1 for the test period is $179,683.

The staff also made an expense adjustment based upon its sample of the Company's expense vouchers for the test period. The amount of $10,924, for retail operations, was charged to Account No. 426, Miscellaneous Income Deductions, by the staff's adjustment.[44] The Commission agrees with the rationale advanced by the staff, and finds the adjustment appropriate for this proceeding.

The record of this proceeding reveals considerable discussion of the expenses incurred by the Company during the test period in the form of fees for legal services.[45] The Commission has reviewed thoroughly the record in this proceeding and finds therein no evidence sufficient to disallow for ratemaking purposes the expenses paid by the Company for legal services, including retainer fees, during the test year. The testimony indicates that such fees were reasonably incurred, and the Commission herein finds that they should be allowed for ratemaking purposes.

The staff proposed to adjust state and federal income taxes to reflect the effect of revenue and expense adjustments. The Commission has considered and adopted these tax adjustments for the purposes of this proceeding. All other adjustments

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[43] See, Order No. 18,394, at p. 36.

[44] The items included dues and entertainment expenses. (Hearing Exhibit No. 42, p. 10).

[45] See, e.g., Tr., Vol. III, Williams, pp. 5-20; Vol. XX, pp. 28-126; Vol. XX, pp. 1ff; Vol. XXXVII, Eckhart).

to revenues, expenses, or rate base items proposed by the staff in its presentation, not specifically mentioned previously, have been reviewed by the Commission and found reasonable.

In addition, the Commission herein makes an adjustment to the Company's operation and maintenance expenses of $5,635 to reflect the reclassification of that amount from the expenses of the Company's Governmental Affairs Department. The specific amount so reclassified represents the expenses incurred by that Department for alcoholic beverages during the test period (Tr., Vol. XXX, Smith, p. 47). While the Commission determines the general expenses for the operation of that Department to be properly considered for rate-making purposes,[46] the Commission is of the opinion, and so finds, that the purchase of alcoholic beverages in connection with the operation of that Department does not constitute a proper expense to be borne by the Company's ratepayers. Therefore, the Commission will disallow the amount so expended by the Company during the test period.

X.

REVENUE REQUIREMENTS

The Company's total income for return on its retail operations after accounting and pro forma adjustments and prior to any rate adjustment is $70,028,884, which, if divided by the rate base of $865,401,449, as computed in Table B, supra, results in a rate of return on rate base of 8.09%, as of December 31, 1976.

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[46] See, Tr., Vol. XXIX, Hammond, pp. 53-56.

In order to achieve an overall rate of return on jurisdictional operations of 9.33% which we have found fair and reasonable for the test period, in accordance with the reasons determined herein, the Company would have required an amount of $80,779,068 income for return on its retail operations.

Total income for return, both before and after the approved rate increase, as found by the Commission, is shown in the following table:

TABLE I

TOTAL INCOME FOR RETURN

BEFORE RATE INCREASE	ELECTRICAL RETAIL
Net Operating Income for Return	$48,264,560
Customer Growth	673,773
Allowance for Funds Used During Construction	15,929,487
Income Tax Credit	5,161,064
TOTAL INCOME FOR RETURN	$70,028,884
AFTER RATE INCREASE	
Total Before Increase	$70,028,884
Approved Increase (Net of Taxes)	10,602,805
Customer Growth on Approved Increase	147,379
TOTAL INCOME FOR RETURN	$80,779,068

The revenue requirements found herein are those required and which the Commission thereby finds appropriate for the test period, in recognition of the prospective application of the rates so approved.

POOR ORIGINAL

1066 336

XI.

AUTOMATIC FUEL RATE ADJUSTMENT CLAUSE

Pursuant to the terms of Order No. 77-425, this proceeding incorporated the regular semi-annual hearing relative to the operation of the Company's Automatic Fuel Rate Adjustment ("AFRA") clause. The Company's AFRA clause was originally approved by the Commission in 1970,[47] and has been modified and refined in several subsequent proceedings.[48]

The Commission has previously stated its consistent position on the use of an automatic fuel adjustment clause as a rate setting device. The Commission reiterates in this proceeding that it remains our determination that the most appropriate method for ratemaking for regulated utilities is the standard formal rate application filing. Any type of automatic adjustment clause is perceived by this Commission as a departure from the traditional ratemaking process and, consequently, must be cautiously scrutinized to insure that the facts and circumstances fully warrant that the exceptional device be approved and implemented. With respect to the Commission's consideration of the proposed continued use of the Company's AFRA clause, we must evaluate the fuel costs associated with the generation of electricity, which is the basic justification for the adjustment, in regard to the total expenses of the Company. The Commission must examine the volatility of fuel costs in the period under review. Furthermore, the Commission must analyze in the absence of the AFRA clause, the potential for impairment and deterioration of the Company's

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[47] See, Order No. E-1,065, issued in Docket No. 15,059, dated April 30, 1970.

[48] See, Order No. 17,648, issued in Docket No. 16,824, dated May 30, 1974; Order No. 19,002, issued in Docket No. 18,362, dated February 4, 1976; Order No. 77-41, issued in Docket No. 18,362, dated February 1, 1977.

POOR ORIGINAL

1066 337

financial condition, and the additional expense for the ratepayer, the Company and the State, attributable to additional formal ratemaking proceedings necessary to address increased fuel expenses.

During the test period in this proceeding, over forty percent (40%) of each dollar of the Company's revenue was required for fuel purchases (Tr., Vol. I, Williams, p. 58). The Company's fuel related costs accounted for some seventy-four percent (74%) of the total operation and maintenance expenses during the test year.[49] The Commission staff's audit of the Company's fuel purchasing practices indicated that for the period January 1976 through March 1977, the cost per ton of all coal purchased fluctuated from $18.38 in June 1976 to $21.21 in March 1977.[50]

The Commission recognizes that the cost of fuel, particularly coal, has not increased as dramatically as in the recent past. As the Company's witness Summer demonstrated, the Company's average cost of coal purchased in 1976, including freight costs, was actually 8.54% less than the comparable figure in 1975 (Tr., Vol. XVII, Summer, p. 126). The Company contends that the proportionate relationship of fuel costs to the Company's total expenses will continue the magnifying effect on the Company's total operation and maintenance expenses created by relatively small increases in the costs of fuel.[51] While the Commission concurs in this appraisal, and herein approves a continued application of the Company's AFRA clause, with certain modifications, we shall exercise carefully our constant review of the Company's fuel costs in

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[49] See, Hearing Exhibit No. 42, p. 32.

[50] Hearing Exhibit No. 42, pp. 102-104.

[51] See, the Company's Brief at p. 41.

POOR ORIGINAL

1066 338

accordance with our view of the fuel adjustment mechanism as an exceptional device.

The Commission finds that the Company's current financial posture, previously discussed in detail, and the continuing fluctuations in market prices of the fuels necessary for electrical generation, necessitate the retention of the AFRA clause. Additionally, it must be remembered that this clause is designed to pass along with rapidity to the consumer all decreases in fuel costs to the Company as well as all increases.

The presently approved fuel component in the Company's base rates amounts to 9 mills per KWH. Both the Company and the Commission staff recommended an adjustment to this figure in order to increase the fuel component to 11 mills per KWH (Tr., Vol. XIII, Groetzinger, p. 46; Vol. XIX, Harris, pp. 106-107). This Commission has previously delineated the integral relationship between the base rates and the application of a fuel adjustment clause:

> [T]he function of an AFRA clause, is to attempt to allow the recovery of fuel costs above a certain base level. The base is normally set somewhat below but in reasonable proximity to the fuel costs experienced by the Company at the time the AFRA clause is adopted, it being assumed that the fuel costs below the base are being collected under the remaining standard rate provisions of its tariffs. If fuel costs rise above the AFRA clause base, such additional costs are collected by the Company by being added to the customer's bills. If fuel prices decline below the base, the reduction is passed through to the customer as a credit on his bill.

Order No. 19,002, supra, at p. 5.

The Company asserts that the proposed adjustment to 11 mills per KWH would alleviate a cash flow problem for the Company associated with the effect of the "30-day lag" provisions in the currently operable AFRA clause (Tr., Vol. XIII, Groetzinger, pp. 46-47). This position was essentially corroborated by the testimony of the staff's witness Hammond (Tr., Vol. XXVI, Hammond, pp. 82-83). The staff contended that the adjustment in the base rates would have the effect of matching more closely the fuel component in the base rate with the actual cost of fuel incurred by the Company (Tr., Vol. XIX, Harris, pp. 106-107; Hearing Exhibit No. 42, p. H-7).[52]

Based upon the testimony and exhibits in the record of this proceeding, the Commission is of the opinion, and so finds, that the proposed adjustment in the fuel component of the Company's base rates from 9 mills per KWH to 11 mills per KWH should be approved. The increase in revenues collected through the approved increase in the fuel component of the base rates will be offset identically by a decrease in the revenues collected through the AFRA clause.[53] Therefore, the Company will not be allowed increased revenues from this adjustment.

The staff also proposed an amendment in the form of the deletion of certain language in the Company's current AFRA clause. Specifically, the staff recommended the removal of "costs such as fuel handling, fuel additives and operating and maintenance ..." from paragraph "C" of the Company's present AFRA clause (Tr., Vol. XIX, Harris, pp. 105-106).

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[52] According to the calculations of the staff's witness Harris, the operation of the AFRA clause and a full component of 11 mills per KWH in the base rates would have resulted in fuel adjustment credits on bills received by customers in six of the twelve months in the period May 1976 through April 1977.

[53] See, Hearing Exhibit No. 35.

POOR ORIGINAL

The staff's proposal would have the effect of clarifying further the implementation of the AFRA clause to comport with the expressed nature of the clause to be "strictly a fuel clause" (Tr., Vol. XIX, Harris, p. 105).

The Commission considers the staff's proposal to be reasonable and, further, determines that it should be approved for implementation in the Company's AFRA clause.

The staff conducted an audit of the Company's fuel purchasing practices and procedures, pursuant to Order Nos. 19,002 and 77-41, supra.[54] The staff concluded that the Company's purchasing and accounting practices had been in compliance with the Commission's requirements for the period under review (Hearing Exhibit No. 42, pp. 93, 95). The record in this proceeding reveals no evidence to the contrary.

The Company's witnesses Williams and Summer described the Company's recent activities to enforce the contract obligations of the Company's supplier of nuclear fuel for the prospective requirements for the operation of the Summer Unit (Tr., Vol. III, Williams, pp. 75ff; Vol. XVII, pp. 127-128). The Commission remains acutely interested in the developments of the legal action commenced by the Company. We shall continue to expect the Company to take the appropriate and reasonable actions to secure its nuclear fuel requirements as anticipated. Furthermore, the Commission will expect the Company to keep the Commission and staff advised of further developments in this matter.

The Commission is fully cognizant that the accounting procedures utilized in the implementation of the Company's AFRA

[54] See, Hearing Exhibit No. 42, pp. 91-104.

clause are complex. In order to maintain the necessary supervision of the operation of the clause and reduce the possibility of misapplication of its provisions, the Commission will direct the Company to continue to submit monthly the material and reports previously required relative to the calculation and implementation of its AFRA clause.

Furthermore, the Commission considers it reasonable to continue the procedures for semi-annual hearings provided by Order No. 19,002, supra, to enhance the quality of supervision of the AFRA clause. The hearings allow the Commission the opportunity to determine if adjustments in the fuel component contained in the base rates are necessary and reasonable, and further operate as a device to permit the review of the fuel purchasing practices of the Company, as well as other related issues, by the general public, the Commission and the staff.

XII.

ALLOCATION OF RATES

The revenue requirements of the Company having been determined,[55] the Commission is also concerned with the determination of the specific rates and the development of the rate structure that will yield the required revenues. It is generally accepted that proper utility regulation requires the exercise of control over the rate structure to ensure that equitable treatment is afforded each class of customer.

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[55] See, Section XI, supra.

POOR ORIGINAL

The three principal criteria of a sound rate structure have been delineated as follows:

> ... (a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost-apportionment objective, which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer-rationing objective, under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between cost incurred and benefits received.
>
> Bonbright, Principles of Public Utility Rates (1961), p. 292.

These criteria have been observed by this Commission in recent proceedings and again are utilized in this matter.

Every utility rate is based, in part, upon cost differences in serving different types of customers. Three significant concepts in determining relevant cost considerations are the load factor, the utilization factor, and the diversity factor.

The load factor is the average load expressed as a percentage of the peak load of an electrical utility. For example, if the average load for a year is 12,000 KW and the peak at any moment of time is 18,000 KW, the annual load factor is 66-2/3%. Electrical utilities attempt to maintain their load factor as high as possible, since the higher the average output relative to the peak load, the more units there are over which to spread the fixed costs of the utility.

The utilization factor is the peak load expressed as a percentage of a system capacity. An electric utility must have some reserve capacity to meet emergencies and have

POOR ORIGINAL

1066 343

sufficient capacity to be able to perform scheduled maintenance on electric generating facilities as required. It is desirable for any utility to have as high a utilization factor as possible. However, the higher utilization rises, the less reserve capacity there is available.

The fact that the peaks of usage of the respective classes of service do not necessarily coincide with the annual peak demand and, therefore, do not occur simultaneously is referred to as the diversity among the classes of services. The degree of diversity is measured by the diversity factor which is considered to be the ratio of the sum of the class peak demands to the system's maximum demand. This factor, as well as the load and utilization factors, have been considered by this Commission in this proceeding.

The cost of supplying electricity to different customers is a function of many factors and variables. The allocation of these costs among the different classes of customers represents a complex task, since many of the total costs of producing energy are common to all customers. A procedure frequently used by this Commission in analyzing utility costs in the context of the review of rate design provides for the assignment of the distribution of total costs among three major categories based on (1) costs that are a function of the total number of customers, (2) costs that are a function of the volumes of the service supplied or energy costs, and (3) costs that are a function of the service capacity of plant and equipment in terms of capability of carrying hourly or daily peak loads or demand costs.

The record in the instant proceeding contains three separate rate schedules for the Commission's consideration, each of which would generate the same additional revenues based on the test year. The Company's Application proposed to increase the Company's approved base rates as of the date of filing, November 13, 1976, by 13.25%, which would have generated $30,269,340. The same additional revenues would have been produced by the Company's alternate rate schedules, submitted on April 15, 1977, in conjunction with the Company's prefiled testimony and exhibits, pursuant to Order No. 77-197, supra. The proposed rate schedules submitted by the Commission staff on June 8, 1977, as subsequently amended, would likewise have generated the revenues sought by the Company.[56]

The proposed rate schedules contained in the Company's Application amounted to an "across-the-board" increase of 13.25% for retail sales, based on the rates approved in Order No. 18,427, supra, derived in the Company's last general ratemaking proceeding, and based on the contemporary cost of service study used in that case. The Company's alternate rate schedule was designed on the basis of the 1976 Cost of Service Study, which was required by the staff's Information Data Request No. I, dated January 3, 1977 (Tr., Vol. XV, Boyleston, p. 83). The alternate rate schedules reflected different percentage increases for the various customer classes, but amounted to an overall increase of 13.25% in base rate revenues.

The rate design presented by the Commission staff proposed revisions only in certain rate schedules of the Company (Rate Schedules 8, 14, 20 and 23). While the revisions

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[56] Notice that the three separate rate schedules had been filed with the Commission was contained in the Notice of Hearing in the instant matter which was duly published and served on all parties of record in this proceeding.

POOR ORIGINAL

so proposed would have produced the same revenues sought by the Company, staff witness Harris indicated that the rate design did not represent an endorsement or acceptance of the Company's revenue proposals (Tr., Vol. XIX, Harris, p. 107).

The Company's witness Boyleston testified that the cost of service study[57] was the premise for the Company's proposed rate changes:

> One of our objectives is to make the rates of return for the individual classes of customers as nearly the same as the overall rate of return as practical and to accomplish this without abrupt changes to individual customers.
>
> (Tr., Vol. XV, Boyleston, p. 83).

The Company's cost of service reflected the varying deviations in rate of return of each class of service from the overall rate of return of the Company. The alternate rate schedules submitted by the Company represented an attempt to readjust the returns from each class of service to compare more favorably with the overall return.

The staff's witness Harris expressed the opinion of the staff that "an appropriate rate design should reflect, as closely as possible, the costs of providing electric service to customers. Additionally, rate design should be used to conserve energy resources, and to promote economic efficiencies." (Tr., Vol. XIX, Harris, p. 108). The rate design proposed by the staff represented an attempt to realize those objectives. The basic differences between the alternate rates proposed by the Company and the staff's rate design concerned the

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[57] Identified and introduced as Hearing Exhibit No. 2, Tab 25.

POOR ORIGINAL

1066 346

appropriate basic facilities charge for residential customers, a proposed reduction in the number of rate blocks for residential customers, and the staff's proposal of the implementation of a 90% "ratchet" provision for Rate Schedules 20 and 23.

The Commission has considered a spectrum of factors in its deliberations as to the appropriate allocation of rates in accordance with our finding of a lawful rate of return for the Company. Clearly, cost factors play a prominent role in the identification of the constituent elements of a fair and reasonable rate design, but cost cannot be used as the sole determinant. The Commission must also consider the various types of rate designs, such as the "flat" rate and the "inverted" rate, in its evaluation of the proposed rate schedules in the record of this proceeding.

The Commission has endeavored to derive equitable, lawful and reasonable rates of return for each customer class in comparison with the rate of return earned for each other customer class, and with the total company rate of return. The rate design herein approved incorporates features from both the Company's alternate rate schedule and the staff's proposals in an effort to achieve the objectives deemed appropriate and proper.

The Commission realizes that increases in electrical utility rates may be felt most dramatically by the very low-use customer. In attempting to ensure, however, that the rate structures of our jurisdictional electrical utilities follow, to the fullest extent possible, their respective costs of service, by which each customer class sustains an equitable

portion of those costs associated with providing proper service to that class, it becomes impossible to provide special relief to a single class of customers through the rate design without creating serious inequities elsewhere. The Commission's concern is insuring that all customers bear their proportionate share of the costs of electrical service.

The Company has requested an increase in revenues of $30,269,340, and has submitted proposed rate schedules which would produce that amount of additional revenue. The Commission has determined that the Company should be allowed additional revenues of $21,796,559, rather than the amount requested. This determination represents a reduction of $8,472,781 in the amount requested.

The Commission must assume the responsibility for the identification of the manner in which the Company's rate schedules should be redesigned to incorporate our findings herein and reflect the increase approved. The Commission acknowledges the complexity of the task. The relevant principles characterized in this discussion and the testimony and exhibits in the record of this proceeding have been fully considered in reaching our determination.

In approving the increases in the various classes of customers, as illustrated in Table J, infra, the Commission has reduced the deviation among the rates of return among the classes of customers. The increases appearing in Table J will be applied to each class of customer, and the Company will be required to file appropriate rate schedules for the approval of the Commission within ten (10) days of the date

of this Order to reflect the following increases:

TABLE J

APPROVED INCREASE BY CLASS

CLASS OF SERVICE	APPROVED INCREASE
Residential	
Regular	$ 7,829,925
Space Heating	2,162,643
	$ 9,992,568
General Service	
Small General Service I	$ 3,183,853
Small General Service II	-0-
Small General Service III	1,212,784
Medium General Service	1,509,062
Large General Service I	4,459,918
Large General Service II (DuPont No.2)	447,703
	$10,813,320
Street Lighting	
Street Lighting	$ 504,508
Other Public Authority	
Other Public Authority I	$ 140,991
Other Public Authority II (State Line)	345,172
	$ 486,163
Total Jurisdictional (Retail Electric)	$21,796,559

The Commission's action herein reflects the disapproval of the entire requested increase which would have been applicable to Small General Service II (Rate 12) customers. The record of this proceeding reveals that the rate of return attributable to that class of customers is disproportionately high with respect to the overall rate of return.[58] The Commission further recognizes that the Company's alternate rate schedule proposed no increase for Rate 12 customers. (Hearing Exhibit No. 36).

[58] See, Hearing Exhibit No. 2, Tab 25; Hearing Exhibit No. 42, p. H-4.

POOR ORIGINAL

In addition, the Commission has approved the full requested increase for the Large General Service II (DuPont No. 2) class of service. The rate of return for this class of service is disproportionately low when compared to the Company's overall rate of return. The Commission is of the opinion that this class of service should assume a more equitable share of the costs of service, and, therefore, the Commission finds reasonable the approval of the full requested increase. The Commission recognizes that the approved rate still generates a rate of return lower than that of the overall Company. We expect the Company to continue its efforts to align more closely the return from this rate with that of the overall Company.

After full consideration of the record in this proceeding, the Commission has adopted and approved herein specific rate schedules for Rates 8 and 14, designed to produce the increase for that residential class of customers indicated in Table J, supra. The approved Rate Schedules 8 and 14 are as follows:

RATE 8

Rate Per Month

Basic Facilities Charge ----------$4.50
Plus Energy Charge:
First 1000 Kwhrs at ---$ .03459 per Kwhr.
Excess over 1000 Kwhrs at ---$ .03844 per Kwhr.

ELECTRIC SPACE HEATING PROVISION

It is further provided that where the Company has determined that electricity is the sole means of space heating in the premises, all kwh, in excess of 1000 kwh, will be billed at $.02487 each during the billing months of October through June.

POOR ORIGINAL

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Rate 14

Rate Per Month

Basic Facilities Charge ----------$4.50
Plus Energy Charge:
First 1000 Kwhrs at ---$.03459 per Kwhr.
Excess over 1000 Kwhrs at ---$.03844 per Kwhr.

The approved Rates 8 and 14 incorporate the basic facility charge of $4.50 requested in the Company's alternate rate schedules rather than the basic facilities charge of $5.50 proposed by the staff. In addition, the energy charge differential between the two blocks of the rate design should have the effect of encouraging the conservation of electrical energy by placing a premium on usage over 1000 KWH. The effect of this rate design is to create and approve for Rates 8 and 14 what is generally characterized as an "inverted" rate. These redesigned Rates 8 and 14 produce a rate of return nearly identical to the Company's overall rate of return.

The Commission staff proposed the adoption of a 90% demand ratchet provision for the Company's Rates 20 and 23 customers (Tr., Vol. XIX, Harris, p. 97). The Company's proposed rate schedules included no provisions for altering the currently approved 80% demand ratchet. Demand ratchet provisions represent one method whereby the electrical utility may insure the necessary return on its investment in capacity during periods of low usage. The ratchet in Rates 20 and 23 provides the Company with a percentage of the fixed charges on its investment to serve those customers when their registered peak demand falls measurably below that peak experienced in the previous eleven months.

The Commission is of the opinion, and so finds, that the staff's proposed increase in the demand ratchet provision to 90%, with an accompanying decrease in the demand

portions of Rates 20 and 23 is not fully supported by the record in this proceeding, and should, therefore, be disapproved.

The Company will herein be required to file for approval within ten (10) days of the date of this Order revised rate schedules for Rates 8 and 14 as specified in this Order. In addition, the Company will be required to file for approval rate schedules for all other classes of customers and contracts for customers served by contract,[59] to reflect the approved increase for each class of customers illustrated in Table J, supra, and using the rate design incorporated in the Company's alternate rate schedules.

The rate schedules, when filed in compliance with the terms of this Order and approved by the Commission, shall be effective for electrical service rendered on and after the Company's first billing cycle in January 1978. The rates in effect pursuant to the Company's Undertaking of November 29, 1976, will therefore remain in effect until the first billing cycle in January 1978.

The rates in effect pursuant to the Company's Undertaking of November 29, 1976, are to be cancelled on the effective date of the approval of the rates to be filed in accordance with this Order. The Commission finds that the rate design of those rates placed in effect pursuant to the Undertaking are of a reasonable nature for the period of time during which the rates were being collected. The Commission, however, finds that the amount of revenue so collected was unreasonable. Therefore, the amount to be refunded will be refunded in the same manner in which they were imposed; i.e, by the application of an "across-the-board" reduction, with the exception of Rate 12

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[59] See, Tr., Vol. XV, Boyleston, pp. 111-113.

POOR ORIGINAL

class of customers to whom the entire amount so collected will be refunded and the Large General Service II (DuPont No. 2) class of customers to whom no refunds will be made, in accordance with the Commission's findings herein.

The Company is hereupon directed to refund "across-the-board" to the appropriate customers, as previously indicated, subject to the instant ratemaking proceeding, the percentage difference of the monies that would have been collected under bond and the amount found herein to be just and reasonable, calculated on the test period on an annualized basis. The Company shall credit to each affected customer this percentage of the increase so collected under bond. Interest thereon shall be paid in accordance with the terms of the Undertaking. The Company is further directed to make the appropriate refunds and to make the necessary calculations to accomplish the refund operation and file such calculations with the Commission.

XIII.

REVENUE FROM INTERCHANGE POWER

The record of this proceeding reveals that the Company increased its interchange sales to neighboring electrical utilities by a considerable amount in the first six months of 1977 with respect to the comparable period during the test period. (Tr., Vol. XVIII, Summer, pp. 5-6). The principal reasons for the increased sales, and associated revenues, were the severity of the 1976-77 winter weather and concomitant mechanical problems on the generating systems of the Company's neighboring utilities (Tr., Vol. IV, Nichols, pp. 48-50). The Company was able to

use its reserve capacity to furnish the necessary power for the relief of its neighboring utilities. The Commission staff's witness Hammond was questioned by the Commission Chairman in regard to the feasibility of making accounting adjustments to reflect the increased energy sales and associated revenues.

> COMM. FULLER: The last question is did the company or the accounting staff take into consideration growth? We have had a severe winter and a severe summer, and the company's revenues should be considerably higher than they have been because of increased sales. Did they take into consideration that they would have more growth in this last year?

A. Commissioner Fuller, we have what we call a growth adjustment which actually brings the number of customers up to what the year end customers would have been had they been on there all year long. That is the only adjustment we make as far as customer growth is concerned. Otherwise, we operate strictly from an historical test year.

> COMM. FULLER: What about the increase usage of the customers they already have?

A. We made no adjustment for any increase in usage that they might have.

> COMM. FULLER: Well, don't you think it was considerable?

A. Let me see if I understand you. In other words you are saying they used more electricity during a certain period of time out of the test period?

> COMM. FULLER: Well, the company has sold more kilowatts than they were selling because of the weather.

A. Right. We made no adjustment for that.

> COMM. FULLER: You don't have any estimate of what it would have meant to the company earnings-wise?

A. Not at this time, no sir.

The Company's consolidated income statement contained in its Quarterly Report, issued on June 30, 1977[60] indicates that

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[60] As incorporated by reference in the record of this proceeding (Tr., Vol. XXIII, pp. 85-86).

the Company's expense for "purchased power, net" for the first six months of the test period was $3,400,792. For the same period in 1977, the Company experienced a credit of $4,194,561. The difference between the 1976 expense and the 1977 credit in these two entries represents a figure of $7,595,353, which the Commission has determined should be adjusted to reflect more accurately the Company's operating experience during the test period, upon which the Commission must set lawful and reasonable rates. The Commission considers that the most appropriate disposition of the $7,595,353 would be in the form of a refund to the Company's retail electric customers.

The Commission has determined that the refund should be calculated by identifying the proper amount to be applied to the Company's retail operations, which should be derived by calculating the percentage of the Company's total retail sales during the test period as related to the total Company electric sales.[61] That percentage of 92.65% is applied to the $7,595,353, to determine the amount related to the retail operations of $7,037,095. This last amount will be refunded in an "across-the-board" percentage determined by the ratio of the $7,037,095 to the total amount collected by the Company pursuant to its Undertaking of November 29, 1976. The percentage so derived will be applied to the amount of increased revenue collected under bond from each customer. The refunds so made shall include interest at the legal rate of six percent (6%) per annum. S. C. Code Ann., § 34-31-20 (1976). The Company is hereby directed to make the necessary calculations to accomplish

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[61] The percentage may be calculated by the following method: 100% - (FPC Wholesale Operating Revenues ÷ Total Company Operating Revenues, as adjusted) (See, Hearing Exhibit No. 92, p. 23, line 1, cols. 4 and 5).

POOR ORIGINAL

this refund and file such calculations with the Commission.

XIV.

USE OF LABOR AND MATERIALS
FOR PRIVATE PURPOSES

Mr. Charles W. Edwards, a former employee of the Company, appeared on behalf of the People are Coming, MWRO and Mr. Roy W. Smith, and offered testimony concerning certain carpentry work he had performed at the residences or other private property of several executive officers or former executive officers of the Company (Tr., Vol. XXXII, Edwards, pp. 151-160; Vol. XXXIV, Edwards, pp. 1ff; Vol. XLIV). Mr. Edwards indicated that during his employment he performed numerous services at such property during normal working hours for which he received his regular compensation from the Company. In addition, Mr. Edwards contended that he also performed such services during his off-duty hours for which he was given compensatory time with pay. In performing such services, Mr. Edwards testified that many of the materials utilized had been secured from the Company.

Several witnesses on behalf of the Company described personal experiences wherein Company employees had performed labor services at their private residences for which the employees were paid directly by the individual involved and not reimbursed from Company funds (Tr., Vol. XLI, Groetzinger, Vol. XLIII, Summer), or for which a labor supervisor was paid and directed to distribute the wages to the laborers involved (Tr., Vols. XXXIX, XL, Crews). The Company's witness Groetzinger described the Company's policies and accounting practices with respect to such labor by Company employees (Tr., Vol. XLI, Groetzinger).

On August 23, 1977, subsequent to the close of the hearings in this proceeding, the Commission directed the staff to undertake an investigation of the circumstances surrounding the alleged services performed on the private residence of

POOR ORIGINAL

Mr. E. H. Crews, a Vice President of the Company. The work involved was the construction of the home of Mr. Crews, which occurred in the 1964-65 period. The staff was to request the cooperation of the Company and of Mr. Edwards in its analysis. The staff was instructed to submit a report of the nature and results of its investigation in order to assist the Commission in its evaluation of the matter.

On December 1, 1977, the Commission staff filed and served on all parties of record, its Report as directed by the Commission. The basic conclusions contained in the Staff Report indicated that Mr. Crews actually paid for labor and materials sufficient to substantiate the appraised value of his residence; that, further, a Mr. T. D. Smith, since deceased, received various checks for the labor costs incurred in the construction of the residence, the disposition of which cannot be verified; that, further, the Company payroll records indicate that, for the period at issue, Mr. Edwards was employed only on Company-related jobs and only paid for such jobs. The staff also concluded that there was no empirical data to suggest that the Company's records are not accurate.[62] The Report further acknowledged an inherent limitation in the staff's investigation because of the failure of Mr. Edwards to participate in the investigation conducted by the staff.

[62] See, Report of Commission staff, at p. 8.

POOR ORIGINAL

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The Commission recognizes that the events described by Mr. Edwards occurred during the period from the fall of 1964 through the spring of 1971. Therefore, the matters with which Mr. Edwards was involved took place well before the test period in this proceeding, and, consequently, beyond the scope of this rate case. There is no indication that any alleged irregularities actually occurred during the test year.

Nonetheless, the Commission must insure that the Company takes such measures to prevent the implementation or continuation of any policy or practice whereby Company employees or materials may be improperly used for private purposes. Any such impropriety would impair the integrity of the Company and could operate to the detriment of the Company's ratepayers.

In this regard, the Commission herein adopts the recommendation made by the Commission staff in its Report. We, therefore, order the Company to take affirmative steps to insure that all labor performed by Company employees during regularly scheduled working hours be undertaken for Company business only. This Commission will not condone or tolerate any practice which permits Company employees to be used for private labor during regular working hours even though reimbursement is made to the Company.

XV.

CONSTRUCTION OF V. C. SUMMER NUCLEAR STATION

The record of this proceeding contains considerable testimony relative to the policies and practices of the Company in the construction of the Summer Unit. (Tr., Vol. XXXIV,

Whisennant; Vol. XXXV, Lincoln; Vol. XXXVII, Davis; Vol. XXXVIII, Harrington; Vol. XXXIX, Fowler; Vols. XXXIX and XL, Crews; Vol. XLI, Dobson; Vol. XLI, Pringle; Vol. XLIII, McCall). The general nature of the testimony reflected assertions of inefficient operations in the construction process made by former employees of the construction firm engaged in the project,[63] and the denial of the existence of any unusual inefficient construction practices with explanations of the control procedures to insure efficient practices offered by witnesses on behalf of the Company.[64]

The actual construction of the Summer Unit is performed by Daniel Construction Company ("Daniel"), with whom the Company has a "cost plus fixed fee" contractual arrangement for the construction project. According to the Company's witnesses, Daniel's profit on the construction project is limited to the fixed fee which encourages the prime contractor to complete the project as expeditiously and efficiently as possible. The Company exercises supervisory control over the construction operations through the activities of on-site Company personnel and established monitoring programs.

The allegations of inefficient operations at the Summer Unit construction site included descriptions of the fabrication of personal items during working hours and with material owned by the Company or by Daniel; claims of the presence of an excessive number of construction personnel;

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[63] See, Testimony of witnesses Whisennant, Lincoln, Harrington and Fowler.

[64] See, Testimony of witnesses Davis, Crews, Dobson, Pringle and McCall.

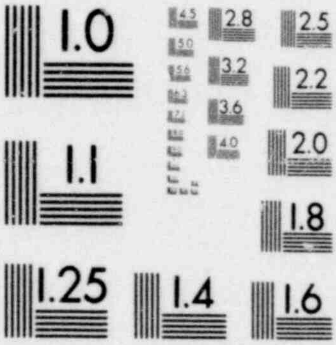
POOR ORIGINAL

the practice of the "hiding-out" of idle employees to avoid the appearance of inefficient labor practices; the recruitment and hiring of inexperienced and unqualified personnel and descriptions of related over-compensation and the existence of safety hazards; and a lack of coordination among the principal construction departments and trades.

The Company's witnesses acknowledged the fact that a certain amount of irregularities of the type described is inherent in a construction project of the magnitude of the Summer Unit. However, the testimony of the Company's witnesses Crews, Dobson and Pringle would indicate that the inefficient practices are not as widespread as alleged. Nevertheless, the Company's witness Crews, who exercises the overall responsibility for the construction of the project indicated that the Company does not condone such practices and makes every reasonable effort to eliminate them (Tr., Vol. XL, Crews, p. 20).

The Commission is cognizant of the escalation in construction costs which have affected the construction of the Summer Unit, including labor costs, price increases for materials, and unanticipated design and engineering costs prompted by regulatory agencies (Tr., Vol. I, Williams, pp. 49-52; Vol. XVII, Summer, pp. 118-119). The evidence in the record before us demonstrates that the increased costs for the construction of the Summer Unit are attributable to the interaction of these economic factors rather than due to definite construction irregularities or inefficient practices.

IMAGE EVALUATION
TEST TARGET (MT-3)



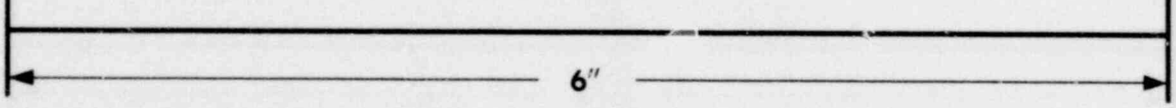


IMAGE EVALUATION
TEST TARGET (MT-3)

6″

**IMAGE EVALUATION
TEST TARGET (MT-3)**

6″

The Commission finds the expenditures of the Company for the construction of the Summer Unit to be reasonable to the present.[65] Furthermore, the Commission considers the projected installed costs of $706 per KW to be a reasonable figure for a project of this size and complexity. (Tr., Vol. I, Williams, p. 51; Vol. XLIII, McCall). The Commission will, however, maintain a careful scrutiny of the construction policies of the Company and of the costs of the Summer Unit prior to its commercial operation, proposed for May 1980. In future ratemaking proceedings, the Commission will consider thoroughly any further increases in the construction costs of the Summer Unit, and, if it so determines, will make the appropriate and necessary adjustments to the overall costs of the project which should be allowed for ratemaking purposes.

The Commission notes that the PSA, the Company's joint owner in the Summer Unit, maintains a constant review of the construction operations and related construction costs for the Summer Unit. Such review includes regular engineering reports and audits of the construction practices and schedules of the remaining site work. During the course of the hearing in this proceeding, the Board of Directors authorized the conduct of a special, independent audit of the financial and expense aspects of the Summer Unit in regard to the PSA's participation.

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[65] *See*, Section III, *supra*.

POOR ORIGINAL

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The Commission is of the opinion, and so finds, that the programs undertaken by the Company and the PSA, and the review by the Commission staff, are mutually complimentary and sufficient at present to assure the Commission and the Company's ratepayers that the construction costs of the Summer Unit are neither unreasonable nor excessive. The Commission fully expects the Company and the contractor to employ all reasonable measures to insure that the costs incurred in the construction of the Summer Unit are the lowest possible, consistent with the accepted standards of engineering practice and the required health and safety provisions.

XVI.

ENERGY SUBSIDIARY, INC.

In its Memorandum of August 27, 1974, addressed to all jurisdictional utility and transportation companies, the Commission stated:

> We anticipate no utility will request any new, or consider any expansion of present subsidiaries that would necessitate a need for capital. Any such move today will be denied by the Commission.

In response to the Commission's Memorandum, the Company's President (currently the Chairman of the Company's Board of Directors and Chief Executive Officer), Arthur M. Williams, indicated the Company's intentions with respect to the future of the Company's wholly-owned real estate development subsidiary, Energy Subsidiary, Inc. In a letter of September 12, 1974, Mr. Williams described the intention of the Company to reduce the real estate holdings of Energy Subsidiary in an orderly manner and to effect the dissolution of the corporation (Tr.,

POOR ORIGINAL

Vol. II, Williams, pp. 10-11). In this proceeding, the Company's witness Williams reiterated the Company's intention "to liquidate it [Energy Subsidiary, Inc.] as orderly and as fast as possible." (Tr., Vol. II, Williams, p. 12).

The Company's witness, John W. Huggins, Vice President and General Manager of Energy Subsidiary, Inc., described the operations of Energy Subsidiary in regard to the acquisition, development and sale of real estate (Tr., Vol. XXXII, Huggins, pp. 36-148).

The Company has indicated that Energy Subsidiary "is actively attempting to dispose of properties in an orderly and profitable manner ... and plans to continue to do so in the future."[66] While the Commission does not take the position that the Company should require its wholly-owned subsidiary to liquidate its property unprofitably, the Commission does strongly urge the Company to take positive steps to dispose of the real estate held by Energy Subsidiary and dissolve the corporation in accordance with the expressed intentions of the Company and the spirit of the Commission's Memorandum of August 24, 1974.

In the meantime, the Commission will require the Company to submit semi-annual reports on the progress made in the divestment of the real property and the subsequent corporate dissolution.

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[66] See, Hearing Exhibit No. 2, Tab 40, p. 9.

POOR ORIGINAL

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XVII.

MISCELLANEOUS ISSUES

The Company's witness Summer indicated that the upper reservoir associated with the Fairfield Pumped Storage project will be utilized for cooling purposes in the operation of the Summer Unit (Tr., Vol. XVIII, Summer, pp. 25-26). The Commission staff indicated that since the upper reservoir comprises an integral part of the operation of the Summer Unit, the costs of the reservoir should be appropriately allocated between the two projects. Consequently, at the completion of the Fairfield project, the proper amount should be allocated to the Summer Unit, with the appropriate share of the allocable expenses charged to the PSA. (Hearing Exhibit No. 42, p. 111).

The Commission concurs in this view expressed by the staff and, at the appropriate time, the Commission will require that a proper determination of the allocation be made.

Another issue was raised by the witnesses for the intervenors, Holly Hill and Gifford-Hill, who indicated several advantages which would result to the Company as well as to the intervenors should the intervenors be permitted to receive electrical service from the PSA (Tr., XIX, Colvin, pp. 8-38; Vol. XXIII, Thompson, pp. 46-47; Vol. XXVII, Boyle, pp. 61-62). As the Commission indicated at the commencement of this proceeding, the matter of territorial assignment is not relevant to the issues in this proceeding (Tr., Vol. I, p. 11). Therefore, the Commission makes no determination of such matters herein.[67]

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[67] See, S. C. Code Ann., § 58-27-660 (1976).

POOR ORIGINAL

XVIII.

FINDINGS AND CONCLUSIONS

Based upon the foregoing considerations and after a full review of the testimony and exhibits presented in this proceeding by the Company, the intervenors and the staff, the Commission has made the following findings and reached the following conclusions concerning the operations, the rate of return and the reasonable requirements for earnings to be allowed the Company:

1. That South Carolina Electric & Gas Company is an electric utility, providing electric service, both retail and wholesale, in a service area within South Carolina, and is subject to the jurisdiction of this Commission, pursuant to S. C. Code Ann., § 58-27-10 et seq. (1976);

2. That the Company's present construction budget for the next five years proposes expenditures of $621,675,000; that the Company's ten-year construction budget proposes expenditures of $1,184,225,000; that the construction of generating capability should be planned and designed at the minimum to meet annual peak loads; that based on the peak load forecasts entered in the record of this proceeding, the Company's present plans for construction of generating facilities are sufficient to meet the projected needs of its customers, which the Commission finds reasonable

3. That the appropriate test period for the purposes of this proceeding is the twelve-month period ending December 31, 1976;

4. That the Company is seeking an increase in its rates and charges to its retail customers, in Docket No. 76-645-E, that will produce additional revenues

POOR ORIGINAL

for the test period of $30,269,340;

5. That a year-end, original cost, retail electric rate base of $865,401,449, consisting of the components set forth in Section V of this Order, as adjusted in Table B, should be adopted;

6. That the capital structure, as adjusted, set forth in Table D of Section VI, should be approved;

7. That the embedded cost of long term debt, as of May 31, 1977, is set forth in Table E; that the Company's debt coverage ratio of earnings to fixed charges is set forth in Table F; that the Company's embedded cost of preferred stock, as of May 31, 1977, is set forth in Table G;

8. That the evidence provided a range for rate of return on common equity between 11.4% and 14.5%; that a fair and proper return on common equity for the Company falls within the range of 12.5% to 13.0%, and that the rate of return of 13.0% on common equity, produced by the additional revenues of $21,796,759, as approved, is fair and reasonable;

9. That the Company's embedded cost rate for debt of 7.60% and the Company's embedded cost rate for preferred stock of 7.91% and a cost rate of 13.0% on common equity should be used in the determination of a fair overall rate of return;

10. That the accounting and pro forma adjustments set forth in Section IX are reasonable and proper and should be adopted;

11. That the rate of return on the Company's retail electric operations, during the test period, after accounting and pro forma adjustments, and prior to any rate adjustment was 8.09%;

POOR ORIGINAL

12. That the total income for return allocated to retail electric operations, after accounting and pro forma adjustments and prior to rate adjustments, was $70,028,884 for the test period; and that such amount of income is insufficient based on the reasonable rate of return found in this proceeding;

13. That approval should be given for rates which will provide additional gross revenues to the Company of $21,796,559, on its electric operations, which will produce an additional net income after taxes for return of $10,602,805;

14. That the additional revenues allowed would produce a rate of return on approved rate base of 9.33% on retail electric operations, which is found to be fair and reasonable;

15. That such additional revenues and the return which these revenues produce are well within the range of reasonableness and fairness, and must be provided if the Company is to meet all of its customer requirements;

16. That the additional revenues would provide a rate of return on common equity allocated to retail electric operations of 13.0%;

17. That the base rate in the Company's Automatic Fuel Rate Adjustment clause should be increased to 11 mills per KWH; that the revision to the language of Section C of the Company's AFRA clause, as proposed by the staff, should be approved;

18. That the Company's fuel purchasing and related accounting practices were in compliance with the terms and conditions established by the Commission's Order No. 19,002, as reaffirmed by Order No. 77-41, under Docket No. 18,362;

POOR ORIGINAL.

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19. That the semi-annual hearings established by Order No. 19,002, for the review of the Company's fuel purchasing practices by the Commission and the general public should be continued;

20. That the rate schedules filed for approval by the Company on November 12, 1976, and on April 15, 1977, which produce additional revenues of $30,269,340, are unlawful and unreasonable, and should be denied;

21. That the Company shall file for approval within ten (10) days of the date of this Order, revised rate schedules for Rates 8 and 14 as specified in Section XII; that the Company shall file for approval rate schedules for all other classes of customers and contracts for customers served by contract, to reflect the approved increase for each class of customers, as illustrated in Table J, Section XII, and using the rate design incorporated in the Company's alternate rate schedules;

22. That the rates approved herein shall be effective for electrical service rendered on and after the Company's first billing cycle in January 1978; that the rates in effect pursuant to the Company's Undertaking of November 29, 1976, shall remain in effect until the first billing cycle in January 1978;

23. That the Company shall make refunds "across-the-board" to all customers, subject to this rate adjustment proceeding, of the percentage difference of the monies that would have been collected under bond, and the amount found to be just and reasonable, calculated on the test year on an annualized basis; that the Company shall credit to each affected customer this percentage of the increase collected under bond; that the Company shall pay interest in accordance with the undertaking dated Novmeber 29, 1976; that the Company shall make the necessary calculations to accomplish the refunds and file

POOR ORIGINAL

such calculations with this Commission;

24. That the Company shall refund to its retail electric customers the amount of $7,037,095, resulting from the interchange of power during the first six months of 1977; that such refunds shall be made in accordance with the provisions of Section XIII of this Order;

25. That the evidence in this proceeding discloses no improper use of Company employees or materials for private purposes during the test period; that the Company should be ordered to take affirmative steps to insure that all labor performed by its employees during scheduled working hours be undertaken for Company business only;

26. That the costs incurred by the Company, and the expenditures made, for the construction of the V. C. Summer Nuclear Station are reasonable and should be allowed for rate-making purposes in this proceeding;

27. That the Company should be strongly urged to take positive steps to dispose of the real estate h by Energy Subsidiary and to dissolve the subsidiary as rapidly as possible; that the Company file semi-annual reports of the progress made in the disposition of the property and subsequent dissolution of the subsidiary; that such reports shall be submitted on or before January 1 and July 1 of each successive year, beginning January 1, 1978.

28. That the Company should continue to file with this Commission, as previously ordered, quarterly reports showing:

(a) Rate of Return on Approved Rate Base.

(b) Return on Common Equity (Allocated to Retail Electric and Gas).

(c) Earnings per share of Common Stock.

(d) Debt Coverage Ratio of Earnings to Fixed Charges.

ACCORDINGLY, IT IS ORDERED, ADJUDGED AND DECREED:

1. That the proposed rate schedules filed by the Company on November 12, 1976, and April 15, 1977, are unreasonable and improper and are hereby denied.

2. That the Company file with the Commission for approval, within ten (10) days of the date of this Order, rate schedules, contracts, and an Automatic Fuel Rate Adjustment clause in accordance with the findings contained herein.

3. That the Company make both refunds to its retail electric customers in accordance with the findings contained herein.

4. That the Undertaking, dated November 29, 1976, be cancelled upon certification to the Commission that the refunds ordered herein have been accomplished, pursuant to the findings herein.

5. That the semi-annual hearings, established by Order No. 19,002, dated February 4, 1976, be continued.

6. That the Company file semi-annual reports of the progress of the disposition of the property of Energy Subsidiary, Inc., in accordance with the findings herein.

7. That the Company continue to file with this Commission quarterly reports, showing:

(a) Rate of Return on Approved Rate Base.

(b) Return on Common Equity (Allocated to Retail Electric and Gas).

(c) Earnings per share on Common Stock.

(d) Debt Coverage Ratio of Earnings to Fixed Charges.

8. That the Commission continues jurisdiction of this Docket until further notice.

BY ORDER OF THE COMMISSION:

s/Fred A. Fuller, Jr.
Chairman

ATTEST:

s/James H. Still
Executive Director

(SEAL)

DIRECT TESTIMONY
OF
OSCAR S. WOOTEN
SOUTH CAROLINA ELECTRIC & GAS COMPANY

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. Oscar S. Wooten, 328 Main Street, Columbia, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Executive Vice President-Finance, of South Carolina Electric & Gas Company.

Q. MR. WOOTEN, PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I am a graduate of the University of Richmond in Richmond, Virginia holding a degree in Accounting, and I am also a Certified Public Accountant. I have practiced public accounting and was employed by the Atomic Energy Commission at the Savannah River Plant as an audit supervisor for approximately four years. I have been employed by South Carolina Electric & Gas Company since 1954 and held various positions in the Company's Accounting Department before assuming my present position.

Q. PLEASE DESCRIBE YOUR DUTIES AS EXECUTIVE VICE PRESIDENT-FINANCE, OF SOUTH CAROLINA ELECTRIC & GAS COMPANY.

A. I am directly responsible for the Company's Secretarial, Treasury, Accounting and Data Processing Departments, including preparation of budgets and forecasts and all financial statements issued by the Company. I have the primary function of raising funds and advising the Company's management on its present financial position and problems with respect to finance. In addition, I am responsible for developing and maintaining the Company's investor relations program

with the financial community.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony, as chief financial officer, will deal with our Company's urgent need for adequate rate relief. I consider the relief to be essential if South Carolina Electric & Gas Company is to continue to operate. It should be noted that the standard of living of our customers, as well as other citizens of this state can only decline if our Company is no longer able to provide reliable utility service as a result of not being allowed to charge adequate prices for our services. In addition, I will illustrate by my testimony the Company's present financial condition and the resulting effect of this rate increase. Because of inflationary pressures on all costs of operations, our Company has been unable to earn the return previously allowed as reasonable by this Commission. The fact that an historical test period employing previously incurred costs is used in the ratemaking proceedings makes it virtually impossible in times of inflation for the Company to earn its allowed return. It is possible to adjust for the effects of inflation through the use of an attrition allowance, or by projecting income and expenses with a forward test year. However, without the use of such adjustments it becomes even more imperative that a sufficient rate of return on equity be allowed. The following tabulation shows historical earnings of SCE&G from 1968 - 1979.

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12 Months Ending	Earnings per Average Common Share	Period End Return on Equity
March 31, 1979	$2.00	10.70%
Dec. 31, 1978	$2.26	12.02%
Dec. 31, 1977	$2.22	12.12%
Dec. 31, 1976	$1.97	11.36%
Dec. 31, 1975	$2.09	11.86%
Dec. 31, 1974	$1.47	7.57%
Dec. 31, 1973	$1.75	9.89%
Dec. 31, 1972	$1.98	10.46%
Dec. 31, 1971	$1.72	10.29%
Dec. 31, 1970	$2.00	12.85%
Dec. 31, 1969	$1.91	13.65%
Dec. 31, 1968	$1.78	14.38%

As a result of the effects of inflation on our Company, our earnings and our coverage ratios, which are the two main determinants of financial stability, have seriously deteriorated. For the twelve months ending June 30, earnings per average common share had declined to $1.78; and period end return on equity had fallen to 9.30%. Without rate relief this downward trend will continue to the point that we will be unable to attract, on reasonable terms, the capital necessary to complete our present construction program, or to commence new ones. Also, maturing securities need to be redeemed at the lowest possible cost in order to allow the cost of service in the future to be as low as possible. Our customers will suffer if the continued economic development of our service area is jeopardized. If we receive the

rates requested, our customers will benefit by continuing to have access to a reliable source of electricity and gas. In addition, the new jobs created through the expansion of existing industrial plants and the construction of new ones - a situation only possible when industry is confident that its source of electricity and gas is reliable - will enhance the economic well-being of our customers and other citizens of this state. As a result of the financial condition to which the Company will return if the proposed rates are implemented, our customers will not only enjoy reliable service, but also the benefits of paying rates based on lower costs for capital than would have been charged if our financial condition were to continue to weaken.

Q. MR. WOOTEN, HOW CAN A COMPANY, BY SEEKING HIGHER RATES, BE ABLE TO PROVIDE BETTER SERVICE TO ITS CUSTOMERS AT A LOWER COST?

A. Better service means being able to provide reliable service. We must be able to build the plants necessary to satisfy the growing needs of our growing customer base. To be able to build the plants, we must be able to attract capital. To attract capital we must demonstrate a satisfactory degree of financial integrity. Better service means being able to provide electricity at the most reasonable cost to the consumer. To do so we must be able to obtain the raw materials necessary to provide electricity and gas at the most reasonable cost, and then to convert the raw materials into electricity and gas in an efficient manner. One of the basic raw materials is capital. Capital is the savings accumulated by investors. To attract capital at a reasonable cost, thereby benefiting

our customers, we must demonstrate a satisfactory degree of financial integrity.

Q. WHAT ARE THE CHARACTERISTICS OF A COMPANY POSSESSING A SATISFACTORY DEGREE OF FINANCIAL INTEGRITY?

A. The company should:

1) have a demonstrated ability to sell common stock at a price that will yield proceeds to the company at or above book value;

2) have a high bond rating (A or better); and

3) have the demonstrated ability to generate at least 50% of the cash requirements of its construction program internally.

Now I shall discuss each of these characteristics in detail. Selling common stock at a price above book value is important because to do otherwise reduces a portion of the existing shareholder's share of ownership. In addition, more shares must be sold to raise a given amount of equity capital than would have been necessary at a price equal to book value. As a result, the sale of common below book has a negative impact on the potential return to the investor, since the growth rate of the company's earnings and dividends are dampened. Earnings are important because dividends are paid out of earnings. Under stable interest rate and risk conditions, common share market price will generally track the rate of growth of dividends. For this reason, factors which negatively influence earnings and dividend growth, such as selling common below book, cause the common stock to become less attractive to the investor. When the stock becomes less attractive, the market price is depressed, increasing further the

cost of equity and debt financing to the company, resulting in higher costs to the consumer.

A high bond rating has become increasingly important to utilities. Considering the effect of bond ratings on the cost of debt, it is well known that the higher rated, or lower risk, debt issue can be sold at a lower cost to the company. The same holds true for preferred stock and common equity. Concerning the effect bond ratings have on the availability of capital, the Employment Retirement Income Security Act of 1974 (ERISA) has caused investors to become more risk-averse, in that fiduciaries were made personally liable for any loss resulting from a breach of their fiduciary responsibilities. Consequently, investment managers have a personal incentive to buy bonds and stocks of high quality. Furthermore, in times of capital shortage, such as in 1974, and even in recent months, the terms of securities issued by companies with unsatisfactory financial integrity can only be marketed to the public with adverse sinking fund requirements, non-callable features, shorter than normal maturities, and similar constraints on the financial flexibility of the issuing utility.

A utility, in order to possess satisfactory financial integrity should be able to generate sufficient cash to supply 50% of its cash construction requirements. The utility business is capital intensive. That fact, coupled with its size, explains why the utility business accounted for one half of all common stock offerings during the past five years. The supply of new common shares issued by utilities is therefore large, but the industry is faced with a declining market

for those issues. Institutional investors have largely deserted the utility equity market, and the individual investor appears also becoming more selective with regard to risks and return. A diminished demand for utility common stock raises the question: "will there be sufficient capital made available to a utility in the future to satisfy the capital requirements of its construction program?" Due to this concern, prudence dictates that the management of a soundly run utility not rely on external sources for more than half of its construction requirements.

Q. WHAT WAS SCE&G'S FINANCIAL POSITION AT MARCH 31, 1979?

A. Considering the elements of financial integrity just discussed, our financial position is weakening.

First, concerning our ability to sell common stock at a price that will yield proceeds in excess of book value, the following chart demonstrates our experience since 1973.

PUBLIC OFFERINGS OF COMMON STOCK SINCE 1973

Date of Public Offering	Number of Shares	Net Proceeds to Company per Share	Book Value per Share	Percentage Over or Under Book Value
12-12-74	2,360,000	$ 9.405	$17.405	-46.0%
7-10-75	1,500,000	$14.955	$16.281	- 8.1%
2-3-76	1,700,000	$17.285	$16.619	+ 4.0%
2-17-77	2,200,000	$18.200	$16.841	+ 8.1%
2-1-78	1,500,000	$17.710	$17.837	- .7%
4-18-79	1,000,000	$16.355	$18.499	-11.6%

As a result of our inability to consistently sell equity at a price which yielded proceeds at or above book value, in order to obtain the $186 million in new equity raised since 1973, it has been necessary to issue in excess of 1.3 million more shares than would have been issued had we consistently sold common at a price which would have produced net proceeds equal to book value.

PROCEEDS FROM THE SALE OF COMMON STOCK SINCE 1973

Year	(A) Number of Shares Issued	(B) Net Proceeds to Company	(C) Average Book Value	(B) ÷ (C) = (D) # of Shares that would have been Issued at Bk/Value	(A)-(D)=(E) Additional Shares Issued
1974	2,489,422	$23,869,108	$17.382	1,373,208	1,116,214
1975	1,669,602	24,782,592	16.458	1,505,808	163,794
1976	1,928,831	33,281,418	16.862	1,973,753	(44.922)
1977	2,524,439	46,177,158	17.436	2,648,380	(123,941)
1978	2,081,259	36,913,379	18.188	2,029,546	51,713
1979*	1,318,428	21,607,128	18.313	1,179,879	138,549
Totals	12,011,981	$186,630,783		10,710,574	1,301,407

*through 6-30-79

At our current annual dividend rate of $1.68 per share, the annual dividend requirements for those 1,301,407 shares of stock which were sold only because we were unable to sell at a price to yield net proceeds at book value will total nearly $2.2 million in 1979. This, converted to charges to customers before taxes amounts to between four and five million dollars annually.

Second, our present bond rating, single A, is third in line, behind triple A and double A, for investors seeking quality. Our current bond rating is the lowest rating for investment grade securities in that many institutional investors and individual investors, either because of legal limitations or as policy matters, will not purchase a bond with a rating below single A.

Third, we have been unable to generate half our cash construction requirements internally.

PERCENTAGE OF CONSTRUCTION EXPENDITURES GENERATED INTERNALLY

Year	(A) Construction Expenditures (000)	(B) Cash Flow (000)	(C) (B) ÷ (A)
1978	$119,930	$45,392	37.8%
1977	164,254	44,765	27.3%
1976	179,391	38,055	21.2%
1975	128,301	40,817	31.8%
1974	96,142	28,325	29.5%
1973	57,973	23,652	40.8%
1972	88,252	22,285	25.3%
1971	78,872	19,690	25.0%
1970	88,854	17,528	19.7%
1969	82,643	17,554	21.2%
1968	44,018	17,356	39.4%

Our cash flow has suffered from the inclusion of a non-cash credit to earnings, allowance for funds used during construction (AFUDC), in the return on common equity. In fact, the majority of our re-

ported earnings in recent years has been "non-cash." Since 1972, as the following chart will demonstrate, the cash portion of our earnings has not been sufficient to cover our dividends to our common shareholder.

PERCENTAGE OF DIVIDENDS COVERED BY CASH EARNINGS

Year	(A) EPS	(B) AFUDC Portion	(A)-(B)=(C) Cash EPS	(B)÷(A)=(D) % of EPS Non-Cash	(E) Cash Div. Paid	(C)÷(E)=(F) % Cash Div. Cov. by Cash EPS
1979*	$2.00	$1.28	$ .72	64%	$1.62	44%
1978	$2.26	$1.32	$ .94	58%	$1.605	59%
1977	$2.22	$1.23	$ .99	55%	$1.55	64%
1976	$1.97	$1.04	$ .93	53%	$1.51	62%
1975	$2.09	$ .64	$1.45	31%	$1.48	98%
1974	$1.47	$ .35	$1.12	24%	$1.4675	76%
1973	$1.75	$ .54	$1.21	31%	$1.4175	85%
1972	$1.98	$ .58	$1.40	29%	$1.3675	102%
1971	$1.72	$ .57	$1.15	33%	$1.3125	88%
1970	$2.00	$ .67	$1.33	34%	$1.2425	107%
1969	$1.91	$ .39	$1.52	20%	$1.1725	130%
1968	$1.78	$ .13	$1.65	7%	$1.1025	150%

*Twelve months ending 3-31-79

The return on equity we have been allowed to earn is calculated after including the non-cash credit, AFUDC. As a result, our reported earnings do not include sufficient cash earnings, and we have had to resort to other sources for our cash dividend payments. Those sources of cash have been depreciation and deferred taxes. It may be necessary for any company, from time to time, to pay cash dividends out of these sources. However, to do so on a

consistent basis, as we have been forced to do for seven of the last eight years, is not indicative of a healthy financial situation. Depreciation exists to provide for the replacement of obsolete equipment. Deferred taxes exist primarily because of the federal government's desire to boost productivity by encouraging investment in new plant and equipment.

Q. WHAT WAS SCE&G'S CAPITAL STRUCTURE AT MARCH 31, 1979?

A.

	Amount Per Books	Capitalization Ratios	Adjustments	Total As Adjusted	Capitalization Ratios
Long-Term Debt	$651,625,605	51.60%	$35,000,000 (3)	$686,625,605	53.79%
Short-Term Debt	52,269,300	4.14	(37,516,000)(4)	14,753,300	1.15
Preferred Stock	153,951,000	12.19	-	1[illegible]1,000	12.06
Common Equity	404,948,221 (1)	32.07	16,275,000 (5)	421,223,221	33.00
Total	$1,262,794,126	100.00%	13,759,000	$1,276,553,126	100.00%

(1) Common Equity	418,027,578	
Investment in Subsidiary	13,079,357	(2)
	404,948,221	

(2) Cost at March 31, 1979.

(3) $35,000,000 bond issue at April 1, 1979.

(4) Reduction to bank notes and commercial paper through April, 1979.

(5) 1,000,000 shares common stock April 7, 1979.

Q. IS THIS A REASONABLE CAPITAL STRUCTURE?

A. Certainly not by current industry standards. Since 1974, the electric utility industry has moved in the direction of a capital structure which relies less on debt and more on equity. We have also moved in this direction, but our capital structure still contains a smaller proportionate cushion of equity for the senior security holder than does

that of the average utility.

CAPITALIZATION RATIOS

December 31, 1978

	Weighted Industry* Average	SCE&G
Debt**	51.5%	55.2%
Preferred Stock	12.2%	12.2%
Common Stock	36.3%	32.6%
Total	100.0%	100.0%

* 75 major electric utilities

** includes short-term debt and current portion of long-term debt, and nuclear fuel trusts

Many industry observers feel that 40% of an electric utility's capitalization should be made up of common equity. I believe that, as the minimum, a 40% equity ratio should be the objective of any prudently managed electric utility that expects to be able to finance future construction on reasonable terms. It is certainly our objective, and it has been for a number of years. In light of the incident at Three Mile Island, a 40% equity ratio may soon be considered to be insufficient.

Q. WHAT ARE THE COMPANY'S PROJECTED CAPITAL REQUIREMENTS?

A. As Mr. Summer testified, the Company's construction expenditures for the period 1979 through 1983 are expected to be approximately $519 million, excluding nuclear fuel. Nuclear fuel expenditures are projected to be an additional $95.1 million during this five year period. I will only review the first two years of the period

(1979-1980).

The Company's cash requirements for its construction program and for retiring maturing securities in 1979 are estimated to be $196 million, of which $46 million will be provided by internally generated funds made up of the portion of our earnings we will retain, and non-cash charges such as depreciation and deferred income taxes. The balance of the funds needed in 1979, some $150 million, will be raised through short-term borrowings, the sale of bonds, preferred stock and common stock.

In 1980, the Company's total capital requirements are expected to be approximately $207 million, of which 72% will have to come from outside sources. During this period the Company will sell bonds, preferred stock, and common stock, and will rely on short-term borrowing. The exact timing and types of securities actually sold will be decided on the basis of the Company's ability to meet its coverage ratio requirements, and its ability to attain a reasonable capital structure. The nature of the capital markets in those years will also be a factor.

Q. CAN THE COMPANY RELATE A SOUND FINANCIAL CONDITION TO THE INVESTORS SO THAT IT WILL BE ABLE TO OBTAIN THIS ADDITIONAL CAPITAL UNDER CURRENT FINANCIAL CONDITIONS?

A. Our Company is in direct competition for investment funds with every other utility, and with every industrial, financial, and governmental organization. The only way we can sell our Company's securities is to make them sufficiently attractive. To make them attractive we must be able to earn and pay a competitive return.

We must also be able to convince the investing public that our financial condition is sound, and will continue to be so. The way to relate a sound financial condition today and tomorrow, is by demonstrating to the potential investor that we have a steady, predictable ability to earn him a fair and reasonable return on his investment in our Company. In these inflationary times, that is an impossible task if we must base our prices on out-of-date, historical costs. Since 1970, our Company has been hard hit by inflation, and during this decade timely and adequate rate relief has been required. Until our nation comes to grips with inflation, that need will remain. This is true because our industry is especially susceptible to the ravages of inflation: first, our prices are based on historical costs; second, we must provide service in spite of the current cost of doing so; and third, we are in a capital intensive business. The impact of inflation on a utility's operating and capital costs render ineffective the utility's and its regulatory authorities' efforts to set revenue requirements that will produce a just and reasonable return on equity, so long as those revenue requirements are based on historical operating and capital costs.

Q. WHY IS RETURN ON EQUITY IMPORTANT?

A. New capital is attracted on the basis of the total return that can be earned on the investor's equity. By "total return" I mean that the investor is not only looking at the dividend yield currently available, but also at the growth in dividends he can

expect. Such dividends should be paid out of earnings, leaving part of the earnings to be retained in the business. Historically, utilities have been able to increase earnings by the plowback factor, which is the increment to earnings from the amount of earnings retained by the business. If a company pays out 70% of its earnings, retains 30%, and earns a 13% return on equity, the plowback factor would be 3.9% (30% X 13%). Earnings for the company would grow at the rate of 3.9% per year, so long as it retained 30% of its earnings and earned 13% on its equity.

Today, our Company's debt ratio is already above the industry average; consequently the use of more leverage as a means of increasing earnings must be ruled out. The sale of common equity above book value has not been possible in over a year. The plowback factor cannot be properly utilized so long as investors, by virtue of their present concern for getting their return "up front", in order to compensate for their lack of confidence in our Company's future earnings growth, insist on higher and higher current dividend yields.

In such an environment, an increase in the earned rate of return on equity is the only way a utility can show growth in earnings. The higher the return on equity the investor can reasonably expect to earn, the faster will be the growth in earnings, and consequently, dividends. By having reason to expect an improved growth in earnings, the investor will be satisfied with a lower current dividend yield, meaning a higher ratio of price to dividends, resulting in a

higher market price for stock.

The sale of common stock at a higher market price will favorably affect our Company's future, since the dilutive effects of earnings per share and return on equity of selling common below book value will have been minimized, if not eliminated entirely. A higher return on equity will therefore facilitate our sales of additional common equity, since new investors would not have cause for concern about the dilutive effect on earnings per share and return on equity of sales of new common below book value. To be able to sell senior securities, which provide the majority of the funds used in construction, we must be able to sell common stock.

Q. WHY IS THE COMPANY'S ABILITY TO SELL COMMON STOCK ESSENTIAL TO THE SALE OF OTHER SECURITIES?

A. Common stock is the foundation upon which all senior financing is built. The protection offered to the bondholder and the preferred stockholder by the common stockholder's investment is essential in their investment decision. To be able to market additional bonds and preferred stock, the Company must be able to market common stock which is the cushion needed by the senior security holder. Not only is an improved return on equity essential to the Company's chances for being able to market additional common stock in the future without contributing to a situation which results in the confiscation of a portion of the existing stockholder's investment, but an improved return on equity is necessary if we are to to be able to market new senior securities. To be able to sell new senior securities, certain fixed charge coverage ratios must be

met. The earnings on common equity, or the return on equity, provides the support for meeting those minimum coverage ratios.

Q. WHAT DO YOU MEAN BY THE TERM "FIXED CHARGE COVERAGE"?

A. Fixed charge coverage is a number which defines the number of times earnings (after all operating and income deductions except income taxes and fixed charges) cover the fixed charges the Company must pay. "Fixed Charges," by definition in our borrowing contracts include (1) interest on all debt, (2) amortization of debt premium, discount and expense, and (3) allowance for rental payments.

The fixed charge coverage ratio is important, not only because it determines whether the Company is legally able to issue new senior securities, but also because it is one of the primary indicators used by a potential investor to evaluate the quality of the securities of a company and to measure the risk he is assuming. Senior security investors are interested in the yield on a security in relation to the risk that the interest or dividend will not be paid and, in the case of bonds and debentures, the risk that the principal will not be repaid when due. The adequacy of the Company's fixed charge coverage and the soundness of the Company's financial position provide a large measure of the assurance the investor is seeking.

Q. WHAT HAS HAPPENED RECENTLY WITH RESPECT TO SCE&G'S COST OF DEBT?

A. In recent years inflationary pressures have pushed up the interest rates we must offer on new issues of long-term debt. Since the rates paid on new issues are higher than those on the Com-

pany's outstanding issues, our embedded cost of long-term debt has increased nine of the past ten years. As shown below, the embedded cost of long-term debt has increased from 4.66% to 7.89% since year-end 1968. As a result of this 69% increase in our embedded cost of long-term borrowing, the Company is currently paying $21 million in additional annual interest charges on our outstanding long-term debt solely because of a higher level of embedded interest rates than in 1968.

Year	Embedded Cost of Debt	Fixed Charge Coverage Ratio (SEC)
1979 (as of 3-31-79*)	7.89%	2.41x
1978	7.76%	2.67x
1977	7.62%	2.78x
1976	7.70%	2.58x
1975	7.38%	2.79x
1974	6.95%	2.22x
1973	6.60%	2.36x
1972	6.47%	2.54x
1971	6.33%	2.39x
1970	6.06%	2.63x
1969	5.51%	3.60x
1968	4.66%	4.75x

*Adjusted for April 1979 $35,000,000 bond sale.

As a result of the higher fixed charges brought about by higher interest rates, the Company's fixed charge coverage ratio has dropped dramatically. In 1968, as the table above shows, our fixed charges were covered 4.75 times. The ratio fell to a low of 2.22 times in 1974. As of June 30, our fixed charge coverage was only 2.28 times. Our calendar year end coverage has not been this low since 1974. Not only does a declining coverage ratio place our bond rating in jeopardy, but it sets at risk our ability to issue new bonds. Under our bond indenture, the issuance of additional bonds is conditional upon our having achieved a level of earnings which will cover fixed charges a

minimum of two times. Reduced earnings affect our ability to sell additional bonds, new common stock, and new preferred stock, as well.

Q. WHAT ROLE DOES PREFERRED STOCK PLAY IN THE COMPANY'S FINANCIAL STRUCTURE?

A. Preferred stock provides protection for debt holders over and above that provided by common stock. Non-payment of preferred stock dividends will not put a company into bankruptcy. However, such an event would cause the company to forego payment of dividends to common stockholders, since preferred stockholders have, by definition, a "preferred" status over common stockholders.

Q. WHAT HAS HAPPENED TO THE EMBEDDED COST OF PREFERRED STOCK?

A. Due to the same influences that have affected the cost of our long-term debt, the embedded cost of preferred stock has increased over the years.

Year	Embedded Cost of Preferred Stock	Preferred Coverage after Income Tax
1979 (as of 3-31-79)	8.16%	1.55x
1978	8.04%	1.61x
1977	7.91%	1.58x
1976	7.89%	1.53x
1975	7.78%	1.57x
1974	7.18%	1.33x
1973	7.22%	1.57x
1972	7.22%	1.66x
1971	7.08%	1.66x
1970	6.56%	1.94x
1969	5.12%	2.05x
1968	5.12%	2.13x

For the period ending June 30, our preferred coverage after income tax had dropped to 1.44 times. The higher costs the Company must pay for its long-term debt and preferred stock, coupled with the extremely high interest rates we are currently paying for short-term borrowings, have been two of the primary reasons for our sharp decline in earnings.

Q. WHAT RETURN ON COMMON EQUITY ARE YOU ASKING FOR IN THIS PROCEEDING?

A. We are seeking rates designed to cover all our costs, and we are attributing 13% annual cost to the use of our common shareholders' money.

Q. DO YOU CONSIDER THIS TO BE A FAIR AND REASONABLE RETURN?

A. As I have been organizationally given the responsibility of over-

seeing the obtaining of external capital by the Company for the past twelve years or more and have been in constant contact with the investing public and underwriters and independent advisors, I believe that the investors consider a return of 13% on equity to be inadequate. The reason the Company is requesting only a 13% return is that we are attempting to do what we can to operate on the barest essentials during this period of high rates of inflation. I would certainly consider that under today's conditions, a 14% return on equity is a minimum fair and reasonable return; however, we feel that our request is truly a "bare bones" request considering that it is the same granted by the Commission's Order in December 1977, and considering that new elements of risk have been assumed by the common stockholder since that date. I am referring to the risk borne by the shareholders of all utilities which employ, or soon will employ, nuclear energy as a fuel for the generation of electricity; as well as to the risk that high rates of inflation have become part of this country's way of life.

Q. PLEASE SUMMARIZE THE REASONS FOR YOUR REQUEST FOR INCREASED RATES.

A. The proposed increase is the bare minimum needed to restore our indicators of a sound financial condition, among them earnings and coverage ratio to reasonable levels. The return on equity on which the increase is based is the same return the Commission found just and reasonable in its most recent order pertaining to the Company. Since that time, the perceived risk in owning the stock of a utility which derives, or will soon derive, a significant portion of its generation from nuclear energy has grown. This higher degree of risk is reflected in the reduced value placed on the ownership of such shares

by the investing public, as measured by the price paid for common stock. Since the risk borne by our shareholders is higher, a higher return should be granted to compensate them for the additional risk. As a bare minimum, the same return as previously found just and reasonable should be allowed.

If we are not allowed to increase our rates to reasonable levels, we will be subjecting our customers to the risk that our ability to provide adequate service will be diminished; the indicators of a sound financial condition will continue to show deterioration; and the coverage of our fixed charges will fall to a point that we will be unable to raise capital under reasonable terms. If we should become unable to raise capital, we could no longer be able to fulfill our responsibility to meet our service area's needs for electricity and gas. If that were to happen, South Carolina Electric & Gas Company would have become an impediment to the future economic development of our state and to the future economic well-being of its citizens.

Before the
Public Service Commission of South Carolina

South Carolina Electric & Gas Company

Docket Nos.

79-196-E
79-197-G

Rate of Return Testimony
of
Stephen F. Sherwin

Foster Associates, Inc.
Washington, D. C. 20036

August 1979

1067 033

Table of Contents

Preface

Q. Please state your name and address.

A. My name is Stephen F. Sherwin; my business address is 1101 Seventeenth Street Northwest, Washington, D. C. 20036.

Q. What is your profession and by whom are you employed?

A. I am an economist and Executive Vice President of Foster Associates, Inc., an economic consulting firm. A summary of my qualifications appears in Appendix A.

Q. Have you previously given evidence before this Commission?

A. Yes, on behalf of South Carolina Electric & Gas in 1977.

Q. What is the purpose of your testimony?

A. I have been asked to express an opinion on the equity portion of the fair rate of return, applied to a March 31, 1979 net investment - original cost rate base for South Carolina Electric & Gas Company's properties subject to the jurisdiction of this Commission.

Q. Have you prepared an exhibit?

A. Yes. The statistical support for my opinion is set forth in an exhibit, consisting of 23 schedules, prepared by me or under my supervision.

I. Summary of Guiding Principles and Factual Bases for Conclusion

Q. What are your criteria for measuring the fair return?

A. For legal criteria I have been guided by the decisions of the United States Supreme Court in the 1923 Bluefield, the 1944 Hope, and the 1968 Permian Basin cases, as well as prior decisions of this Commission. I understand these decisions to define a fair return in terms of the triple standards of permitting a company to achieve a level of earnings comparable to those earned by other enterprises of corresponding risk and uncertainty, maintain its financial integrity, and attract capital on reasonable terms.

These three standards are also the economic guidelines for a fair return encompassed in the opportunity cost principle.

Q. What are the principal conclusions of your study?

A. There has been a significant increase during the last two years in the cost of common equity capital. The principal causes stem from a rise in interest rates, an accentuation of inflationary forces, investors' increased awareness of the inherent risks of utility operations and the higher returns on equity achievied by industrials. Hence, the return requirement for South Carolina Electric & Gas has risen, irrespective of whether the measurement is made by reference to the comparable earnings test, or the return required to maintain financial integrity, or the cost of attracting capital.

An equity return of 13 percent is now insufficient to maintain the company's financial integrity in terms of being able to sell new equity at book value. It is, therefore, of utmost importance that the applied-for return not become an allowable ceiling but that it be translated into achievable earnings.

My conclusion is that the cost of attracting capital, excluding an allowance for market pressure, for South Carolina Electric & Gas is in the range of 13.85 to 14.10 percent, and that the fair return is in the range of 14.50 to 15.00 percent at a 33 percent common equity ratio.

My conclusions with respect to the cost of attracting capital, as well as the fair return, rest on an anticipation of some decline in interest rates, a reduction in dividend yield of SCE&G from the present level as well as some decline in the profit rates of industrials, resulting partly from the Administration's guidelines and partly from the on-going recession.

Q. Please summarize the conceptual approach underlying your return recommendation.

A. My recommendation rests on the application of the opportunity cost theory. The measurement of the cost of equity capital is essentially a process of sifting multiple facets of factual evidence, which serve as constraints on the exercise of judgment. Reliance on judgment constrained by facts is to be distinguished from judgments based on predilections.

The different techniques for estimating the equity return requirement -- the comparable earnings test, financial integrity approach and the capital attraction (or discounted cash flow) techniques -- provide useful evidence but no single measure constitutes an exclusive basis for estimating reasonable return requirements.

In applying the different techniques for measuring the cost of common equity capital, one needs to bear in mind the distinction between the cost of attracting capital and a fair return. The former reflects the opportunity cost derived from stock market data; the latter reflects the opportunity cost in relation to the original cost-related book equity.

The cost of attracting capital is the current cost per dollar of new capital expressed in today's dollars of purchasing power. After periods of prolonged inflation, the cost of capital typically lies below the fair return, which is a far broader concept. The fair return encompasses both the current cost of attracting capital and equitable treatment of past investments, by providing to utility investors an earnings opportunity that maintains the value of their capital to the same extent as that achieved by investors in industrial companies of similar risk.

Regulation of public utilities is generally viewed as a substitute for competition. Under competition, the level of profits will vary with the business cycle, but will in the long run be equal to the cost of attracting or retaining physical resources whose earning power is related to dollars of current purchasing

power as distinguished from nominal dollar values. Under competitive conditions, however, investors are not always able to achieve the preservation of real capital values and protect their assets against the ravages of inflation. The competitive principle requires that utility investors should be given an opportunity -- not a guarantee -- to preserve the real value of their capital to no greater, but also to no lesser, a degree than that to which investors in industrial companies (of similar risk to utilities) can achieve a preservation of real capital values.

Q. In applying these tests, what assumptions have you made with respect to prospective economic conditions?

A. My return recommendation rests on the following premises with respect to economic conditions: no growth in real GNP in 1979-1980; an inflation rate of 10.5 percent in 1979 and 8.5 percent in 1980; interest rates on "A" rated long-term bonds in the range of 9.0 to 10.0 percent through 1980; and corporate profits to suffer some decline from the 1978 level.

Q. What is your analysis of the risks faced by South Carolina Electric & Gas?

A. The most significant risks of electric operations arise in connection with:

a. Growth in the service area, requiring large capital expenditures. Expansion in a period of inflation enhances the risks of attrition and lowers the quality of earnings due to a high proportion of income in the form of AFUDC.

b. The prospective operation of a nuclear plant. The accident of Three Mile Island has heightened investor awareness of the interrelation between physical and economic risks resulting from the high concentration of capital in a few plants.

The risks of gas operations have declined during the last two years, largely due to an improvement in gas supply. While investors still regard gas distributors as more risky than electric utilities, combination gas-electric utilities are no more risky than electric utilities. Hence, the same return should be applied to both the company's gas and electric properties.

Q. In applying the comparable earnings test, what period did you select for measuring the return?

A. I reviewed data for the last 14 years, but gave the greatest weight to the earnings experience of industrials in 1977-1978 as being most likely to be representative of future conditions. For industrials, the average earnings level of 1977-1978 lies below the current level.

Q. Please summarize your application of the comparable earnings test.

A. The comparable earnings test may be applied by reference to industrials or utilities, but application to either group provides useful measurements only in conjunction with a determination that the end result is sufficient to maintain a reasonable degree of financial integrity.

Focusing first on the earnings of industrials, I have applied the comparable earnings test by reference to three groups.

The first group consists of Standard & Poor's 400 company composite, whose earnings averaged 15 percent in 1977-1978. However, this average is not representative of companies whose investment risks are similar to those of South Carolina Electric & Gas.

When the comparable earnings test is applied to industrials, the critical operative concept is the determination of similarity of risk. The relevant risks are those that are perceived by investors. While utilities have quite different operating, market, and financial characteristics from those of industrials, it is possible to achieve a reasonable degree of balance and comparability by reference to investment risks. Security analysts have traditionally ranked common equities of utilities as relatively high-grade investments, essentially because they are characterized by stability of returns.

In selecting samples of industrials of comparable investment risks to utilities, I therefore focused primarily on stability of equity returns. However, to avoid inclusion of both "highly profitable enterprises", viewed askance by the Court Bluefield, and companies whose earnings are chronically depressed (and thereby not meeting the capital attraction test), I have selected only those companies whose earnings fall within plus or minus one standard deviation of the average return. Additional criteria for selection were the size of the company, as measured by sales, and the quality of the company's common stock, as expressed by Standard & Poor's rankings.

The above criteria led me to select a second group of three samples of companies from nine industries which have experienced stable returns. The average level of earnings achieved by these samples in 1977-1978 was in the range of 15.3 to 15.65 percent.

My third group of companies comprises another three samples selected by the same criteria as previously described, except that the companies were selected from all manufacturing industries, rather than only from the nine industries with stable earnings. The average level of earnings achieved by these samples in 1977-1978 was in the range of 14.5 to 15.6 percent.

The above data lead me to the conclusion that the prospective 1980 earnings level of industrials of generally comparable risk to SCE&G is approximately 14.5 to 15 percent. While this level corresponds to the range of my indicated fair return, my conclusion is dependent on a finding that the risks of SCE&G, as evaluated by investors, are equal to those of these groups of industrials. That finding is made in connection with the application of the financial integrity test.

Q. What standard do you suggest for the maintenance of financial integrity?

A. In the context of the opportunity cost principle, the maintenance of financial integrity requires a level of earnings that is not only sufficient to raise new equity capital without diluting stockholders' equity, but also to maintain the value of the investment at a level consistent with that prevailing for stocks of similar investment risk. In that context, attention to market-to-book ratios becomes an import nt aspect of determining a

fair return, not only as a measure of the degree to which financial integrity has been maintained, but also as an aid in gauging investor appraisals of risk differences.

The market price of South Carolina Electric & Gas has been below book value since the second quarter of 1978. Based on present market conditions, the net proceeds of a new sale of common stock would probably be less than 85 percent of book value; the Company's financial integrity is therefore impaired.

An analysis of the relation between earnings and market-to-book ratios indicates that the investors regard SCE&G as slightly riskier than the average electric or combination electric-gas utility, and the latter of approximately equal risk to my samples of industrials.

Q. What are your findings by reference to the discounted cash flow approach?

A. Although the DCF technique gives the appearance of mathematical precision, it rests to a considerable degree on the exercise of judgment, particularly with respect to the time period over which growth rates are computed and the degree to which current dividend yields reflect uncertainties that the future earnings growth will exceed or fall short of past growth rates.

The dividend yield of SCE&G was 10.4 percent in the second quarter of 1979. I estimate the prospective dividend yield for 1980 to decline to 9.75 percent, on the assumption that interest rates will decline slightly and the company will receive favorable rate treatment.

With respect to growth rates, I estimate the prospective growth rate at 3.75 to 4.00 percent, based primarily on its recent dividend policy, and the implicit growth resulting from a 13 percent return and a payout ratio of 70 percent.

The "bare bones" current cost of attracting capital is therefore 13.50 to 13.75 percent, excluding financing and market pressure costs. Applying 3.5 percent financing costs only to the dividend yield portion of the cost, and making no allowance for market pressure, results in a total cost of 13.85 to 14.10 percent.

II. <u>Economic Trends Bearing on Return Requirements</u>

Q. What is the relevance of economic trends in arriving at a fair return for South Carolina Electric & Gas?

A. To place my equity return recommendation in perspective in the light of alternative investment opportunities, which are influenced by trends in business activity, the prospective rate of inflation, and the demand for and supply of capital.

Since the Company's proposed rate increase is prospective, the focus should be on prospective economic conditions in 1980. Of course, such projections can only be informed estimates of probabilities.

Q. Please summarize the salient economic trends which bear on the opportunity cost of capital.

A. The economic scene is dominated by the need to reduce the rate of inflation and avoid a severe recession.

The <u>Economic Report of the President</u> of January 1979 had estimated the prospective annual real growth in GNP in 1979 at a rate of 2-1/4 percent and forecast an inflation rate of 7-1/4 to 7-1/2 percent. These forecasts were revised in July 1979 to: No growth in 1979, and a 2 percent growth in 1980; an inflation rate of 10.5 percent for 1979 and 8.5 percent in 1980.

The success of the Administration's policies to combat inflation remains in doubt. Although the wage/price guidelines have had some success, and the rate of inflation of agriculture prices has slackened, the rise in

the price of oil has fanned inflationary expectations. The long anticipated slowdown appears to have commenced only in the second quarter. The necessity to forestall a renewed run on the dollar will preclude an expansionary monetary policy to combat the on-going recession. Continued relatively high interest rates appear virtually certain.

The severity of the ongoing recession is virtually unpredictable, partly because it is not clear which of several (politically unpalatable) energy policy options will be embraced by the Congress and partly because there is no basis for estimating the impact of the gasoline shortages on consumer confidence and spending patterns, which may result in more fundamental structural changes in the economy. Given these imponderables, projections of economic growth become subject to a more than usual margin of error. I expect the U. S. economy to experience only minimal or no growth in 1980, but concur with the Administration's forecast of a reduced inflation rate of 8.5 percent, which would be equal to the level experienced in the six months ending March 1979 (Schedule 1).

Q. Please discuss the trend in rates for fixed income securities.

A. There has been a pronounced rise in interest rates during the last two years. In my opinion, interest rates have now peaked and may experience a modest decline in the second half of 1979 and 1980, barring a renewed confidence crisis in the foreign exchange market.

Long-term Government bond yields have risen from approximately 7.6 percent in early 1977 to a peak of 9.2 percent in May 1979, and declined to 8.9 percent in June 1979 (Schedule 2).

The yield on outstanding Moody's "A" rated utility bonds -- the rating carried by South Carolina Electric & Gas --rose from 8.65 percent in the first quarter of 1977 to a peak of 10.30 percent in May 1979, and stood at 10.14 percent in June 1979. The yield on "A" rated newly issued bonds has risen from about 8.5 percent in the first quarter of 1977 to 10.17 percent in the second quarter of 1979 (Schedule 3).

The trend in yields on "a" rated utility preferred stocks rose from 8.79 percent in the first quarter of 1977 to 9.72 percent in the second quarter of 1979 (Schedule 4).

At the present, the interest rate structure is characterized by an "inverted yield pattern" (short-term higher than long-term). The length of time for which this pattern will prevail is primarily a function of monetary policy; it will be dependent on the time required to break the inflation spiral and to restore the dollar to its traditional function of serving both as a medium of exchange and a store of value. In my opinion, the difficulties of achieving a rapid abatement of inflation will prompt a continuation of a fairly restrictive monetary policy in the near future, and will keep interest rates on newly issued "A" rated utility bonds in the range of 9.0 to 10.0 percent in 1980. A substantial decline in interest rates can only be expected if inflationary expectations are reversed.

Q. Do the present and prospective levels of high interest rates constitute evidence of a rise in the opportunity cost of equity capital?

A. Yes. Since the opportunity cost of equity capital reflects a risk premium above that of debt capital, the two tend to move in tandem. However, it does not follow that reasonable utility equity returns should be set at either a constant absolute differential to interest rates or as a fixed proportion of interest rates. The defect of such an approach is that the required equity risk premium changes over the business cycle.

In the early 1960's, when interest rates were around 4.5 percent, equity returns for high-grade utilities were typically about 10.5 percent. Thus, equity returns then provided for a risk differential of about 6 percentage points, or a level of twice the prevailing interest rates. Does it follow that, when interest rates rise to 10 percent, the corresponding equity returns should be 16 percent, or over 20 percent? I think not.

In periods of rising interest rates, the required risk premium tends to shrink and, in periods of declining interest rates, the risk premium rises. The essential reason for the changing risk premium is that, in periods of high and rising interest rates, investors attach a higher probability to a prospective decline, leading to capital gains in fixed income securities and utility stocks, which are viewed as being interest-sensitive. The prospect of capital gains leads investors to accept a lesser risk premium. The tax laws providing differential treatment for income and capital gains accentuate this tendency. Conversely, when interest rates are low

and investors expect a reversal, they face prospective capital losses on fixed income securities and utility equities, which prompts investors to seek relatively higher risk premiums.

Q. Are there any general indicators which shed light on the cost of equity capital?

A. Yes. I regard the level and trends in corporate profits as providing a general indicator which also serves as an aid in the interpretation of the comparable earnings test.

After-tax profits in relation to GNP averaged 5.3 percent in 1960-1964, rose to a peak of 6.4 percent in 1965, declined sharply to below 4 percent in the recession of 1970-1971, rose to 5.4 percent in 1977, 5.6 percent in 1978, and continued to rise in the first quarter of 1979 (Schedule 5).

The above data indicate that, in terms of historical perspective, the 1978 corporate profit level in relation to GNP still falls short of the level attained in the mid-1960's, which were years of relatively high growth and little inflation. Although there is now a growing awareness that corporate profits may be inadequate in relation to the Nation's needs of capital formation and the necessity to improve productivity, I believe corporate profits in 1980 will probably not reach the 1978 levels. I shall reflect this projection in the application of the comparable earnings test.

III. Business and Financial Risks

Q. What is your definition of risk?

A. Risk is the probability of failing to achieve the anticipated return or suffering an impairment of capital.

Every utility is faced with two types of risks:

- Business risks encompassing the risks of loss of capital or reduction of income below a reasonable return arising from the production and marketing of the service, including all the economic, political, technological, and physical hazards to which investment in the property is exposed. Among these risks are that regulatory lag and attrition may prevent the achievement of a reasonable return. None of these risks is dependent on capital structure ratios.

- Financial risks, reflecting the risks incurred by debt and equity investors as a result of management decisions to "trade on the equity" and to appeal to different classes of investors having different needs and preferences for risk-taking.

I know of no valid formula for the measurement of risks. The relevant risks are those perceived by investors, as reflected in the valuation of a company's securities. However, since investors' appraisals of risks can only be inferred -- even though the inference may be drawn from a statistical measurement -- an analysis of the different facets comprising business and financial risks constitutes a useful point of departure.

Q. Please discuss the various facets of business risks.

A. The separate facets of risks are not identical for electric and gas operations, although for some the impact is quite similar.

Focusing first on market risks of SCE&G, approximately 65 percent of electric revenues and 54 percent of gas revenues in 1978 were derived from residential and commercial sales, which may be viewed as having a highly stable demand over the business cycle. The industrial sales have a lesser stability. However, in the aggregate the combination of an exclusive franchise to serve, coupled with the more stable nature of demand renders the market risks faced by SCE&G less than those of the typical industrial. These advantages are partly offset by the industrials' faster capital turnover and higher proportion of total assets in the form of current assets which can be rapidly liquidated, affording a greater ability to adjust their productive capacity to changes in market demands.

The most significant aspect of the company's risks arises from the necessity to meet rising service requirements of its electric (not gas) customers, which creates multiple risks, particularly in periods of inflation. These risks arise basically from the fact that the expansion of electric utilities proceeds under conditions of increasing costs (both nominal and real costs), which enhances the risk of attrition.

Between 1978 and 1983, kilowatt-hour sales to ultimate consumers are estimated to rise by 37 percent (from 10.226 to 14.042 million kilowatt-hours), whereas gas

sales are expected to decline by 16 percent (from 48,586 to 40,656 MMCF). To meet these service requirements, total plant expenditures in the last three years averaged $154.5 million. They are expected to remain at approximately that level in 1979 and 1980 (94 percent for electric), but decline in the following two years.

The proportion of SCE&G's total capital requirements financed from externally generated funds, net of retirements, average 71 percent in 1976-78 and will remain at approximately that level for 1979-1980.

Q. Does the necessity to raise new common equity influence the fair return on equity capital?

A. It should not, in principle, but in practice the necessity of having to make repeated trips to the equity market renders it of paramount importance that the achieved return be at least sufficient to permit the sale of new equity capital at book value. If it is not, then there will be both an impairment of capital of existing stockholders, and a rise in the cost of capital above what it would be if the utility were allowed its cost of capital and provided with the revenues to achieve the allowable return.

Q. Please continue with your discussion of risks arising from a high rate of capital expenditures.

A. There are two aspects to this risk:

First, a high rate of capital expenditures results in a high proportion of AFUDC, which impacts on the quality of earnings. The company's AFUDC, as a percent of

income available for common stock, has risen from an average of 30 percent in 1971-1975 to an average of 55 percent in 1976-1978, a level considerably above the approximately 35 percent experienced by the electric industry (Schedule 6).

Second, a high rate of capital expenditures increases the risk of attrition due to the need to finance capital expenditures above the embedded cost of debt and preferred stock. However, this risk has been significantly mitigated by the inclusion of all CWIP in the rate base.

Q. Would you now address the supply and physical risks?

A. With respect to <u>electric</u> operations, coal is expected to provide the fuel for about 73 percent of the company's generation of electric energy in 1979, No. 6 fuel oil about 22 percent and hydro and No. 2 fuel oil about 5 percent. With a high proportion of fuel requirements generated by coal, the company is in a better position than utilities that rely heavily on fuel oil. However, the interruption of coal supplies, due to labor problems in the mines or on the railroads, always constitutes a risk.

In 1980, the company's first nuclear power unit will become operational. Although this further improves the company's reserve capacity, it creates considerable physical and economic risks.

Physical risks of electric utilities had not received much attention until the recent accident at Three Mile Island. The events in Pennsylvania have provided a very forceful illustration of the interrelation between

physical and economic risks resulting from the high concentration of capital in relatively few plants.

From the point of view of the cost of capital, there are several aspects to the consequences of Three Mile Island:

1. It has raised the cost of equity capital of companies that are engaged in the construction or operation of nuclear power units and it is unlikely that investors' concerns can be allayed in the foreseeable future.

2. It will probably raise the cost of debt for those companies that are operating or constructing nuclear plants. It is not yet possible to quantify that impact, and the adverse impact may be alleviated through area or nation-wide insurance schemes.

3. It has created an increased awareness that an accident causing the outage of a plant may necessitate the purchase of power from neighboring utilities at an increased level of costs that may not be automatically passed on to customers. Even if the adverse effect of the recent nuclear accident on the cost of capital may be ultimately overcome through appropriate regulatory and governmental actions, the increased awareness of the impact of physical risks on financial viability -- resulting solely from the concentration of capital -- is likely to have a long lasting upward pressure on the cost of capital.

Turning to SCE&G's <u>gas</u> operations, the adequacy of its gas supply has improved during the last two years, due to an improvement in the national picture, and the local availability of limited amounts of LNG.

Q. What is your appraisal of the company's financial risks, as reflected in the capital structure?

A. I view SCE&G's financial risks, as reflected in its consolidated capital structure, as being virtually identical to that of the electric utility industry. However, for regulatory purposes, the elimination of the investment in Energy Subsidiary, results in an equity ratio slightly below the industry average.

Comparative data on capital structure are shown for the following groups of electric utilities on Schedule 7, Sheet 1.

- The Department of Energy's data for 211 Class A and B electrics;
- 36 electric and electric-gas distribution utilities, representing all such companies listed on the New York Stock Exchange with revenues over $50 million in 1977;
- A subgroup of 42 electric utilities (listed on the New York Stock Exchange) whose revenues from electric operations accounted for more than 90 percent of total revenues in 1977.
- A subgroup of 24 electric-gas distribution utilities (listed on the New York Stock Exchange) whose electric revenues in 1977 accounted for between 70 and 90 percent of total revenues.

Since SCE&G's revenues from electric operations were 78.7 percent of total revenues in 1978, the closest similarity is with the group of 24 electric-gas utilities. As of 12/31/78, SCE&G's equity ratio was 35.0 percent compared to 36.3 percent for 24 combination electric-gas companies, 35.5 percent for the 42 electrics and 36.1 percent for the 86 utilities.

Consistent with the Commission's 1977 decision, the above computations are based on capital, including short-term debt. In my opinion, short-term debt should be excluded from the capital structure. Short-term debt typically constitutes an interim means of financing, subject to wide annual fluctuations with respect to both amounts and rates paid. Comparative data on capital structure excluding short-term debt are shown in Schedule 7, Sheet 2.

For purposes of this case, the company is proposing a capital structure as of 3/31/79, with a 33 percent equity ratio (Schedule 8), reflecting the elimination of the investment in Energy Subsidiary, and giving effect to both a bond and a common stock issue in April 1979. The latter should be treated as a "known change" that results in a capital structure which constitutes the best approximation of the actual capital structure during the period the rates are expected to be in effect.

Q. What is your conclusion with respect to the Company's risks of its electric compared to gas operations?

The business risks of gas distribution have historically been regarded as exceeding those of electric utilities, due to supply problems, physical risks, and the higher

proportion of revenues derived from industrial customers. In earlier years, these higher risks have been reflected in both higher debt and equity costs of gas distributors compared to electric utilities; and combination electric-gas utilities experienced higher costs of equity capital than straight electric utilities. However, in the last two years, while investors still regard gas distributors as riskier than electric utilities, there appears to be no difference between investors evaluation of combination electric-gas and straight electric utilities [See Section IV(b)]. Hence, it appears reasonable to infer that the improvement of gas supply has partially counterbalanced the increased risks of electric operations arising from potential interruptions of fuel oil supplies, the risks of nuclear generation and attrition.

I therefore conclude that the same rate of return should be applied to SCE&G's electric rate base as to its gas rate base.

IV. The Cost of Common Equity Capital

Q. How do you propose to measure the cost of equity capital to South Carolina Electric & Gas?

A. I shall first consider the comparable earnings approach which, in my opinion, provides a measure of the return requirement only in conjunction with the financial integrity test. Thereafter, I shall examine the market value or capital attraction test.

a. <u>The comparable earnings approach</u>

Q. Please summarize the rationale of the comparable earnings approach.

A. The economic rationale is the opportunity cost of capital concept, which holds that capital should not be committed to any venture unless it can earn a return commensurate with that prospectively available in alternative employments of similar risk. As with all equity capital cost concepts, the comparable earnings test is a prospective cost concept.

While the prospective nature of the cost of capital is always recognized in connection with the discounted cash flow technique in estimating the cost of attracting capital, it should not be, but sometimes is, disregarded in the application of the comparable earnings test. Since prospective earnings cannot be precisely ascertained, the measurement of comparable earnings typically proceeds by reference to past experienced returns. The method therefore rests on the implicit assumption that past earnings on book equity are a measure for reasonable expectations of future earnings.

Q. What period do you regard as an appropriate basis for applying the comparable earnings standard?

A. The period selected should be representative of the prospective earnings potential of companies whose investment risks (combined business and financial risks) are comparable to those of South Carolina Electric & Gas. No *a priori* selection of years will meet that condition.

A great deal of emphasis is frequently placed on five-year averages. However, since the last five years encompass at least one year in which earnings were significantly influenced by inventory profits and also the most severe postwar recession, it would be mere coincidence if that average proved to be representative of prospective conditions.

The years of depressed corporate profits should be set aside for the purpose of estimating prospective earnings capacity; the years of significant inventory profits need also to be largely, but not entirely, discounted. If inventory profits constituted a one-time, nonrecurring phenomenon, they should be totally disregarded in estimating future earnings capacity. But since inflation is likely to continue indefinitely, although hopefully at a declining rate, it is reasonable to expect that some inventory profits will be recurring. Indeed, inventory profits have become a significant part of compensation for inflation achieved by investors in manufacturing concerns.

The preceding considerations lead me to give the greatest weight to the earnings experience of 1977-1978 as being most likely to be representative of prospective conditions. In support of that conclusion, it should be noted that the 1977-1978 level of corporate profits does not constitute an unduly high rate of profit in relation to GNP (Schedule 5), and lies considerably below the level of profits experienced in the second half of 1978 and first quarter of 1979. My reliance on the 1977-1978 experience, therefore, anticipates some reduction in profits from the current level as the result of the on-going recession and the Administration's anti-inflation guidelines.

Q. Do you regard it as appropriate to apply the comparable earnings test to utilities or industrials?

A. The principal focus should be on the earnings of investment-grade nonregulated industrials, with appropriate recognition for relative risks.

To apply the comparable earnings test to utilities would constitute circular reasoning, and be tantamount to letting the earnings of each regulated company be guided by other regulatory awards rather than by alternative opportunity returns available to capital. To pierce this circular reasoning, the earnings of utilities must be analyzed in terms of the degree to which they permit utilities to maintain an adequate degree of financial integrity.

Q. How do you propose to apply the comparable earnings test to industrials?

A. The critical operative concept in the application of comparable earnings test by reference to industrials is to find firms of similar investment risk to utilities. There are essentially two approaches to the measurement of similarity of risks: One is to seek a sample of companies of reasonably comparable risk; the other is to infer differences in risks from investor appraisals in the market. I shall rely on both approaches.

No two companies are precisely alike in physical, operating, and financial characteristics. However, the comparable earnings standard does not rest on finding a group of companies exactly alike, but instead requires that there be a reasonable degree of balance between

different kinds of risk encountered by utilities and the group of industrials with which utilities are compared. The differences in physical, operating, and financial characteristics do not preclude the formulation of judgment as to the impact of differences on the degree of risk borne by common stockholders. Such judgments are continuously made by the investment community.

Most industrials incur greater business risks than South Carolina Electric & Gas. However, managements of industrials seek to offset business risks by reducing financial risks through thicker equity ratios. The result of this policy is a tendency toward equality as between industrials and utilities with respect to the combined business and financial risks in terms of the investment risks borne by common stockholders.

The problem at hand is to find criteria which will permit the translation of this general tendency toward equality of investment risks into specific groups of companies with a closer degree of comparability to the economic and investment risk characteristics of SCE&G. I know of no single, all-encompassing formula for the measurement of risks. While the appraisal of risks varies widely among different investors, the investors' composite appraisal tends to be reflected in market valuations. In that sense, the market constitutes an "objective" appraisal of risks and the adequacy of earnings levels. This is one of the considerations which warrant attention to market-to-book ratios, with due regard to the fact that the market is subject to erratic gyrations and that market values reflect factors other than experienced or allowable returns.

Q. Please explain your application of the comparable earnings test with reference to industrials.

A. My application of the comparable earnings test is made by reference to three groups of industrials.

The first group comprises Standard & Poor's composite of 400 industrials, as representative of a cross-section of American industrials, widely followed by investors.

The second group comprises three samples of manufacturers selected on the basis of perhaps the most important investment characteristic associated with utilities, namely, stability of earnings. All three samples are selected from nine industries which have experienced stable returns on book equity. Within those stable industries, two of the samples are selected on the basis of common stock rankings, and one sample on the basis of size of company and stability of earnings.

The third group drops the "stable industry" criterion, in recognition of the fact that the increasing diversification of many industrials may render the classification of corporate entities into any single industry of questionable validity. This third group also comprises three samples of manufacturers, two of which are again selected on the basis of common stock rankings, and one sample on the basis of size of company and stability of earnings.

Q. What has been the earnings experience of Standard & Poor's composite average?

A. The earnings rate for Standard & Poor's 400 industrials averaged 13.0 percent for the five-year period ending 1975, and rose to 14.3 percent for the five-year period ending 1978. The average earnings level in 1977-1978 was 15.0 percent (Schedule 9).

While Standard & Poor's 400 series comprises companies of widely diverse risks, many of which are quite dissimilar to South Carolina Electric & Gas, the S&P average is widely followed by the investment community, and is viewed as representative of the industrial sector. The fact that Standard & Poor's 400 index shows a current earnings rate of above 15.0 percent is therefore entitled to some weight.

Q. Would you now explain your selection of samples of industrial companies whose investment risks you regard as similar to those of electric utilities, focusing first on the conceptual approach?

A. My selection of samples of industrials was governed by the desire to achieve a closer comparability with the investment risk characteristics of electric utilities than that represented by the Standard & Poor's 400 average.

The three dominant economic characteristics of electric utilities are a high capital intensity, a franchise to serve a particular territory, and relatively stable demand conditions over the course of the business cycle.

With respect to capital intensity, SCE&G's capital turnover in 1977-1978 was 0.4, compared to about 2.0 for the preponderance of industrials. This constitutes an element of risk exceeding that of industrials, particularly in periods of inflation.

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With respect to the other two characteristics, industrials do not generally have the advantage of protected market, and the demand for their products fluctuates more widely over the business cycle than the demand for utility services. Primarily on the basis of these latter two characteristics, security analysts have traditionally ranked the common equities of electric utilities as relatively high-grade investments, essentially because they are characterized by relatively high stability of equity returns.

Instability of returns is, of course, only one of several indicators of risk. Investments in companies which experience stable but low earnings are not as desirable as those whose earnings fluctuate around a higher level of earnings. Thus, in selecting samples of comparable industrials, it is important to consider both the level and stability of earnings.

Q. Please describe the selection process of the three samples selected from nine industries with stable earnings.

A. The selection process proceeded in several stages. (A detailed description is contained in Appendix A to the statistical exhibit.)

The first step was a selection of stable industries from the thirty major and sub-industry classification of Federal Trade Commission.[1/] Nine of these industries were selected on the basis of the dual criteria of (1) a level of earnings that was within plus or

1/ The 1974 Federal Trade Commission's Quarterly Financial Report of Manufacturing Corporations lists 30 major and sub-industries. Reliance on the 1974 publication was viewed as preferable to the use of the present classification because an industry reclassification, undertaken in 1974, reduced the number of industries from 30 to 21, excluding "miscellaneous".

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minus one standard deviation of the average of the group of thirty industries, and (2) a high degree of stability of earnings during the last fifteen yeaers, i. e., the lower 40 percent of the industries, arrayed by their coefficients of variation.1/

Second, within these nine industries, companies were selected on the basis of stability of returns during the last ten years, i.e., companies whose earnings exceeded or fell short of the a erage by more than one standard deviation were eliminated. This criterion was designed to eliminate those companies whose earnings are chronically depressed and which do not meet the capital attraction standard, as well as those companies viewed askance by the Court in Bluefield as "highly profitable" enterprises.

Third, the companies selected in the second step were arrayed by their coefficients of variation. The first two samples were selected from companies in the lower 40 percent of this array and, within that array those companies were selected whose common stock may be viewed by investors as being of the same quality as that of utilities. Since investors are influenced by what they regard as unbiased criteria used by rating agencies, the ankings given to stocks become an appropriate criterion for selection.

The common stock of South Carolina Electric & Gas is ranked "A-" by Standard & Poor's; comparision with "A-" ranked industrials thus appears appropriate. However, since the rankings of stocks are partly a reflection of

1/ The standard deviation is a measure of the degree of dispersion of observations from the mean. Mathematically, it is the square root of the average of the squared deviations from the mean of the observed data. The coefficient of variation is the standard deviation divided by the average.

the level of earnings -- thereby introducing an element of circularity -- and to avoid giving undue weight to a single ranking, I expanded the selection process to embrace companies with a Standard & Poor's ranking of "A". (For an explanation of rankings, see Appendix B to the statistical exhibit, p. 10.) These criteria resulted in the selection of 26 "A" and 30 "A-" ranked industrials.

The third sample reflects companies with 1977 revenues in excess of $250 million and whose stability of equity returns, measured by the ten-year coefficient of variation, was the same as that of the group of 24 combination electric-gas utilities (11.6 percent). The size criterion was introduced because investors give some weight to size of operations; SCE&G's 1978 revenues were $486 million.

Thus, my third sample represents companies within the nine "stable" industries, whose ten-year average return fell within plus or minus one standard deviation of the average, and whose average coefficient of variation was identical to that of the sample of 24 electric-gas utilities. These criteria resulted in the selection of 50 companies.

Q. What have been the experienced earnings of these three samples?

A. The earnings of the 26 "A" ranked industrials averaged 12.8 percent in 1965-1969, dropped to a low of 12.4 percent in the 1970-1971 recession, and rose to an average of 15.35 percent in 1977-1978 (Schedule 9).

The earnings of the 30 "A-" ranked industrials have been more volatile than those of the "A" ranked companies, fluctuating from a high of 18.1 percent in 1965-1966 to a low of 12.3 percent in 1971, and averaging 15.65 percent in 1977-1978.

The earnings of the 50 stable companies averaged 14.4 percent in 1965-1969, declined to a low of 13.2 percent in the 1971 recession, and averaged 15.45 percent in 1977-1978 (Schedule 9).

Q. Since the sample of 50 industrials is based on stability of earnings, how does the average coefficient of variation for this sample compare with those of your other two industrial samples and with those of electric utilities?

A. The average coefficient of variation of return on book equity (for the ten-year period ending 1977) for the 50 companies was 11.6 percent, for the 26 "A" ranked companies it was 15.4 percent, and for the 30 "A-" ranked industrials it was 17.1 percent.

The average coefficient for SCE&G was 16.8 percent, for the 42 electrics it was 12.6, for the 24 combination electric-gas utilities 11.6, and for the 86 electrics 12.7 percent.

By this standard, SCE&G is riskier than the average electric utility and has risk characteristics between the "A" and "A-" ranked industrials.

Q. Having used earnings stability as a criterion of investment risk, would it be correct to conclude that greater

earnings instability is always associated with higher returns?

A. No. Earnings instability is only one of several indicators of risk. It lends itself as a criterion partly because it is readily quantifiable, and partly because it corresponds to the characteristic which the investment community most frequently identifies with electric utilities. But it does not necessarily follow that greater instability of earnings is associated with higher returns, as illustrated by the fact that my sample of "A-" ranked companies did not always achieve higher returns than the "A" ranked companies.

To understand this apparent contradition, one need only recall that we are here looking at experienced rather than propsective earnings. The economic proposition is that those which have higher risks should have the opportunity to achieve higher returns. It is not that those which have high risks do in fact achieve higher returns. Stated differently, if those which have high risks did in fact achieve high returns, then they probably would not be viewed as risky. Thus, it is not surprising that those with greater variability do not always achieve a level of earnings that is commensurate with their risks.

Q. Would you now describe your third group of companies?

A. The selection of the third group rests conceptually on the same criteria as the previously described groups, except that the companies are selected from all manufacturing industries, rather than only from the nine stable industries.

Thus, the first step was to eliminate companies whose earnings exceeded or fell short of the average by more than one standard deviation; next, the companies were arrayed by coefficients of variation. From companies in the lower 40 percent of this array, two samples were selected on the basis of common stock rankings: 46 "A" ranked companies and 58 "A-" ranked companies. The third sample comprises companies with 1977 revenues above $250 million, whose coefficient of variation, on the average, was equal to that of the 24 combination electric-gas utilities (11.6 percent). 70 companies satisfied these criteria.

Q. What were the experienced earnings of these samples?

A. The 46 "A" ranked companies experienced an average return of 15.6 percent in 1977-1978; the 58 "A-" ranked companies 14.5 percent, and the 70 stable companies 15.0 percent (Schedule 9).

The average coefficient of variation of the 46 "A" ranked companies was 16.8 percent and of the 58 "A-" ranked companies 18.9 percent, or very close to the 16.9 percent experienced by SCE&G.

Q. What conclusions do you draw from your analysis of the earnings experience of your six samples of industrials?

A. The 1978 earnings level of industrial companies selected on the basis of long-term earnings stability and investment rankings similar to those of SCE&G was above 15 percent, and is currently probably close to 16.0 percent. However, in view of the Administration's wage/price guidelines, and the on-going recession, I believe the

prospective 1980 earnings level lies below the current earnings level, namely at the approximately 14.50 to 15.0 percent level experienced in 1977-1978.

The acceptance of this result as a measure of the return requirement for SCE&G is dependent on further comparative risk evaluations, made in connection with the application of the financial integrity tests.

Q. In selecting samples of industrials on the basis of stability, have you given consideration to the use of the beta factor?

A. Yes. The beta factor measures either the relative price stability of a stock or the relative stability of the investor's return (change in price plus dividends). Whether investors prefer stocks with a high or low degree of price stability depends on whether the market is rising or falling. I do not regard the beta factor as an appropriate criterion of selection, partly because a market variability measure of risk is conceptually incompatible with the comparable earnings standard, and partly because beta factors are frequently unreliable measures of risk.

Q. Can you provide some illustrations?

A. Yes. Let us assume an investor has the choice of putting his money in a savings and loan association or in a bond whose principal is adjusted for the change in the value of dollar.[1/] Since there will be no fluctuation in the nominal value of the savings certificate, it has a beta of zero. In periods of inflation, the price of the purchasing power parity bond will rise so

1/ In 1952, the French Government issued such a bond, tied to the price of a 20-franc gold coin.

that it will have a <u>beta</u> greater than zero, and would thus appear riskier than the savings account. It is perhaps obvious that the greater risk, in terms of ability to maintain the real value of the investment, lies with the savings account.

<u>Value Line</u> (July 6, 1979), a widely used investment advisory service, computes the <u>beta</u> (price variability) for SCE&G at 0.70, compared to 0.68 for the 24 electric-gas companies and 0.70 for the group of 42 electric utilities.

My reservation with respect to the reliability of <u>betas</u> arises, in part, from the dispersion of <u>betas</u> for companies with essentially similar risks, and from similar <u>betas</u> for companies with quite different risks. To illustrate, the average <u>betas</u>, and corresponding stock rankings, for the group of 86 electrics -- broken down by Moody's bond ratings (July 1979) -- are as follows:

Moody's Bond Ratings	Number of Companies	Value Line Average Beta	Moody's Stock Rankings A	A-	B+
"Aaa"	1	0.65		1	
"Aa"	32	0.70	9	21	2
"A"	38	0.67	4	20	14
"Baa"	13	0.70		7	6
Not rated	2	0.65			2
Total	86	0.69	13	49	24

Based on bond ratings and the corresponding stock rankings, it is perhaps obvious that the risk of the 32 "Aa" rated companies is less and the investment quality is better than that of the 13 "Baa" rated companies; yet, the average <u>betas</u> suggest that the two groups are of equal risk.

b. The financial integrity test

Q. What is your definition of financial integrity?

A. There are two levels of financial integrity:

First, there is a minimum level, which calls for earnings sufficient not only to achieve an appropriate coverage of fixed charges, but also -- provided stock markets are reasonably stable and not unduly depressed -- to permit a company to raise new equity capital without diluting the existing stockholders' investment. Nearly every firm -- even one whose capital is impaired -- can attract equity capital if the integrity of the capital previously committed is disregarded and new equity is sold below book value.

Second, there is a level of financial integrity which is consistent with the opportunity cost principle and satisfies both the comparable earnings and capital attraction tests. It is a level of earnings that is sufficient to maintain the value of the property at a level consistent with the values prevailing for industrial stocks of similar investment grade.

Under either definition, attention to market-to-book ratios becomes an important aspect of determining the required return.

Q. In the context of your first definition of financial integrity, please discuss interest coverage.

A. Interest coverages are a test for avoiding difficulties in financing debt rather than a standard of reasonable

return. While the relevant interest coverage, at the time of financing, is computed on a projected pro-forma basis, for comparative purposes, only experienced interest coverage data are available.

The interest coverage of SCE&G declined from 6.04 in 1965 to a low of 2.32 in 1974, and has since recovered to 2.71 in 1978, on a before-tax basis, but including AFUDC. Excluding AFUDC, the interest coverage was 2.17 in 1978 (Schedule 10).

It should be noted that, in each of the last three years -- 1976 to 1978 -- the interest coverage of SCE&G was below the average of the 24 electric-gas, the 42 electric utilities and the 86 utilities, irrespective of whether the computation includes or excludes AFUDC.

Q. Would you now elaborate on the two levels of financial integrity?

A. The first relates to the necessity of avoiding placing a utility in a situation where it is faced with the need to raise new equity capital below book value. The second relates to permitting utilities to achieve a level of financial integrity commensurate with that of comparable risk industrials.

There is now virtually unanimous agreement among regulatory practitioners that it is desirable to grant utilities, at a minimum, a level of earnings that will permit a company to raise equity at no less than book value. To have reasonable assurance of raising equity at a book value, the market price needs to be about 6 to 7 percent above book value, because the sale of new

stock entails underwriting costs, and typically produces downward pressure on the stock. It should also allow a leeway of at least 3 percent for unforeseen market fluctuations.

To set a market-to-book ratio of 110 percent as a standard of regulation is unfair to investors and inconsistent with the alternative opportunity cost principle. Investors do not buy the common stocks of utilities with the expectation of having the value of their capital limited to 10 percent above the nominal dollar value. Instead, they buy the stock in the expectation of maintaining a dividend income stream, hopefully in dollars of constant purchasing power, and achieving some capital gains.

The investor in utilities is aware that the company's earnings potential will be limited to that of other enterprises of similar investment risks. If other enterprises -- particularly industrials selected on the basis of risk characteristics similar to utilities -- are able to achieve a level of earnings which produces market prices considerably above book value, then the alternative opportunity cost concept calls for permitting utilities an earnings opportunity that, if achieved, should produce approximately similar market-to-book ratios.

I wish to emphasize, however, that regulation has neither an obligation to bail out investors who have committed funds in earlier periods at higher prices nor should it strive to fix a return that will maintain a particular market price. The Commission has no control over the factors that influence broad segments of the capital market. Nevertheless, regulation should strive to avoid an impairment of financial integrity.

Q. Has South Carolina Electric & Gas been able to maintain its financial integrity?

A. Not since the beginning of 1978, and only barely in the two preceding years. In the first quarter of 1978 SCE&G's market-to-book ratio was 102 percent, declining to 94 percent in the last quarter of 1978, and further declining to 87 percent in the second quarter of 1979 (Schedule 11).

In each of the years 1974 through 1979 the company issued new common stock. For the 1974 and 1975 issues, the net proceeds were 54 and 91 percent of book value; for the 1976 and 1977 issues, the net proceeds were 104 and 108 percent of book value, and for the 1978 and 1979 issues the ratios were 99 and 88 percent. The Company's financial integrity has therefore been impaired.

Q. Despite these low market-to-book ratios, have not investors done quite well over the last twenty years in SCE & G's stock?

A. No. I have made a study of investors' experienced returns -- defined as the sum of changes in market value and reinvestment of dividends -- for the period 1960-1978. The results are set forth in Schedule 12 in the form of a "mileage chart", showing the experienced returns (before deduction of brokerage costs) from the purchase and sale of 100 shares of SCE&G (at annual average prices) for 171 different holding periods ranging from one to 18 years.

An analysis of the data for short holding periods shows that in only eight of the 18 one-year periods did the investor achieve a return of over 6 percent. For three-year periods, the return exceeded 6 percent in only six of a possible sixteen periods, and exceeded 10 percent in only four instances.

Since utilities are typically viewed as a long-term investment, the results for the longer periods are more meaningful. For five-year holding periods the investors' return exceeded 6 percent in only four out of a possible fouteen periods, and for ten-year holding periods the highest return achieved out of a possible nine instances was 5.4 percent.

Q. You stated earlier that you intended to infer differences in risks from investors' market appraisals of utility equities. Would you please explain?

A. A comparative analysis of market-to-book ratios provides, in my opinion, significant insight, though not a precise measure, into investors' appraisals of differential risk. The proposition stems from elementary financial theory, as observed in the bond market. Given identical coupon rates and dates of maturity, the riskier bonds will sell at higher yields than the higher grade bonds. Thus, differences in market to face value reflect differences in risks. Translated into the stock market, given identical earnings <u>and</u> expectations as to growth, differences in market-to-book ratios may be said to reflect investor appraisals of differences in risk.

The relationship between earnings on book and market-to-book ratios is, of course, equivalent to earnings/price ratios [E/B ÷ P/B = E/P]. The distinction between a comparative analysis of earnings/price ratios and market-to-book ratios is that, while the former may provide an indication of differences in risks, the latter provides both an indication of relative risks (if all other factors are equal) and the level of earnings necessary to maintain an adequate degree of financial integrity.

As with other techniques of measurement, market-to-book ratios cannot be used as a precise formula to determine either risk differences or reasonable earnings requirements, for the reason that factors other than earnings influence market price. Market-to-book ratios are significantly influenced by the state of investor confidence, which frequently incorporates an element of irrationality (both optimistic and pessimistic) with respect to future earnings capacity.

Q. Does an analysis of the relation between returns on equity and market-to-book ratios bear out the preceding hypothesis?

A. Yes, as illustrated by the following analysis:

- There is a positive correlation between the level of returns and market-to-book ratios. To illustrate by reference to the samples selected from the nine stable industries, the higher returns on equity achieved by the sample of 50 stable industrials were consistently accompanied by higher market-to-book ratios in comparison with the

sample of 26 "A" ranked industrials (Schedule 13). (A comparison between the "A" and "A-" ranked industrials does not show a similar consistent pattern, since the probability of achieving the expected return is less for the "A-" ranked companies.)

- Given approximately the same level of returns (and expectations as to growth), differences in market-to-book ratios reflect investor evaluations of differences in risks. To illustrate, in 1976-1978, the 26 "A" ranked industrials achieved approximately the same level of return as the 30 "A-" ranked industrials (14.9 percent vs. 15.3 percent, Schedule 13). However, the average market-to-book ratios of the "A-" ranked companies were below those of the "A" ranked companies (121 percent vs. 128 percent), an illustration of the former's relatively higher risk.

- Given approximately the same market-to-book ratios, differences in returns (assuming similar expectations as to growth) reflect differences in risks. To illustrate by reference to the samples selected from all industries, in the period 1976-1978, the average market-to-book ratios of the 46 "A" ranked industrials were virtually identical to those of the 70 stable companies (134 vs. 135 percent, Schedule 14) but the returns of the 46 companies were consistently higher than those of the 70 companies (15.4 percent vs. 14.8 percent). This suggests that the companies with a high degree of stability are viewed by investors as less risky than the "A" ranked companies. Stated differently,

a lesser return is required to achieve the same degree of financial integrity for the group of 70 as for the 46 companies.

Turning now to a comparison between utilities and industrials, the data indicate that in 1965-1966, when the 42 electrics were earning at a rate of 13.0-13.3 percent, they were selling at a higher market-to-book ratio than the two samples of "A" ranked industrials whose earnings rates were at that time in the range of 13.25 to 13.8 percent (Schedules 11, 13 and 14). I believe it reasonable to infer that in the mid-1960's investors regarded electric utilities as less risky than investment-grade industrials.

Q. Has there been any change in that appraisal?

A. Yes. There was a complete reversal in the early 1970's. As the earnings of electrics declined in the early 1970's investors became increasingly aware that the fundamental economics of the industry had changed from a decreasing to an increasing cost industry. The reasons for the shift arose from an apparent diminution of economies of scale, the rise in operating costs, rapidly escalating fuel costs, increasing cost of plant per Kw, and higher costs of capital. The trend toward higher costs coincided with the need to make large capital expenditures both for growing customer demand and environmental protection needs. The combined impact of rising costs, regulatory lag and a reluctance to grant rate increases, brought about increasingly severe erosion and attrition of earnings. These factors caused investors to view electric utility equities initially as riskier than investment-grade industrials and at the present time at about equal risk with these industrials.

Q. Is that change in investor evaluation of risks of utilities confirmed by an analysis of the relationship between equity return and market-to-book ratios in the 1970's?

A. Yes. In 1970-1972, the average earnings of the 86 electrics and the 46 "A" ranked industrials were virtually identical (12.2 vs. 12.3 percent; Schedules 11 and 14). However, the market-to-book ratio of the electrics averaged 139 percent compared to 206 percent for the 46 industrials. I believe these data permit the inference that by the beginning of the decade investors viewed electric utilities as relatively riskier than the stable industrials.

Since the stock market in 1974-1975 for the electrics was characterized by fear and erratic gyrations, it lacks the prerequisites for an analysis of the relation between earnings and market-to-book ratios.

In the period 1977-1978, the average return of the 86 electrics was 11.65 percent (Schedule 11); for the 70 stable industrials (selected from all manufacturing industries) the returns averaged 15.0 percent. The market-to-book ratios of the electrics averaged 97 percent compared to 129 percent for the 70 industrials. Hence the earnings of these investment-grade industrials exceeded those of the electrics by 31 percent (15.3 ÷ 11.65), but the market-to-book ratios were 33 percent higher (129 ÷ 97).

Allowing for the fact that small differences in relative capitalization rates may be caused by differences in expectations, in my opinion the above data warrant

the inference that investors now regard electric utilities, on the average, as being as risky as investment-grade industrials.

Q. What does a similar analysis show for South Carolina Electric & Gas?

A. SCE&G achieved a return on average common equity of 13.2 percent in 1977 and 12.8 percent in 1978, compared to a return of 11.7 percent and 11.6 percent for the 86 electrics. SCE&G's 12 percent higher return for the two years (13.0 vs. 11.65 percent) was accompanied by only a 7 percent higher average market-to-book ratio (104 vs. 97 percent). Assuming that investors have approximately equal expectations with respect to future earnings of SCE&G and the average electric utility, these data suggest that SCE&G is regarded as slightly riskier than the average electric utility. The investors' less favorable valuation of the Company's earnings is probably due to SCE&G's relatively high proportion of AFUDC.

The above data also indicate that an experienced return of 13.0 percent is insufficient to maintain a minimum degree of financial integrity.

Q. The preceding comparisons have been between SCE&G and the NYSE universe of 86 electric utilities. What is your analysis of the differences in risks between gas distributors and electrics and between electric and combination electric-gas utilities?

A. Investors have consistently regarded gas distributors as more risky than electric utilities. Throughout the last ten years, a higher return was required for gas

distributors to achieve the same market-to-book ratio as the return required by electric utilities (Schedule 11).

In the mid-1960's the higher risks of gas distribution negatively influenced investors' relative valuation of combination electric-gas utilities. However, this was no longer the case in recent years. Thus, in 1977-1978, the average return of both the 42 electrics as well as the 24 combination electric-gas utilities was 11.75 percent; the average market-to-book ratio of the former was 98 percent, and the latter 97 percent. These data together with the quarterly data shown on Schedule 11, suggest that the market views the average electric utility as having approximately the same risk as the average combination electric-gas utility. I therefore conclude that the same rate of return should be applied to SCE&G's electric and gas properties.

Q. What is your conclusion as to a reasonable equity return allowance for SCE&G based on the comparable earnings-financial integrity test?

A. With a prospective equity ratio of 33 percent, I conclude that a reasonable equity return allowance for SCE&G is in the range of 14.50 to 15.0 percent.

My conclusion takes account of the Company's business and financial risks, and is intended to indicate the level that would permit the Company to achieve a degree of financial integrity commensurate with that of industrials of similar risk. I recognize, of course, that the Company's rate application incorporates an equity return of only 13 percent.

c. The capital attraction standard

Q. Please explain the capital attraction test.

A. The capital attraction test seeks to infer -- from stock market data -- the rate of return which induces investors to commit new equity capital. Since the price of a security is the discounted value of the future stream of dividends (or other recoveries of value), the investor's capitalization rate may be computed by the following formula: current dividend yield plus the anticipated rate of growth in dividends or earnings, usually referred to as the discounted cash flow cost (DCF). The DCF cost reflects the opportunity cost by reference to market values; in principle it is the rate which equates market value to book value.

I approach the estimation of investors' opportunity cost with considerably more trepidation than the estimation of the opportunity cost by reference to a book equity, essentially for the reason that, no matter how precise the mathematical formulation may be, it rests on inferences with respect to motivations governing investor expectations. The fact that stock prices are subject to erratic gyrations, which may overshadow valuations of prospective growth, constitutes a further limitation. The DCF formula also rests on the propositions that (1) either past rates of growth will continue to infinity (or that the capitalization rates will not change), and (2) changes in rates of growth are offset by changes in dividend yield. These propositions are only partially valid.

Despite these limitations, the cost of capital formula has gained widespread acceptance among investment and rate of return analysts, largely because it represents a theoretically accurate formulation of the current cost -- not the fair return -- of attracting capital, and because it satisfies the quest for mathematical precision which some believe obviates the need for reliance on judgment. The enumeration of its limitations, however, should make it abundantly clear that it cannot be used without the exercise of considerable judgment, particularly with respect to the time period over which growth rates are computed and the degree to which current dividend yields reflect uncertainties that the future earnings growth will exceed or fall short of the past growth.

Q. Should the cost of capital be measured solely by reference to the particular regulated company?

A. In theory it should, because the company's own cost presumably reflects its unique risks. However, reliance on a particular company's indicated cost of capital involves a degree of circularity, described in a recent Staff memorandum of the Federal Energy Regulatory Commission (Docket RM 78-2, p. 7):

> "In regulated industries future dividend growth depends largely on the rates of return that the regulators allow in time to come. So estimates of future growth in dividends and earnings are really "guesstimates" about the regulators' future behavior patterns. This means that the regulatory body is using other people's hunches about what it itself is likely to do in the future to set rates of return in the present. Some may see a certain circularity here.a/"

a/ Bonbright, Principles of Public Utility Rates (1961) at 253, n. 12.

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Because of the possibility of circularity, I believe it useful to test the DCF result derived from a company's own experience by reference to investor return requirements estimated from broad segments of the capital markets, particularly industrials.

Q. Please proceed with an explanation of the cost of capital computed by the DCF formula.

A. Focusing first on dividend yields, they are significantly affected by investors' anticipations with respect to growth and the company's payout ratio. At a given level of earnings, lower payout ratios will permit greater growth in earnings, and thus produce lower dividend yields.

SCE&G's dividend rates were $1.56 in 1977 and $1.62 in 1978. The payout ratio was 69.8 percent in 1977 and 71.0 percent in 1978, which was virtually identical to that of the other groups of utilities, but twice the level of the industrials (Schedules 15 and 16).

Turning to dividend yields, SCE&G's yield rose from 8.2 percent in the second quarter of 1977 to 9.1 percent in the second quarter of 1978 to 10.4 percent in the second quarter of 1979. By comparison, the yield on industrials has been in the range of 4.5 to 5.0 percent. During each of the last four years, SCE&G's annual dividend yield was consistently above the average for the 24 electric-gas utilities, the 42 electrics or the 86 utilities (Schedules 17 and 18).

In my opinion, SCE&G's current dividend yield overstates the prospective dividend yield which may reasonably be expected, on the assumptions that interest

rates will decline slightly and that the Commission will grant the Company's rate increase application.

I estimate SCE&G's prospective dividend yield for late 1979 and 1980 at 9.75 percent, which assumes that the stock will be selling closer to book value, and is thus more consistent with the premise on which the DCF formula rests, namely, that the capitalization rate will equate market and book value.

Q. Turning now to growth rates, what technique have you used for the computation of growth rates for SCE&G?

A. I have computed growth rates in per share earnings, dividends, and book values on two bases: First, annual percentage changes and second, compound rates of growth by reference to the "least squares" technique for a series of successive three-, five-, seven-, and ten-year periods. In view of the sensitivity and variability of the data, the chances of drawing a reasonable inference as to investor expectations are improved by looking to successive, overlapping periods.

While investors are interested in dividends, growth in dividends is dependent on managerial policies with respect to payout ratios, which are dependent on earnings. I have also computed growth in book value -- although investors do not look to that measure -- partly because growth in book value usually shows a far greater stability over time, and may therefore provide a better indication of the probable future growth in dividends or earnings.

Q. What is your analysis of the experienced growth rates?

A. A review of annual growth rates in earnings (Schedule 19) shows such wide variations from one year to the next as to permit no reasonable inference as to investor expectations. With respect to dividends, SCE&G's annual dividend rate increases averaged 5.75 percent between 1964 and 1974 and showed no increase in 1975. In 1976 and 1977, the company increased the dividend rate by 4 cents a share, and in 1978 and 1979 by 6 cents a share, or about 3.75 percent. I believe investors may assume an increase of at least 6 cents, or possibly 7 cents from the present rate of $1.68, which would place the growth rate in the range of 3.75 to 4.2 percent.

Turning now to the compound rates of growth computed on the basis of least squares for successive periods ending in 1976 to 1978, and focusing first on growth in earnings per share, the data show such a wide dispersion as to preclude an inference as to investors' expectations. But this does not constitute an insuperable barrier.

The Company's requested rate increase incorporates the same 13 percent return on equity as approved by the Commission in 1977. In view of the increase in the cost of equity capital experienced during the last two years, I believe investors may reasonably anticipate approval of that rate. If the Company is able to earn 13 percent, and maintains a dividend payout ratio of about 70 percent, then its growth in earnings will be 3.9 percent.

Turning to growth in dividends per share, the "least squares" growth rates do not provide a more reliable basis for estimation than the previous review of the Company's dividend policy, which suggested a growth rate of 3.75 to 4.2 percent.

Turning to growth in book value per share, the fact that SCE&G sold new equity below book value tends to understate the growth more for the shorter than the longer periods. Thus, for the three-year periods the growth rates have ranged from a negative 1.3 percent to a positive 3.3 percent, for five-year periods from 0.3 to 1.0 percent, for seven-year periods from 1.4 to 3.3 percent and for ten-year periods from 3.5 to 5.2 percent. These data do not provide a basis for estimating investor expectations.

Q. What is your conclusion with respect to investors' growth rate expectations for South Carolina Electric & Gas, and the current cost of attracting capital?

A. I conclude that investors may reasonably expect a near-term growth rate of 3.75 to 4.0 percent.

With a projected dividend yield of 9.75 percent, and a growth rate of 3.75 to 4.0 percent, the current "bare bones" cost of capital is 13.5 to 13.75 percent excluding financing costs and market pressure. That cost, however, is not the fair return.

Q. How does the "bare bones" cost of 13.50 to 13.75 percent for South Carolina Electric & Gas compare to that of industrials?

A. The current dividend yield for the six groups of industrials is in the range of 4.5 to 5.0 percent (Schedule 18).

The rate of growth in earnings per share show a generally rising trend, typically exceeding 10 percent (Schedule 21). The growth in dividends per share shows a sharply rising trend for the three- and five-year periods, and a lesser, but distinctly upward trend for the seven- and ten-year periods (Schedule 22). An average of seven- and ten-year periods ending in 1978 shows a growth rate of 8.7 percent. The growth in book value per share shows a generally rising trend for three- and five-year periods, and a mixed pattern of rising trend for some groups and a declining trend for other groups for the seven- and ten-year periods (Schedule 23). An average of the seven- and ten-year periods ending in 1978 shows a growth rate of 8.8 percent.

Based on the above data, I conclude that investors may reasonably expect a growth of approximately 9.0 percent, so that the indicated "bare bones" current cost of capital for these six groups of industrials is approximately 13.5 to 14.0 percent, very close to that of SCE&G.

Q. Returning to South Carolina Electric & Gas, what is your estimate of the cost of financing, market pressure, and the allowance for market volatility?

A. SCE&G's financing costs for its last four common stock issues ranged from 3.2 percent in 1977 to 3.7 percent in 1979. I shall use a 3.5 percent estimate as representative of prospective conditions.

Market pressure is the impact of a new stock issue on the price of the stock. Market pressure varies widely over the course of the business cycle. Studies made over the last five years by reference to numerous utility common stock issues indicate that market pressure is significantly higher in declining markets than in rising markets. The range is extremely wide, from virtually zero to 15 percent.

No statistically measurable market pressure was experienced by SCE&G in its last four issues; in the preceding issues of 1974 and 1975 the market pressure was 8.4 and 6.4 percent.[1/] Whether the absence of market pressure in recent issues was fortuitous or a reflection of management's good timing is not possible to ascertain. In my opinion, the cost of attracting capital should include a market pressure of at least 3 percent.

I therefore estimate the sum of financing costs and market pressure at 6.5 percent. There should also be an allowance for unpredictable market swings of at least 3 percent, so that the total cost is about 9.5 percent.

Considerable controversy has arisen in recent years over whether the financing costs and market pressure should be applied to the total cost of equity capital or only to the dividend yield portion of the cost. In the interests of avoiding controversy, I shall apply solely the financing costs of 3.5 percent to the dividend yield of 9.75 percent.

1/ Difference between offering price and the average of the market price of the stock 7 to 12 weeks before and after the offering data, adjusted for trend, measured by reference to the S&P Composite Electric Power Price Index.

1067 090

Q. What is your conclusion as to the total current cost of attracting capital for SCE&G?

A. The total current cost is 13.85 to 14.1 percent, reflecting an investor return requirement of 13.50 to 13.75 percent, and an allowance for financing costs of 0.35 percentage points [9.75 ÷ .965 = 10.1 + 3.75 (or 4.00) = 13.85 (or 14.1%)].

Q. Would you please explain the reason for your statement that the current cost is not the fair return?

A. The economic meaning of a current cost estimate is that, if investors were asked to provide funds for a new electric utility at current prices, they would require a net return (after financing and market pressure costs) of 13.75 percent. The fair return, applicable to an original cost rate base, differs from this current cost of money because it includes partial compensation for experienced inflation (which is reflected in the comparable earnings test).

If the results of the cost of capital formula are applied to book equity and the Company is able to achieve that earnings level, the market value of SCE&G's stock would tend to be equal to book value. Thus, to use the current cost of money as a measure of the fair return is to put investors on notice that, any time they purchase a stock above book value, they will suffer a loss of capital.

The historical original cost theory of regulation rested on the proposition that the best yardstick for values was obtained through the process of arm's length

bargaining in a competitive market. Successive increments to plant and capital were intended to be on a comparable basis to those originally committed to the public service.

The advent of inflation has negated the underlying premises of the original cost doctrine because it has resulted in the illogical process of adding dollars of varying purchasing power.

The necessity of having to recognize the impact of experienced inflation becomes most readily apparent when inflation has reached the order of magnitude experienced in post-World War II France and Italy, or in some of the South American countries. If the price level doubles each year, the aggregation of dollars of vastly differing purchasing power renders the end result virtually meaningless. It then becomes clear that, if the reasonableness of compensation is determined regardless of the value of money, the property contributed by investors can be virtually confiscated through the enforcement of purely nominal valuations as inflation progresses.

The impact of inflation is reflected in the cost of labor and materials which utilities purchase; it is also reflected in the use to which utility capital is put. It is therefore illogical, if not discriminatory, to refuse to recognize the impact of inflation in the compensation to the owners of equity capital. The current cost of capital therefore falls short of the fair return.

A P P E N D I X A

Summary of Qualifications of Stephen F. Sherwin

I hold the degrees of Bachelor of Business Administration (1949), Master of Business Administration (1951), and Ph.D. in Economics (1956), all from the University of Wisconsin. My fields of study are Accounting, Economics, Finance and Public Utilities.

After completing my graduate studies, I was an instructor in Economics at New York University. I have also been a guest lecturer at Penn State University and The George Washington University.

In 1956 I joined Foster Associates. During the last twenty-three years I have been a consultant to both industry and government. In the course of these consulting activities, I have made numerous studies on the cost of capital and reasonable earnings requirements for airlines, electric and gas distribution utilities, natural gas pipelines, telephone companies, and water companies. I have also made studies of the economics and cost characteristics of the oil and gas industry, on selected aspects of taxation, on postal economics, and the securities industry.

The results of many of those studies have been presented as testimony before regulatory agencies in over forty proceedings in the United States and Canada.

In the United States, I submitted rate of return evidence before the Civil Aeronautics Board (Braniff, Continental, National, and Western Airlines); the Federal Energy Regulatory Commission (South Carolina Electric & Gas and Great Lakes Gas Transmission); the Public Service Commissions of Florida (Tampa Electric and General Telephone of Florida), Maryland (Baltimore Gas & Electric), Michigan (Michigan Consolidated Gas), Missouri (Laclede Gas), New York (St. Lawrence Gas), North Carolina (Duke Power), Ohio (Dayton Power & Light), South Carolina (South Carolina Electric & Gas), Texas (Houston Lighting & Power), and West Virginia (Chesapeake & Potomac Telephone Company, an AT&T subsidiary); before the Securities and Exchange Commission (for the National Association of Securities Dealers) on the subject of reasonable sales charges for mutual funds; before the Interstate Commerce Commission and the Postal Rate Commission (for the U. S. Postal Service and two mailers' trade associations) on the costing and pricing of postal services; and before the Federal Power Commission (for Exxon, Gulf, Mobil, Texaco, and other oil companies) in twelve proceedings (including the Permian Basin and other Area Rate proceedings) concerned with the costing and pricing of natural gas at points of production.

In Canada, I have submitted rate of return evidence during the last five years in more than twenty proceedings before the National Energy Board (TransCanada PipeLines and Westcoast Transmission), British Columbia Energy Commission (Pacific Northern Gas), the Ontario Energy Board (Consumers' Gas and Union Gas), the Public Utility Boards of Alberta (Alberta Power, Canadian Western Natural Gas, and Northwestern Utilities), Manitoba (Greater Winnipeg Gas), and Quebec (Gazifere de Hull).

Publications:

"Monetary Policy in Continental Western Europe (1946-1952)", University of Wisconsin Press (1956).

"Cost of Natural Gas", Journal of Petroleum Technology, (February 1965).

"Report on Principles of Costing and Rate Making for the U.S. Postal Service", co-author with H. Herz, Presidents' Commission on U.S. Postal Organization (1968).

"Cost of Finding Hydrocarbons", Bureau of Land Management, Technical Bulletin 5 (May 1970).

"Economic Criteria for Postal Rate Making", Washington and Lee University (March 1977).

5.d. Complete the enclosed form entitled, "Financial Statistics," for the calendar years 1978, 1977, 1976 and for the most recent 12-month period.

RESPONSE

See following page.

ATTACHMENT FOR ITEM NO. 5.d.

Financial Statistics

		12 Months Ended 1978	1977	1976
		(dollars in millions)		
Earnings available to common equity		$49.7	$44.0	$34.6
Average common equity		388.5	344.1	284.7
Rate of return on average common equity		12.8	12.8	12.2
Times total interest earned before FIT: Gross income (both including and excluding AFDC) + current and deferred FIT ÷ total interest charges + amortization of debt discount and expense	Incl. AFDC	2.67	2.78	2.58
	Excl. AFDC	2.16	2.28	2.15
Times long-term interest earned before FIT: Gross income (both including and excluding AFDC) + current and deferred FIT ÷ long-term interest charges + amortization of debt discount and expense	Incl. AFDC	3.01	3.05	2.79
	Excl. AFDC	2.42	2.49	2.32
Bond ratings (end of period)				
Standard and Poor's		A	A	A
Moody's		A	A	A
Times interest and preferred dividends earned after FIT: Gross income (both including and excluding AFDC) ÷ total interest charges + amortization of debt discount and expense + preferred dividends	Incl. AFDC	1.61	1.59	1.53
	Excl. AFDC	1.21	1.20	1.20
AFUDC		29.2	24.5	18.3
Net income after preferred dividends		49.7	44.0	34.6
%		58.8	55.7	52.9
Market price of common		$17.00	$18.50	$19.375
Book value of common		$18.44	$17.84	$17.11
Market-book ratio (end of period)*		92	104	113
Earnings avail. for common less AFDC + depreciation and amortization, deferred taxes, and invest. tax credit adjust. - deferred		81.3	76.3	65.0
Common dividends		35.9	31.5	27.0
Ratio		44%	41%	41%
Short-term debt				
Bank loans		2.0	1.8	6.5
Commercial paper		7.7	37.9	9.7

Capitalization (Amount & Percent)	1978		1977		1976	
	$	%	$	%	$	%
Long-term debt	603.2	51.5	574.8	53.5	522.1	54.1
Preferred stock	154.3	13.2	136.1	12.7	137.8	14.3
Common equity	413.8	35.3	363.1	33.8	305.1	31.6

* If subsidiary company, use parent's data.

1067 097

6. With respect to the South Carolina Public Service Authority:

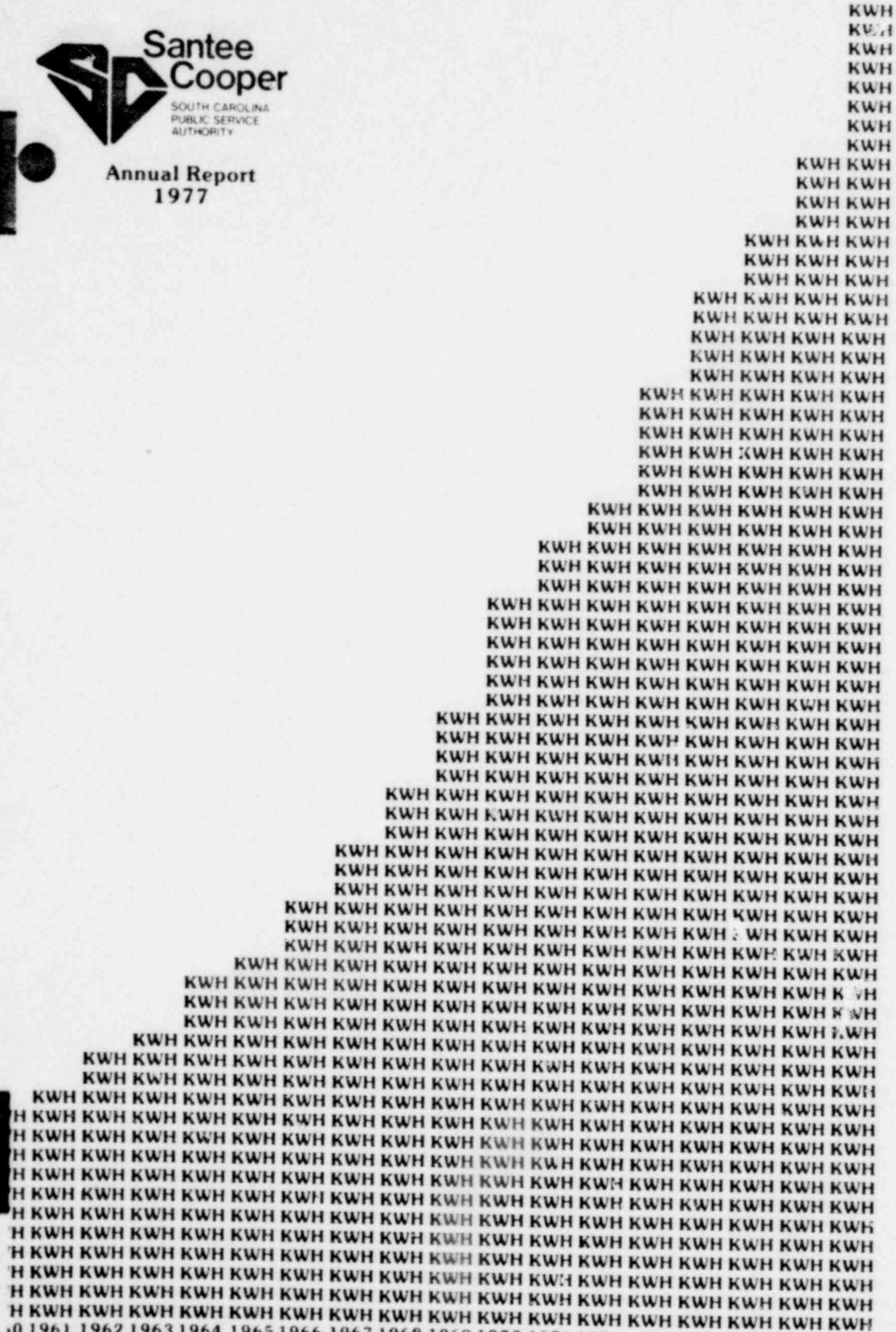
   a. Provide copies of the audited 1977, 1978, and the most recent 12-month financial statements, including the most recent audit report.

      RESPONSE

      Copies follow in requested sequence.

Santee Cooper
SOUTH CAROLINA
PUBLIC SERVICE
AUTHORITY

Annual Report
1977



1067 099

Cover

Santee Cooper's steady growth as an electric utility has been shaped since it began service in 1942 by steady increases in the demand and consumption of electricity by its customers. Those increases have shaped a parallel growth in generating capacity and new construction. Each KWH block of type on the cover represents approximately 720,000 kilowatt hours of electricity.

Comparative Highlights of 1977

Generation and Sales

	Fiscal Year 1976 - 1977	Fiscal Year 1975 - 1976
Power Generated - Net	5,137,833,000 KWH	4,519,323,000 KWH
Purchased & Interchanged	317,677,956 KWH	245,063,568 KWH
Net Sales to Customers*	5,104,226,288 KWH	4,485,135,538 KWH
Net Peak Hourly Load*	(6-28-77) 1,089,000 KWH	(8-25-75) 943,000 KWH

Net Generation, Purchases, and Net Sales (1972-1977 (KWH in Thousands)

Year	Hydro Generation	Steam Generation	Gas Turbine Generation	Purchased Power	Net Sales*
1972	822,517	2,920,976	647	158,934	3,189,103
1973	825,562	3,459,491	6,753	256,718	3,623,630
1974	706,248	3,398,976	10,938	351,142	3,967,909
1975	784,102	3,012,235	10,739	718,707	4,259,300
1976	738,720	3,779,037	1,566	245,064	4,485,136
1977	714,415	4,402,261	21,157	369,139	5,104,226

*Exclusive of Sales to Other Companies.

FINANCIAL - Fiscal Years Ended June 30, 1975 & 1976

	Fiscal Year 1977	Fiscal Year 1976	Increase (Decrease)
Electric Operating Revenue	$94,726,993	$ 82,238,961	$ 12,488,032
Interest Earned and Other Revenue	2,997,877	3,112,246	(114,369)
Operating and Maintenance Expense	71,903,863	57,736,566	14,167,297
Net Revenue	8,978,217	11,901,990	(2,923,773)
Debt Service and Indenture Requirements:			
Interest on Long Term Debt	9,622,441	9,265,248	357,193
Retirement of Bonds	2,110,000	1,840,000	270,000
Payment on Central Obligation	436,820	436,820	——
Payments to State of South Carolina	1,797,497	843,996	953,501
Taxes and Sums in Lieu of Taxes	734,280	550,482	183,798
Equity of the State of South Carolina	115,869,882	108,624,127	7,245,755

1067 100

Santee Cooper
SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

2nd Annual Report
For the Fiscal Year
Ended June 30,1977

Table of Contents

1067 101

POOR ORIGINAL

1067 102

State Ownership

Santee Cooper is an agency of the state of South Carolina, established in 1934 as the South Carolina Public Service Authority. This ownership is unique in that the state has no investment in the Authority but still owns all its properties and assets. The original financing (1938-1942) was by a loan and grant from the United States, through the Public Works Adminstration, with subsequent major additions being funded partly by earnings but primarily by revenue bonds sold to private investors.

The South Carolina Public Service Authority was established by Act No. 887 of the Acts of the General Assembly of South Carolina in 1934 for the purpose of developing the Cooper, Santee and Congaree Rivers as instrumentalities of interstate and intrastate commerce, for the production, distribution and sale of electric power, the reclamation and drainage of swampy and flooded land, and the reforestation of lands around its lakes. This was known as the Santee-Cooper Hydroelectric and Navigation Project and the organization was known and referred to as Santee-Cooper. The hyphen in the name was discontinued in 1976.

Advisory Board

James B. Edwards • Governor
O. Frank Thornton • Secretary of State
Daniel R. McLeod • Attorney General
Earle E. Morris, Jr. • Comptroller General
Grady L. Patterson, Jr. • State Treasurer

4 Board of Directors

Robert S. Davis
Chairman
Chairman & President
of R.L. Bryan Co
Columbia, S.C.

Vernon E. Sumwalt
First Vice-Chairman
Attorney-at-Law
Rock Hill, S.C.

Walter T. Cox
Second Vice-Chairman
Vice President of
Student Affairs and
Dean of Students
Clemson University
Clemson, S.C.

W.B. Davis, Jr.
Director
Business and Real Estate
Summerton, S.C.

Mark C. Garner
Director
Vice President and
Director
State-Record and
State Printing Co.
Myrtle Beach, S.C.

J. Thomas Grier
Director
Partner, Grier & Co.
Spartanburg, S.C.

B.A. Jordan
Director
Chairman
Board of Directors
Cherokee, Inc. &
L-J, Inc.
Columbia, S.C.

Baylis E. Lyles
Director
Retired General Manager
Electric Cooperative
Winnsboro, S.C.

E. Jarvis Morris
Director
Owner
Morris Real Estate
& Insurance Co.
Moncks Corner, S.C.

H.M. Robertson
Director
President
Robertson Hardware
& Electrical Supply
Walterboro, S.C.

Marvin M. Thomas
Director
Owner-Operator
Georgetown Laundry, Inc.
Georgetown, S.C.

The Staff

President and Chief Executive Officer	William C. Mescher
xecutive General Manager	J. B. Thomason
Senior Vice President, Engineering	Henry N. Cyrus
Senior Vice President, System Operations	Clarence S. Gramling
Vice President, Commercial Operations and Acting Vice President, Finance	Joe C. Norman
Vice President, Governmental Affairs and Industrial Development	Lucas C. Padgett
Vice President, Production	Robert V. Tanner
Vice President	William A. Williams, Jr.
Executive Staff Assistant	W. Andrew Burke
General Counsel	Wallace S. Murphy
Secretary-Treasurer	L. P. Dorman
Controller	W. C. Wolfe
Group Manager, Distribution	David E. Jeffcoat
Group Manager, Engineering	Hiram M. Hicks, Jr.
Group Manager, Production Operations	Byron C. Rodgers
Group Manager, Transmission	Albert Boyt, Jr.

POOR ORIGINAL

Robert S. Davis, Chairman of the Board

1067 106

‹essage From ‹he Chairman Of The Board

‹scal Year 1977 was a period for ‹ntee Cooper marked by progress ‹d continued growth in spite of chal‹nges in the form of continuing inflation, ‹creasing availability of energy re‹urces and reserves, and record peak ‹mands for electricity caused by un‹ecedented winter and summer ‹ather conditions.

‹e dedication, responsiveness, and ‹fessional management of all employ‹s were responsible for significant and ‹lestone events which made 1977 an ‹portant year for Santee Cooper and ‹ customers it serves.

‹o tax exempt bond issues - totaling ‹re than $306 million - were refunded ‹lower interest rates, saving more than ‹4 million over the life of the debt ‹vice. This was the largest bond issue ‹r executed in South Carolina and the ‹gest advance refunding issue ever ‹cuted in the United States.

‹e to the immediate cash savings ‹ulting from the refunding, Santee ‹oper was able to share $800,000 ‹h the State and $200,000 with the ‹nties in our retail service area.

‹ the result of an unusual team effort ‹our board and staff working with ‹e and county officials, Alumax, a ‹ifornia-based corporation, announc‹plans in June to build a $400 million ‹minum reduction plant in the Santee ‹oper service area. This was the ‹gest industrial announcement made ‹he country in 1977 and the larg‹ever in South Carolina. Details are ‹being worked out on the plant site ‹ power requirements which will ‹ally produce at least $52 million per ‹r in additional electric operating ‹enues.

‹eement was also reached during ‹year between Santee Cooper and ‹Army Corps of Engineers for con‹ction of the $96 million Cooper ‹r Rediversion Project. Groundbreaking ceremonies were conducted in June for the project which is designed to redivert the discharge of water used in hydroelectric generation from the Cooper to the Santee River and decrease the silting of Charleston Harbor.

Many other strides in growth and improvements were realized during the year and are summarized in this annual report. None of this could have been accomplished without the superb team effort and commitment for improved service to the organization and its customers on the part of our Board and employees. Their efforts and contributions attest to the fact that although our product is energy our most important resource is still people.

Robert S. Davis

Wilson C. Mescher, President and [illegible] Executive Officer

POOR ORIGINAL

1067 108

Message From The President

Increases in area employment, per capita income, retail sales, new construction, ew investment, and tourism were responsible for unprecedented growth in revenues and consumption of electricity in Fiscal 1977. As the area economy rebounded from a two year slump, Santee Cooper's total wholesale and retail kilowatt-hour sales, excluding sales to other utilities, increased 14.4% in 1977 compared to increases of 5.3% in 1976 and 7.3% in 1975. Sale of wholesale power to Central Electric Power Cooperative and the municipalities of Georgetown and Bamberg was up 16% compared to growth of 10% and 13% for the two previous years. In Santee Cooper's direct service area, consumption in kilowatt-hours increased 14% for residential and commercial customers, compared to 7.5% and 12% for the previous consecutive years. The growth in industrial consumption returned to a more normal state with an increase of 12.8% in KWH usage and 11.4% in revenue. The increase reverses the decreases in KWH consumption of 1.9 and 1.2% over the past two years. A system peak hourly demand of 1089 megawatts occured June 28, 1977, up 15.5% from the 1976 peak of 943 megawatts. This growth, coupled with a part-year rate increase, resulted in electric operating revenues of \$94.7 million, up 15.2% from \$82.2 million in 1976.

A comprehensive cost of service study revealed the necessity of a rate increase to partially offset rising production costs. The increase went into effect with meter readings of June 1 and was designed to provide approximately \$3.05 million in additional revenue. The average increase was 2.19% for industrial, 6.98% for commercial, and 12.68% for residential customers. The rate increase was the fourth in the past twenty years for Santee Cooper customers. During the same period there were two rate decreases.

Even greater energy use and revenue increases are expected in the next several years. While the growth of energy usage by retail and wholesale customers is expected to track further improvements in the economy, the growth in industrial load should be phenomenal.

The largest industrial expansion announcement in the nation in 1977 and in the history of South Carolina occurred in June when Alumax, Inc., a California based aluminum company, announced its plans to construct a \$400 million primary reduction plant in either Berkeley or Georgetown County. In either case, Santee Cooper will provide the power. Annual electrical revenues for the first stage of this plant are projected to be \$52 million, with the figure doubling upon completion of the second stage.

This growth in consumption necessitates the continued expansion of our generation facilities. Unit No. 2 at the Winyah Generating Station was completed and ready to begin commercial operation at fiscal year's end. In addition, to meet the more rapid growth in demand caused by the rebounding economy and provide the additional generation for the Alumax plant, the construction schedule for two additional 280 megawatt units at the Winyah Generating Station was advanced with commercial operation of Unit No. 3 to begin in 1980, and Unit No. 4 to follow in 1981 or 1982.

Site studies and pre-engineering design have already begun for additional generating units which will be required after 1982.

The schedule for completion of the Virgil C. Summer Nuclear Station, owned jointly by Santee Cooper and South Carolina Electric and Gas Company, was slipped from 1979 to May, 1980, as the result of delays and changes in seismic and pipe rupture criteria. Should Santee Cooper require additional generation between June, 1979, and May, 1980, SCE&G has agreed to make power available

to Santee Cooper for purchase on a priority basis.

Record winter demands for electricity occurred in January when some of the coldest temperatures in more than 100 years were recorded. During this period, voltage reductions and requests to our customers for voluntary curtailment of non-essential uses of electricity were made. Although the availability of power east of the Mississippi River became critical, continuous service was maintained to all our customers.

Agreement was reached in January between Santee Cooper and the U.S. Army Corps of Engineers relating to the $96 million Cooper River Rediversion Project, which is estimated by the Corps to reduce silting in Charleston Harbor by 70 to 80 percent. A new powerhouse will be constructed on a rediversion canal leading from Lake Moultrie, near Russellville, to the lower Santee River in Berkeley County. Under terms of the agreement with the Corps, Santee Cooper will be compensated for the loss in efficiency caused by the lower head of water at the new powerhouse. Groundbreaking ceremonies on the project were conducted in April, with construction scheduled to take about three years.

Inflation was Santee Cooper's number one problem. Our operating expenses increased 20.5% causing Net Revenue to decline from $11.52 million in 1976 to $8.98 million in 1977. However, with our projected growth, Santee Cooper's future looks bright. Our challenges are to keep expenses under control, plan for future growth, complete our construction on time, and be especially responsive to the needs of our customers and the State as a whole. With the continued dedication, professional conduct and cooperation of Santee Cooper employees, these challenges will be successfully met.

William C. Mescher

1067 110

Winyah Electric Generating Station near Georgetown

POOR ORIGINAL

Control Room for units 1 and 2 at Winyah

1067 111

POOR ORIGINAL

1067 112

Winyah Electric Generating Station near Georgetown

POOR ORIGINAL

Control Room for units 1 and 2 at Winyah.

1067 113

Generation

Capacity & Load Growth

On July 1, 1977, the second coal-fired 280 megawatt generating unit at the Winyah Generating Station began commercial operations, raising the total installed generating capability of Santee Cooper to 1,402 megawatts. This consists of generation facilities at the Jefferies hydro and fossil fuel stations near Pinopolis, the Santee Spillway hydro station, the Grainger fossil fuel station at Conway, the Winyah fossil fuel station at Georgetown, and the combustion turbine generation units at Myrtle Beach and Hilton Head Island.

During fiscal year 1977, Santee Cooper generated a total of 5,137,833,000 kilowatt-hours, purchased and interchanged 317,678,000 kilowatt-hours, and sold 5,104,266,288 kilowatt-hours of electricity. This was an increase over the previous fiscal year of 13.7 percent in kilowatt-hours generated, and 13.8 percent in kilowatt-hours sold. The kilowatt-hours purchased and interchanged over the same period increased 29.6 percent.

A new record hourly peak load of 1,089 MWH was set on June 28, 1977, exceeding the peak of 943 MWH recorded the previous fiscal year by 15.5 percent.

An hourly peak load of 1,158 MWH has been forecast for fiscal year 1978.

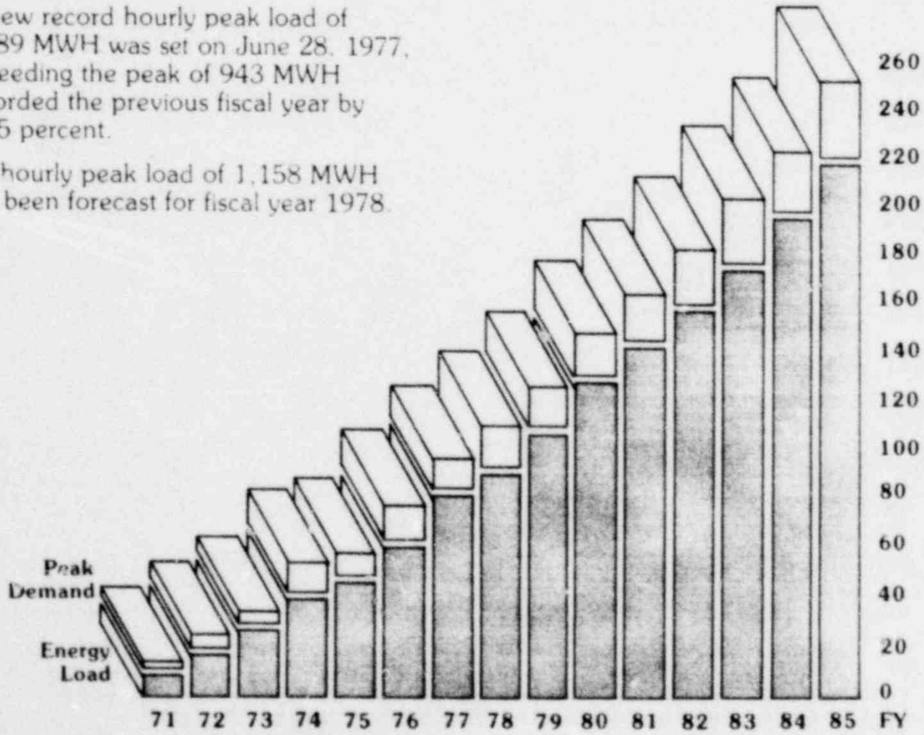
New Capacity and Facility Improvements

Construction of the second 280 MW generating unit at the Winyah Generating Station was essentially completed during the fiscal year and the unit ready to begin commercial operations July 1, 1977.

On-site construction of the third coal-fired 280 MW generating unit at the Winyah Generating Station is expected to start in September, 1977. The orders for turbine generator, steam generator, and other plant equipment with long lead time delivery schedules have been released. Commercial operation of the Winyah Unit No. 3 is scheduled for May, 1980.

POOR ORIGINAL

Growth of Peak Demand & Energy Load
% Increase from 1970



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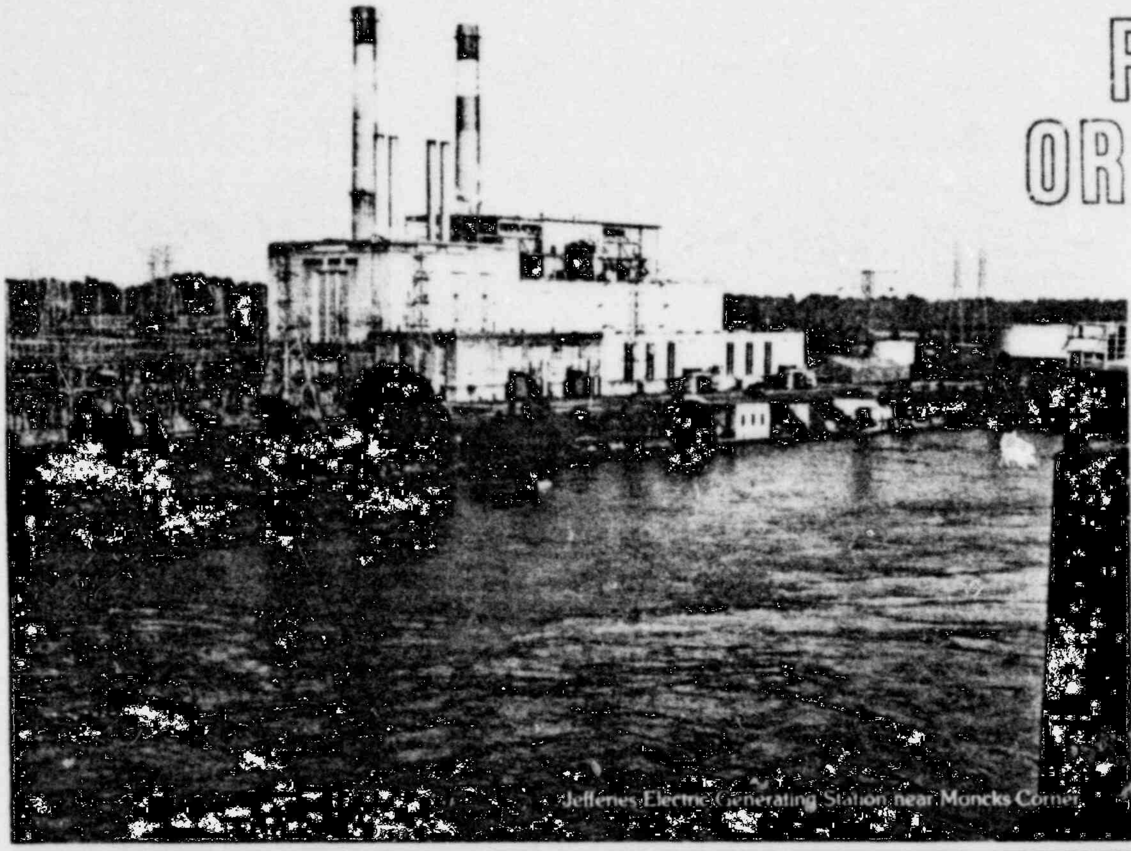
POOR ORIGINAL


Jefferies Electric Generating Station near Moncks Corner


Stack emission tests being conducted on Jefferies Steam units

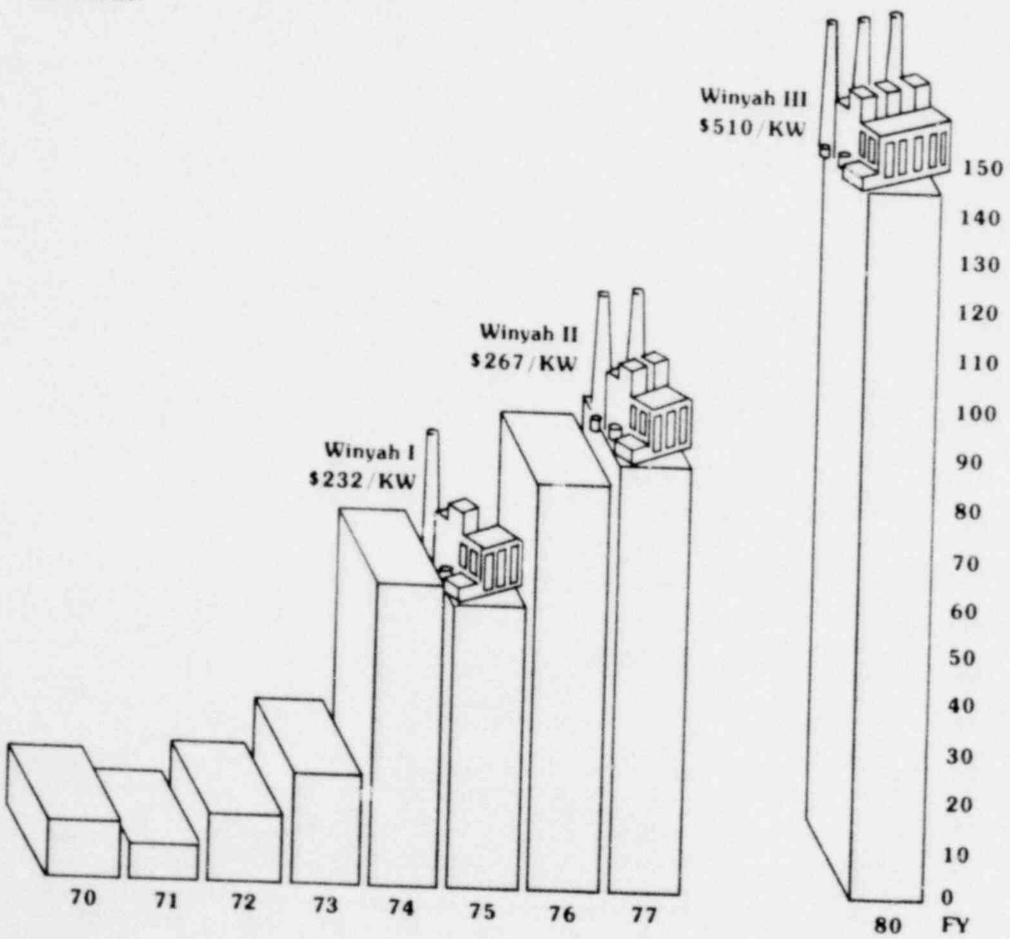
1067 115

Requirements of the Federal Water Pollution Control Act Amendments of 1972 (PL-92500), National Pollutant Discharge Elimination System (NPDES), and the Federal Clean Air Act have resulted in studies, modifications to existing facilities, installation of new equipment, and various other water and air quality control techniques being employed at Jefferies, Grainger, and Winyah Generating Stations during the past fiscal year.

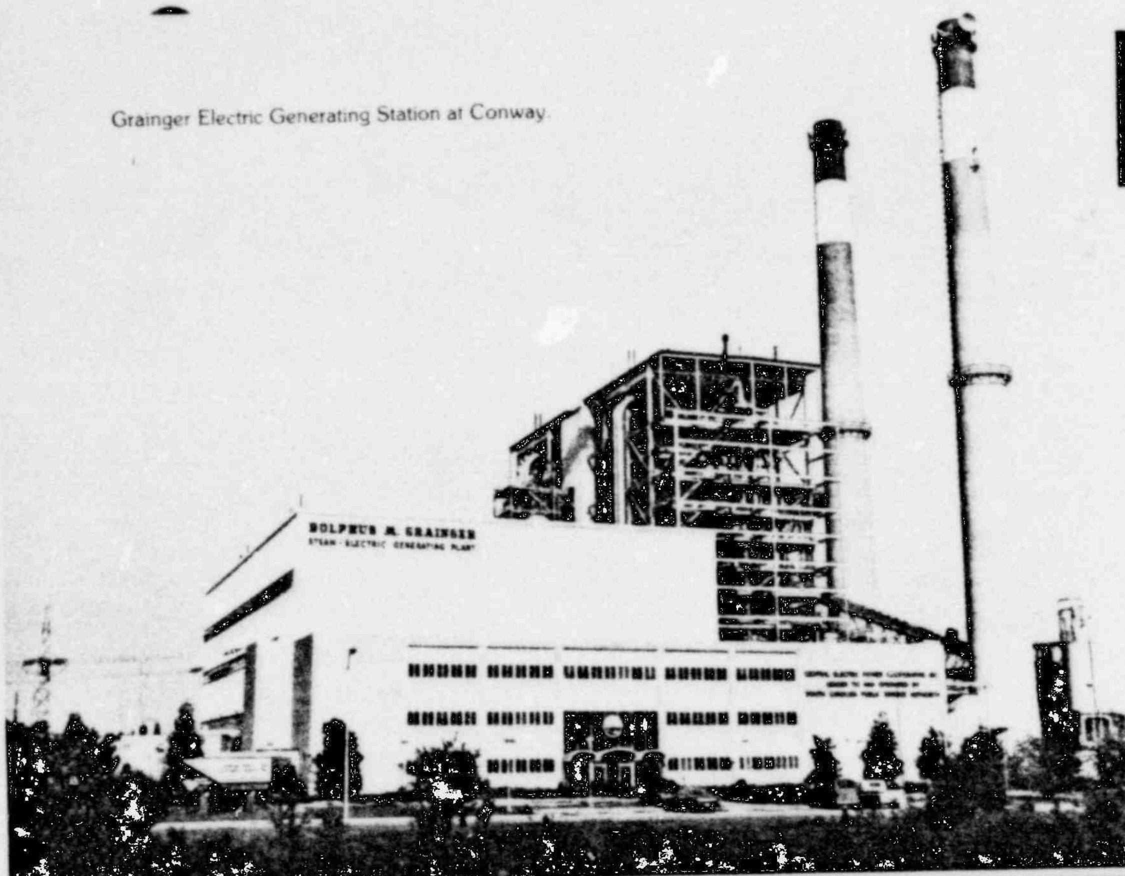
New and more efficient electrostatic precipitators have been installed on Jefferies Steam Units 3 and 4.

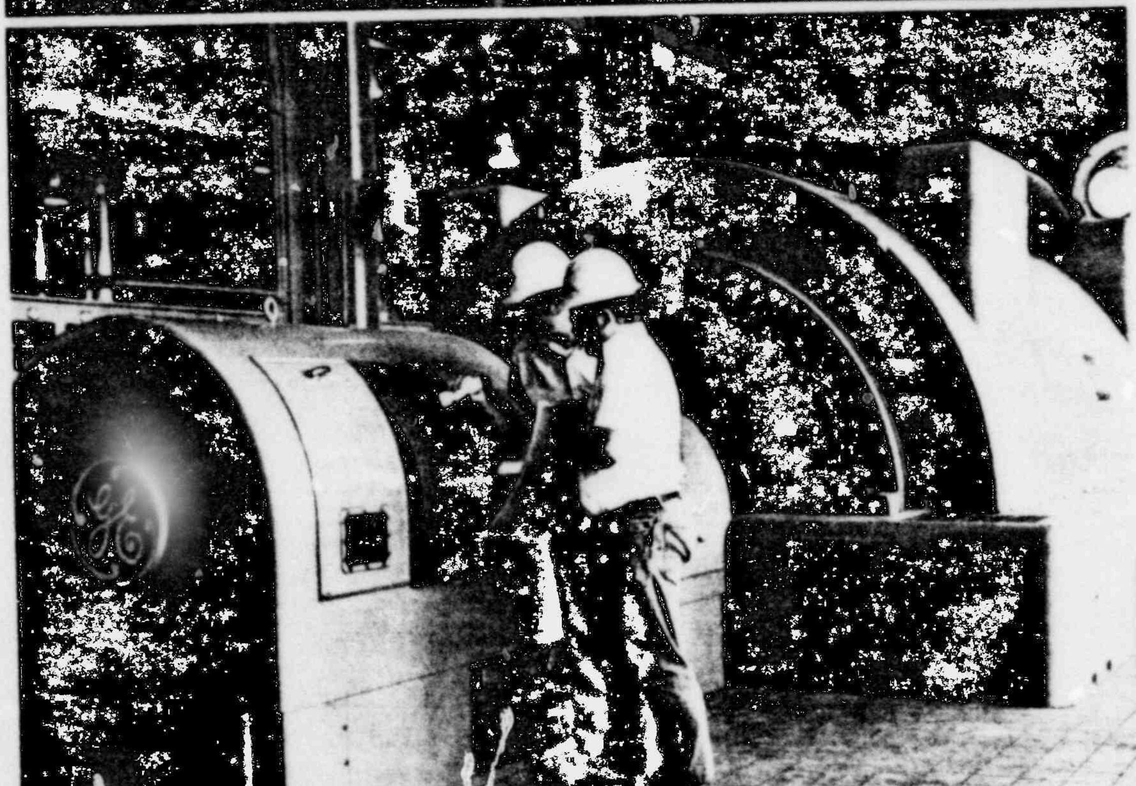
EPA stack emission tests are scheduled for Jefferies 3 and 4, Grainger 1 and 2, and Winyah 2 steam units. These tests are required at two year intervals to make sure particulate and gaseous emissions are meeting EPA compliance standards.

Construction Cost
($ Million)



Grainger Electric Generating Station at Conway.





Periodic maintenance inspections being made on turbine generators at Grainger.

1067 117

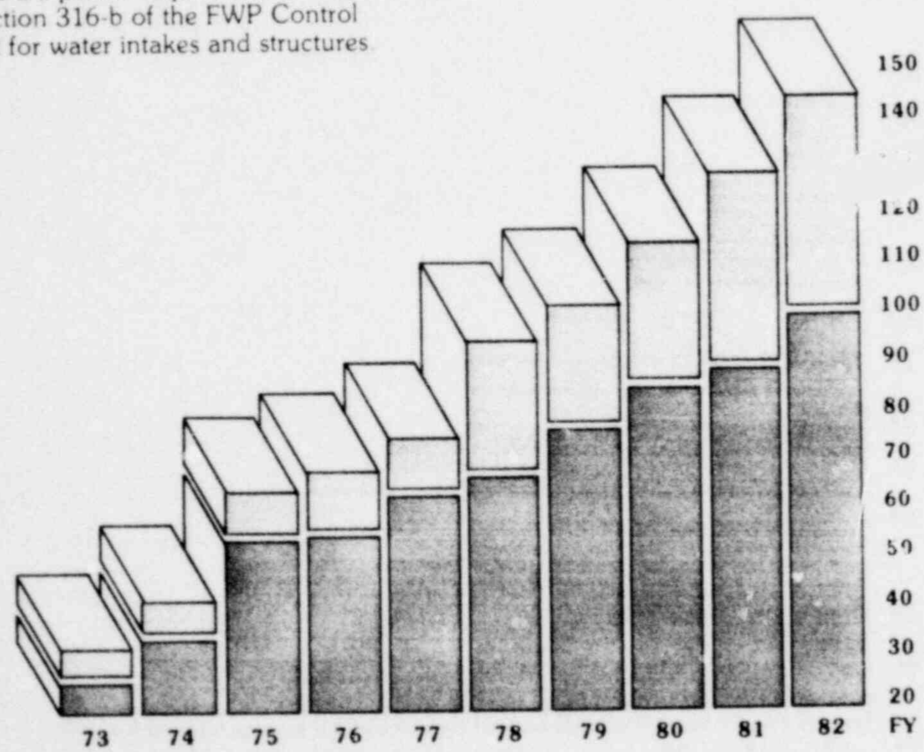
Proposed Winyah Steam Units 3 and 4 will be subject to Prevention of Significant Air Quality Deterioration (PSD) review and must meet PSD incremental standards as well. An air dispersion modeling study to demonstrate operation of these proposed new units has been completed and is being reviewed by the South Carolina Department of Health and Environmental Control (SCDHEC) and EPA.

Various new monitoring devices have been or are being installed at all plants to further improve and maintain good air quality.

Modifications, relocation of discharge lines, and installation of new pumping equipment for miscellaneous power plant waste drains and point source runoffs at Jefferies and Grainger Stations are progressing and should be complete by December, 1977. This work is necessary to meet requirements of NPDES permits.

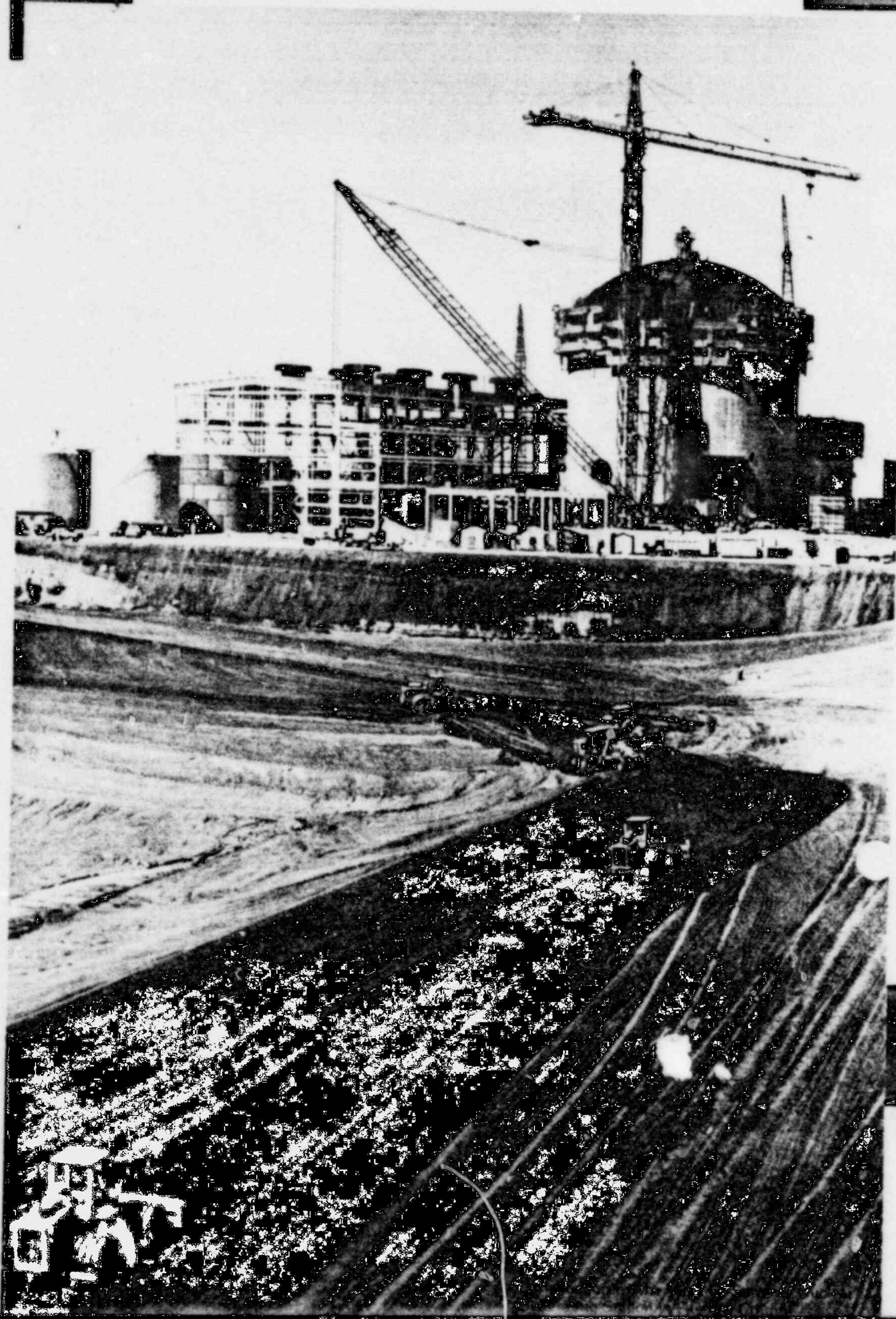
Impingement and entrainment studies are also being conducted as part of NPDES permit requirements related to Section 316-b of the FWP Control Act for water intakes and structures.

Operating Expenses
Debt Service
($ Millions)



1067 118

POOR ORIGINAL



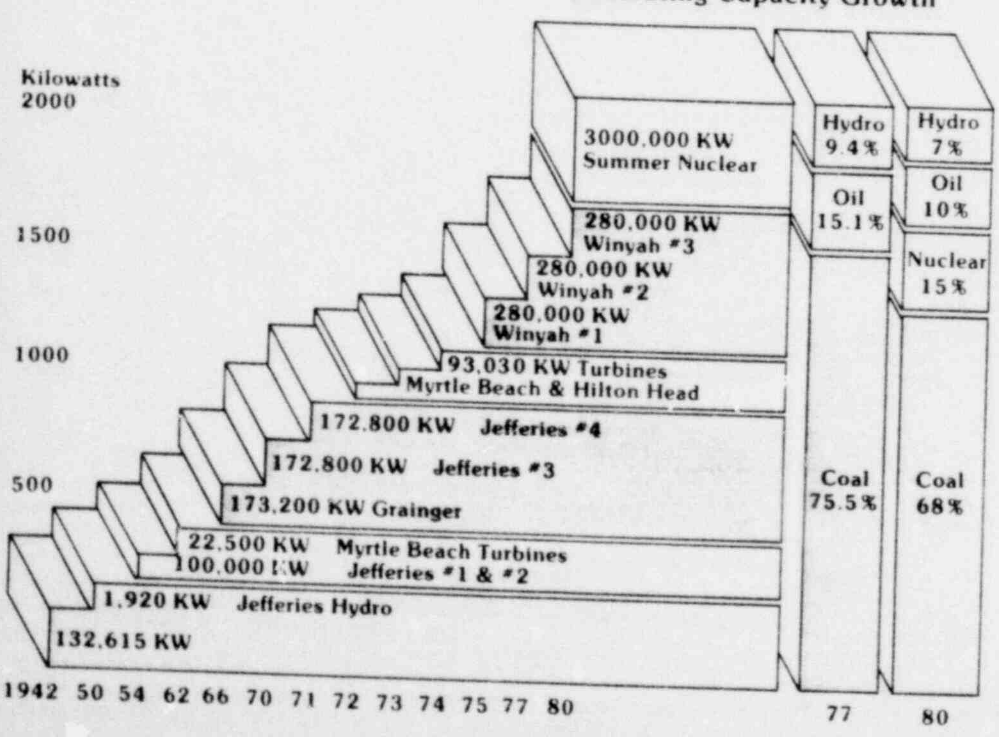
1067 119

A thermal discharge study relating to the cooling water discharge into the Waccamaw River has been completed for the Grainger Station. This study is in relation to Section 316-a of the WP Control Act and is currently under review by SCDHEC and EPA.

During fiscal year 1977 the commercial operating date of the Virgil C. Summer Nuclear Station Unit No. 1 was rescheduled to May 1980 as a result of delays resulting primarily from changes in seismic and pipe rupture criteria. Santee Cooper is a one-third owner in this 900,000 kilowatt generating station and will receive 300,000 kilowatts of its output when it is completed and becomes operational. SCE&G acts as agent for Santee Cooper and is responsible for the design, construction, operation, and maintenance of the project. As of the end of June, the project was estimated to be 54.6% complete. Should Santee Cooper require additional generation during the period June 1979 to May 1980 resulting from the rescheduled commercial operation date, SCE&G has agreed to make such generation available (up to 150 megawatts) for purchase on a priority basis.

The legal action initiated against Westinghouse in October 1975 for performance under the nuclear fuel supply contract continued during the year with major emphasis on the discovery phase. This legal action has been consolidated with similar actions by other utility companies against Westinghouse in the U. S. District Court for the Eastern District of Virginia.

Generating Capacity Growth



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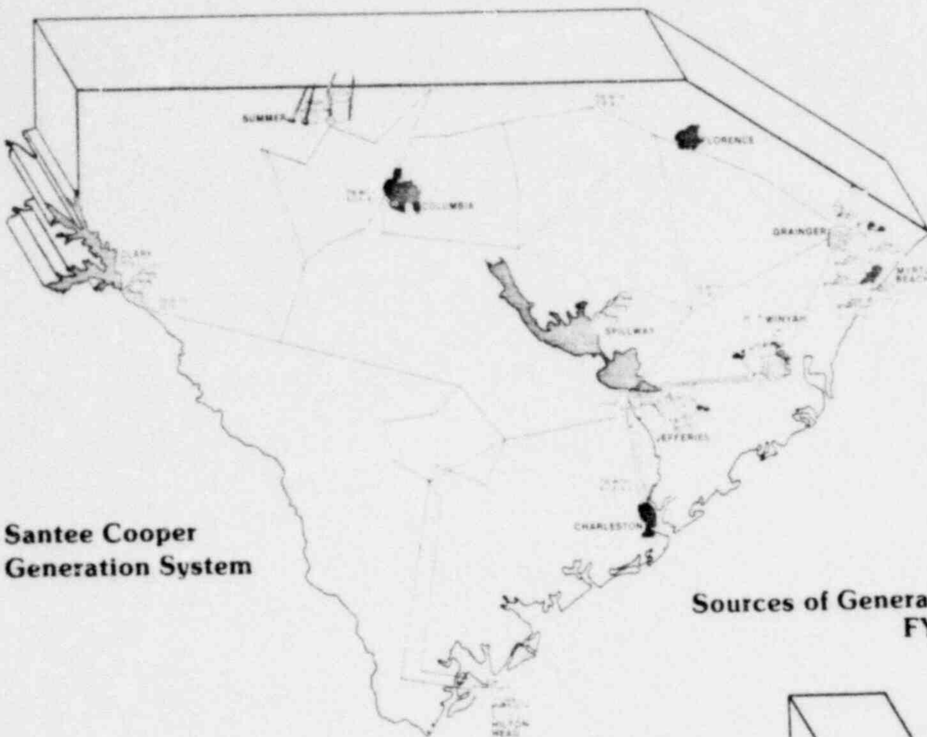
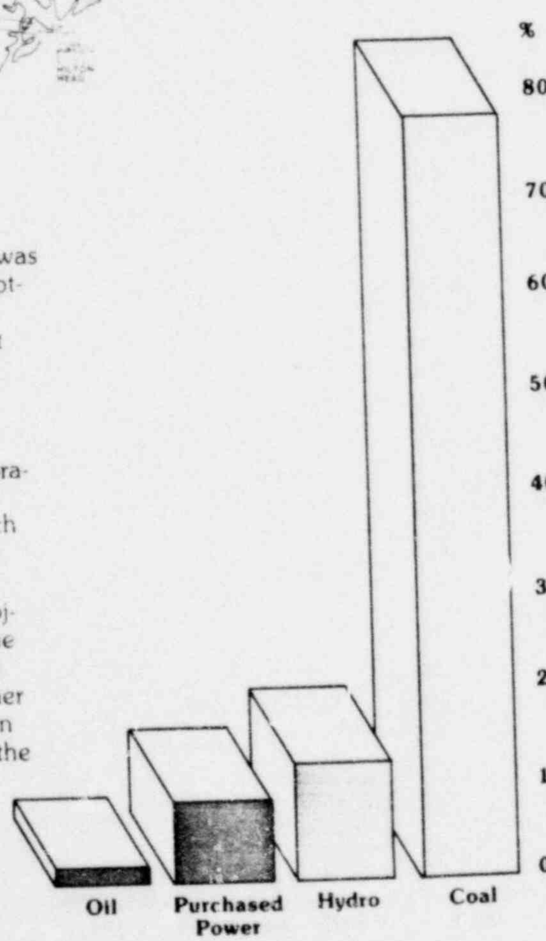


Santee Cooper Generation System

Sources of Generation FY 77



The discovery phase of the litigation was concluded on June 3, 1977, and September 12 was set as the date for the start of trial proceedings. It is not possible at this time to determine the outcome of this litigation.

In February 1976, a court order was issued directing Westinghouse Corporation to provide to its customers at contract prices, certain uranium which it had in inventory or on order. The amount of uranium to be provided under this order for the Summer Project is approximately 76 percent of the initial core requirements. Additional uranium has been acquired from other sources at market prices which, when added to that to be provided under the court order, will assure the full uranium requirements for the initial fueling of the reactor. Arrangements for replacement fuel required in late 1979 or early 1980 have not been made.

1067 121

Sales

Residential, Commercial, and Small Industrial

At the close of the fiscal year, Santee Cooper had a total of 40,804 residential, commercial and small industrial customers, an increase over the previous year of 2,325 or 6 percent. Sales during the year to these customers totaled 868 million kilowatt-hours for an increase of 14.1 percent over the previous year.

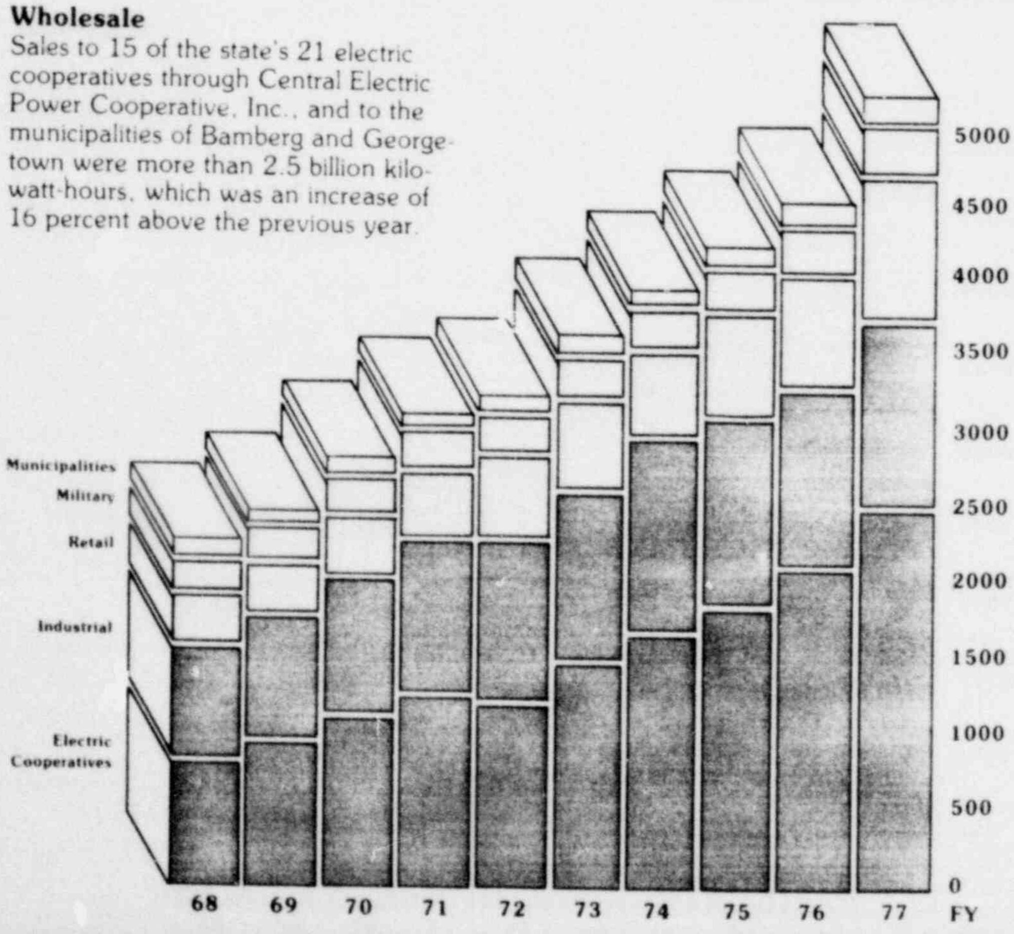
Large Industrial and Military

Sales to large industrial customers increased almost 13 percent for the year; total sales to the U. S. Air Force bases at Charleston and Myrtle Beach and the Charleston Naval Shipyard, however showed only a slight increase for the year.

Wholesale

Sales to 15 of the state's 21 electric cooperatives through Central Electric Power Cooperative, Inc., and to the municipalities of Bamberg and Georgetown were more than 2.5 billion kilowatt-hours, which was an increase of 16 percent above the previous year.

Sales (Millions of KWH)



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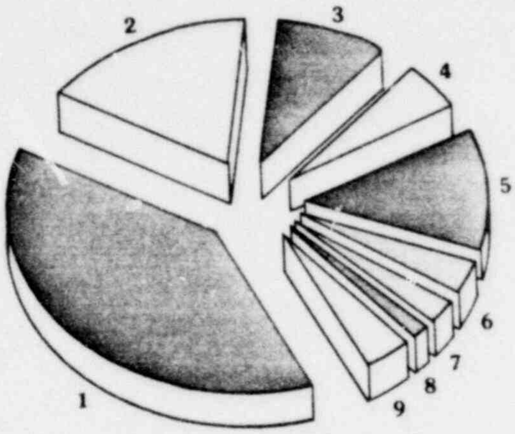
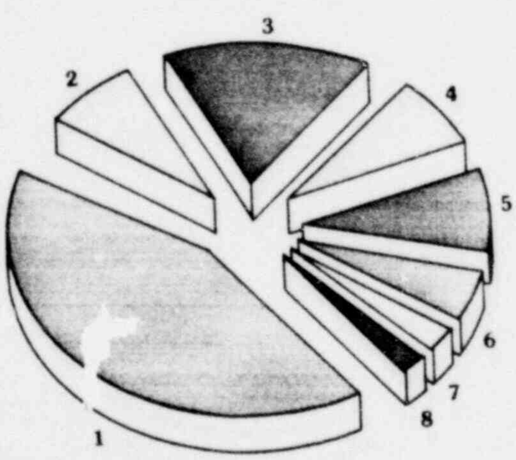


Where It Came From:

		$	%
1.	Sales to Electric Cooperatives	$ 40,623,643	41.57
2.	Industrial Sales	21,556,863	22.05
3.	Residential Sales	10,801,508	11.05
4.	Military Sales	5,048,561	5.16
5.	Commercial Sales	12,438,702	12.72
6.	Other Sales for Resale	2,616,457	2.67
7.	Other Electric Revenue	1,417,621	1.44
8.	Other Sales	223,638	.28
9.	Other Income	2,997,877	3.06
	Total	$ 97,724,870	100.00



And How It Was Used:

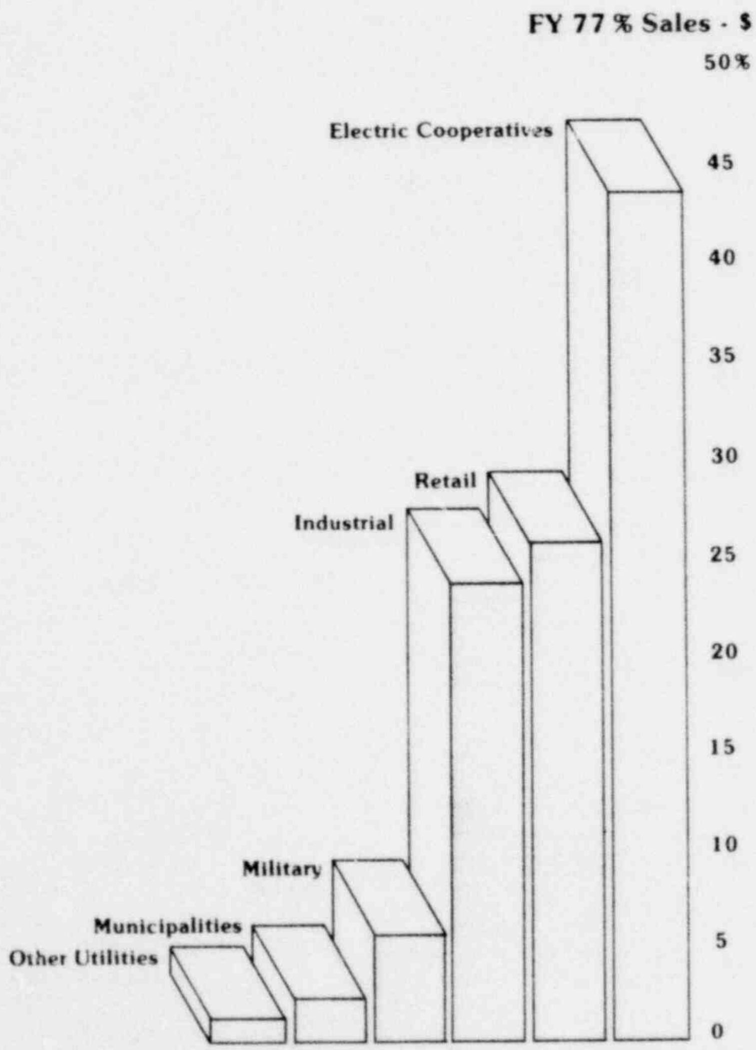
		$	%
1.	Fuel for Generation	$ 46,848,297	47.94
2.	Purchased Power	8,331,935	8.53
3.	Operation and Maintenance	16,723,634	17.11
4.	Additions to Plant, Inventories, etc.	9,092,869	9.30
5.	Interest	9,891,156	10.12
6.	Retirement of Debt	4,305,204	4.41
7.	Payment to State of South Carolina	1,797,497	1.84
8.	Sums in Lieu of Taxes	734,278	.75
	Total	$ 97,724,870	100.00

1067 123

The Revenue Dollar

23

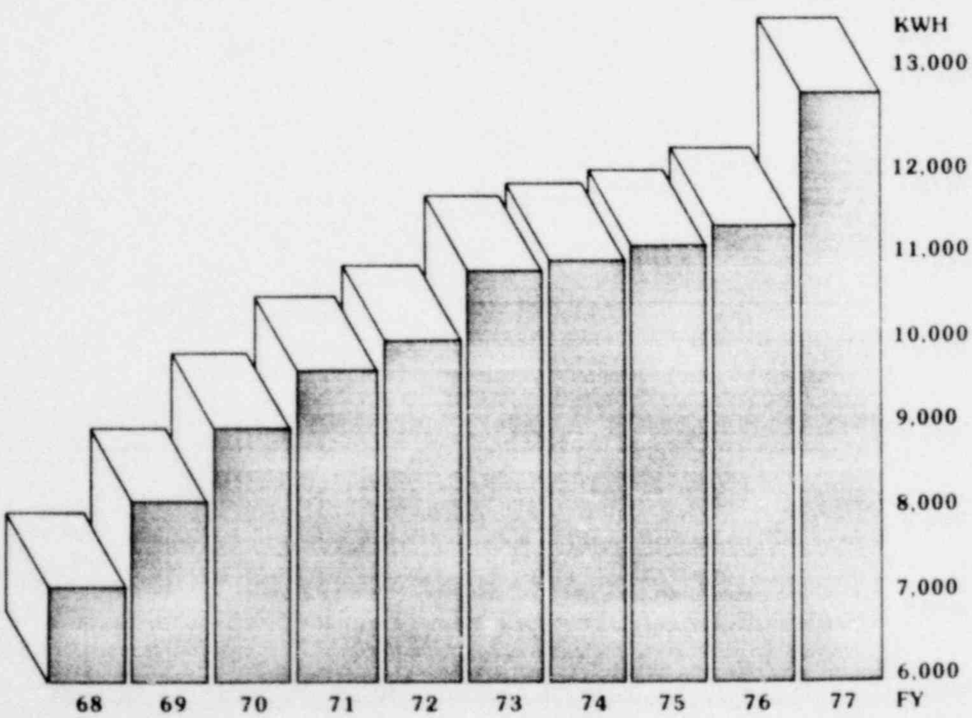
The greatest percentage of Santee Cooper's electric revenue comes from power delivered to 15 of the state's 21 electric cooperatives for distribution to the more than 200,000 customers which they serve. These areas represent some of the state's greatest growth potential.



1067 124

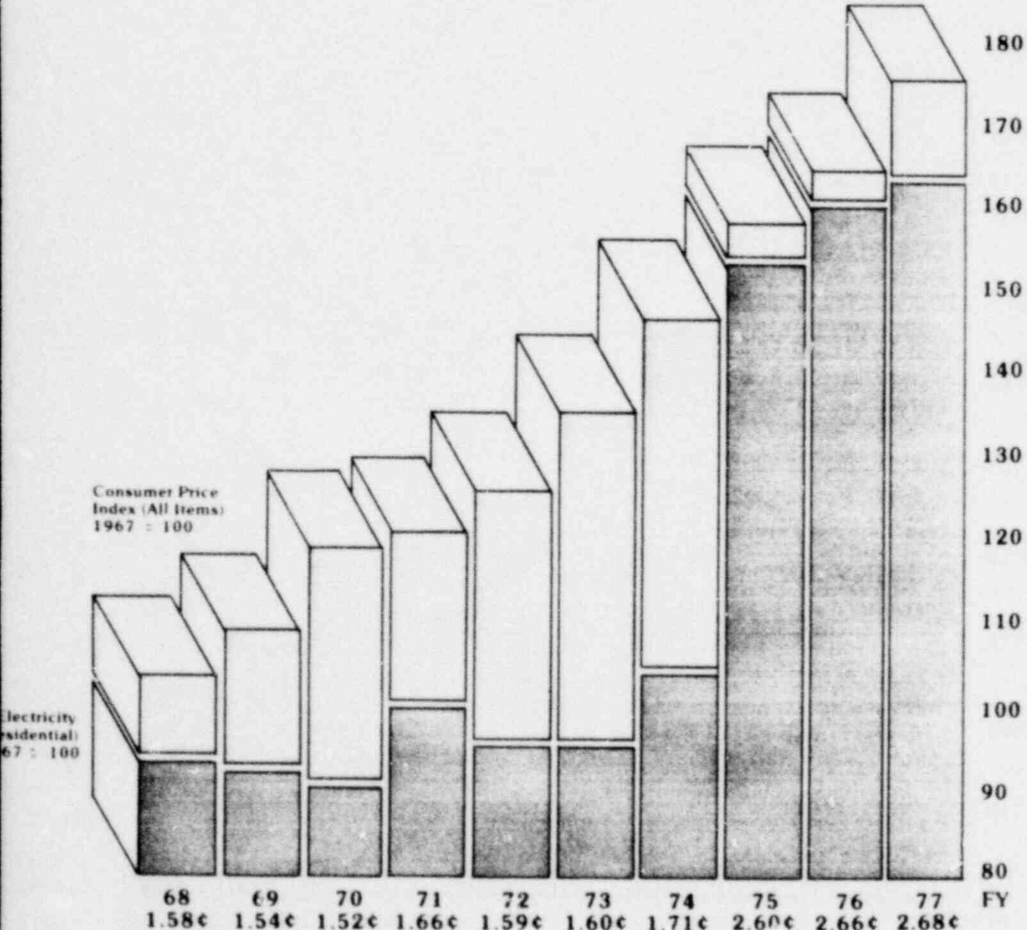
The average residential consumption of electricity by customers served directly by Santee Cooper increased more than 12 percent during the fiscal year, remaining considerably greater than the national average.

Average Residential Consumption (KWH)



he average cost per kilowatt hour f electricity to Santee Cooper residentl customers during the year increased ss than one percent and still remaind less than the national average.

Average Residential Cost of Electricity Per KWH Compared to Consumer Price Index



1067 126

26 Districts

Moncks Corner

In the Moncks Corner District, which includes areas in the vicinities of Moncks Corner, Pinopolis, and St. Stephen, the number of customers increased 3.5 percent while kilowatt-hour consumption gained 16.2 percent during Fiscal Year 1977.

An addition to the Berkeley Manufacturing Plant more than doubled its consumption. The new Haynesville Apartment Complex was completed which added 12 apartments. New service was provided to 35 lots of the Southwind Subdivision and to the 38 lots at Cumbie's Mobile Home park. Two new Zippy Marts were provided service, one at Moncks Corner and one at St. Stephen.

Myrtle Beach

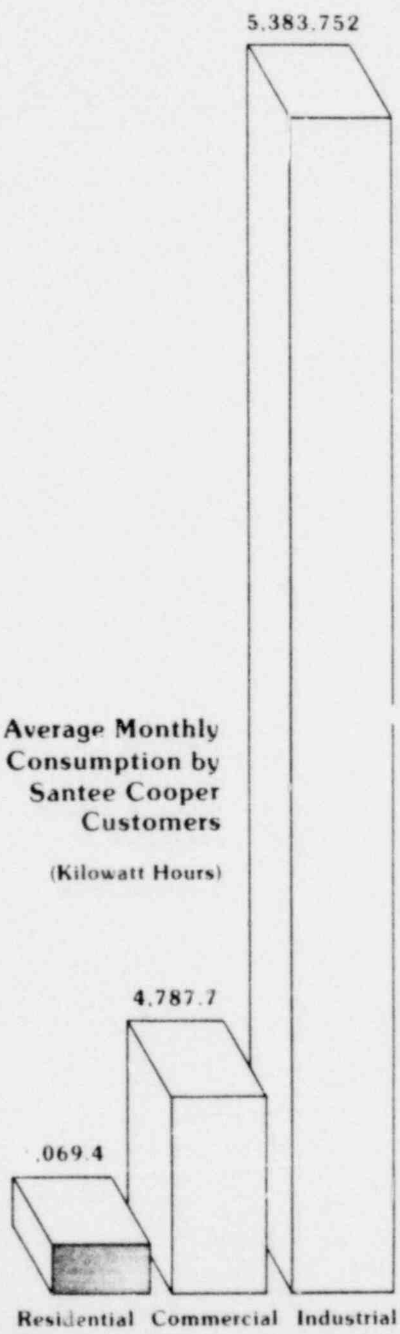
In the Myrtle Beach District, which encompasses the area between the Intracoastal Waterway and the Atlantic Ocean from Georgetown on the south to the North Carolina border on the north, kilowatt-hour sales during the year increased 14 percent while the number of customers increased 7.3 percent.

A new primary school at North Myrtle Beach, a new 144 bed hospital in the Dunes Section, an addition of 28,400 square feet to the Myrtle Beach Convention Center, a new 152 unit Holiday Inn at Surfside, a 60 unit addition to Litchfield Inn, and a new primary school in the Parkerville area are examples of large construction that was either started or completed during the year.

The addition of more than 700 new mobile home lots and campsites, more than 200 new condominiums, service to 47 new residential lots in the new Briarcliffe Forest Subdivision, and the addition of approximately 75 new homes in the Deerfield development are typical examples of the recreational and residential development that continues along the Grand Strand.

Average Monthly Consumption by Santee Cooper Customers

(Kilowatt Hours)

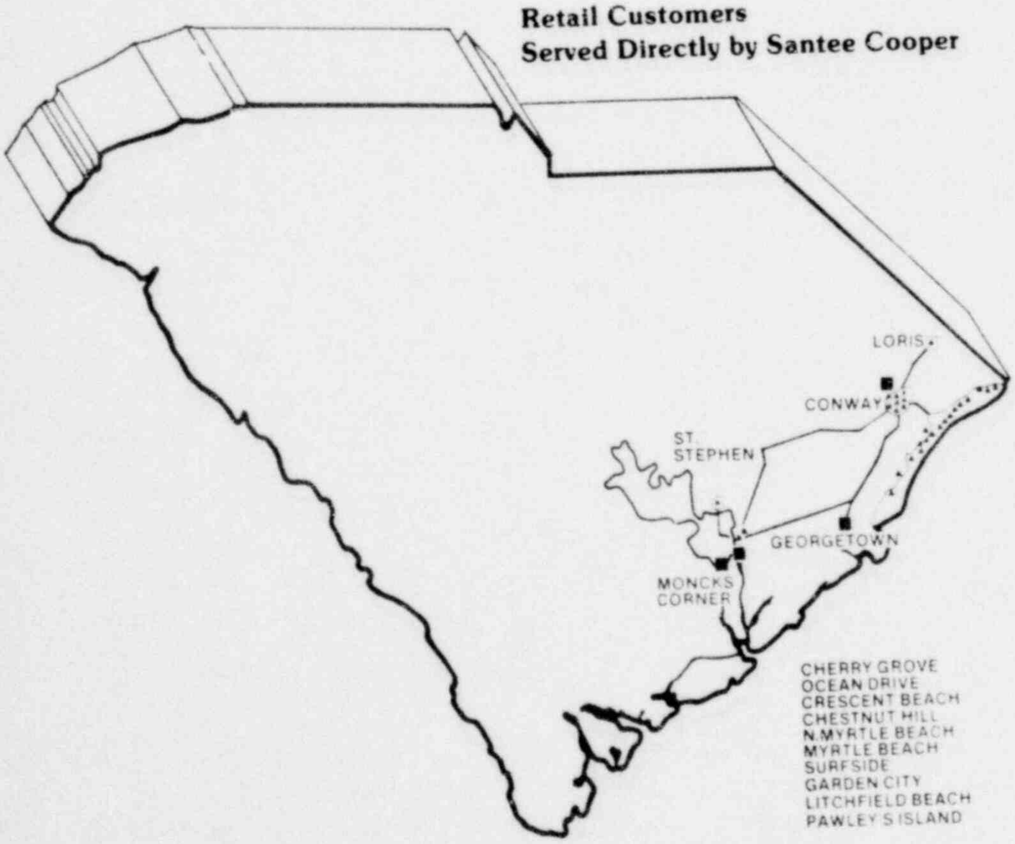


1067 127

Conway

In the Conway District, which consists of areas in and around Conway, Loris, Aynor, Red Hill, and Bucksport, the number of customers increased 2.8 percent during the year while kilowatt-hour sales increased 10.5 percent.

Retail Customers
Served Directly by Santee Cooper



8

Underground service was provided for the Loris Hospital existing load and expansion and for the new Waccamaw Pottery Company on Highway 501. Service was also provided to two new academic buildings at Coastal Carolina University and one at Horry-Georgetown TEC. A number of new commercial buildings in Conway and Loris were provided service, including the U.S. Post Office, Coastal Federal Savings and Loan, Carroll Motors, and Wood's Store. Buck Forest, a new residential subdivision at Bucksport, was provided underground service.

Customers Served by Santee Cooper - FY77

Type	Average No.	KWH Consumption
Residential	**31.412**	**403.106.840**
Commercial	**7.821**	**449.335.353**
Industrial	**21**	**1.356.75.706**
Municipal	**2**	**97.476.357**
Military Bases	**3**	**302.788.850**
Electric Coops	***15**	**2.479.317.606**

* More than 200,000 Electric Cooperative Retail Customers

System Operations

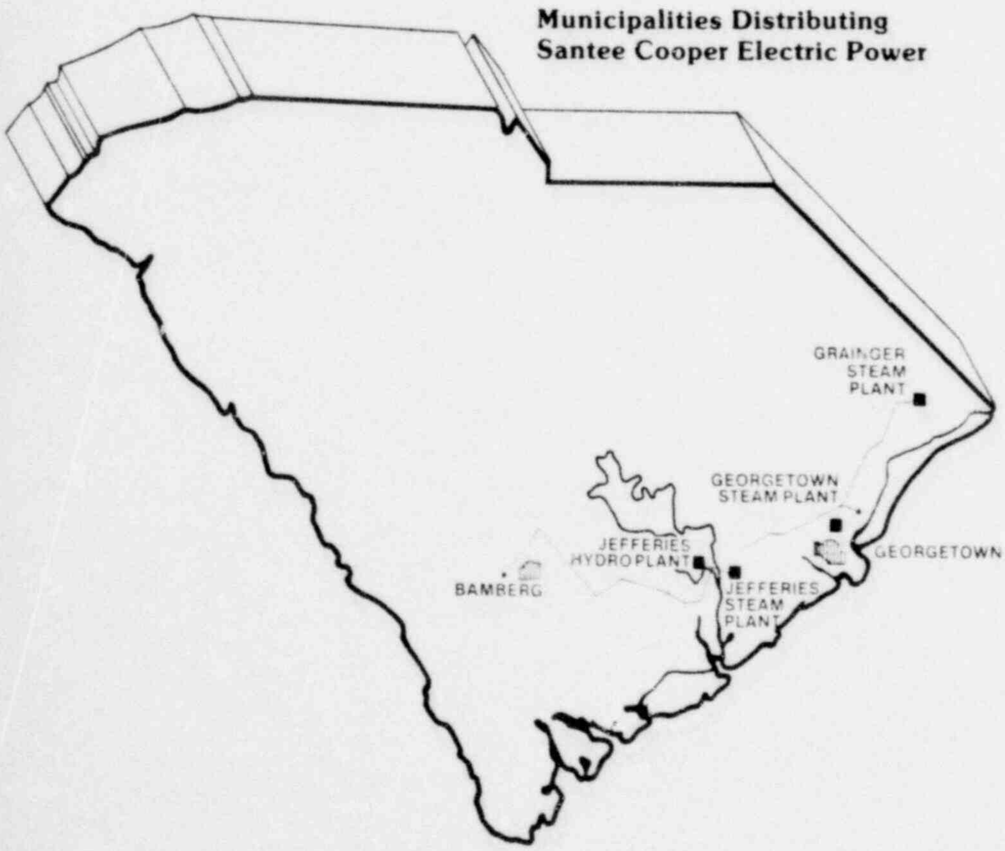
Reliability

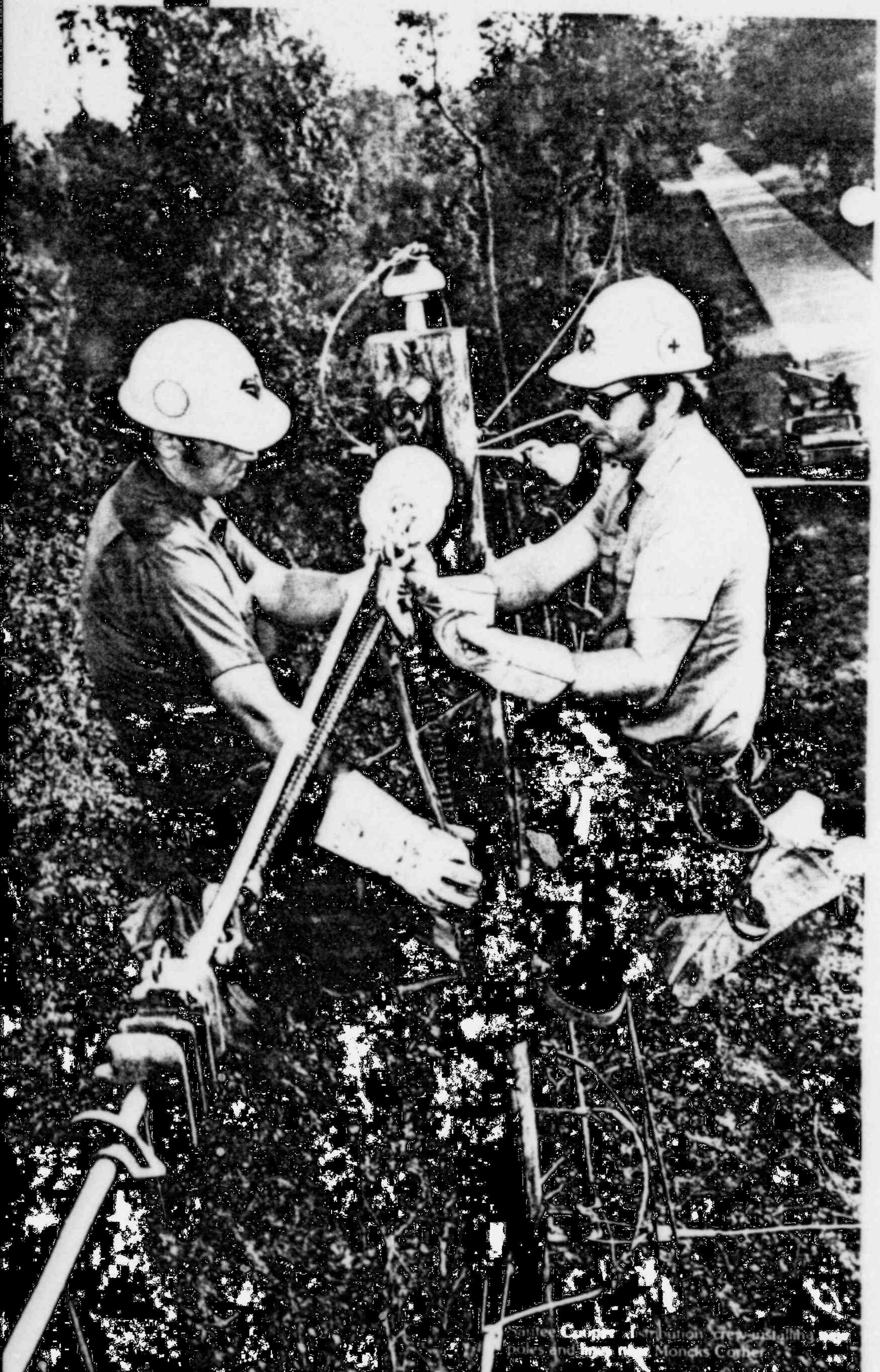
Santee Cooper is one of thirty member organizations in the Southeastern Electric Reliability Council (SERC), which includes all power suppliers in the region with a generating capacity of 25 MW or more. The Council cooperatively assists member systems in coordinating overall planning and studies to achieve maximum reliability.

Santee Cooper is also one of seven power systems in the Virginia-Carolinas Reliability (VACAR) group, which includes South Carolina Electric and Gas Company, Carolina Power and Light Company, Duke Power Company, Virginia Electric and Power Company, Yadkin, Inc., and Southeastern Power Administration. The member systems have a coordination agreement to further safeguard the reliability of their service.

Interconnections are maintained with the South Carolina Electric and Gas Company at North Charleston, St. George, and Columbia; with the Southeastern Power Administration at Clark Hill; and with the Carolina Power and Light Company at Kingstree, Darlington, and Hemingway.

Municipalities Distributing Santee Cooper Electric Power





Santee Cooper distribution crew installing [illegible] poles and [illegible] Moncks Corner.

POOR ORIGINAL

1067 131

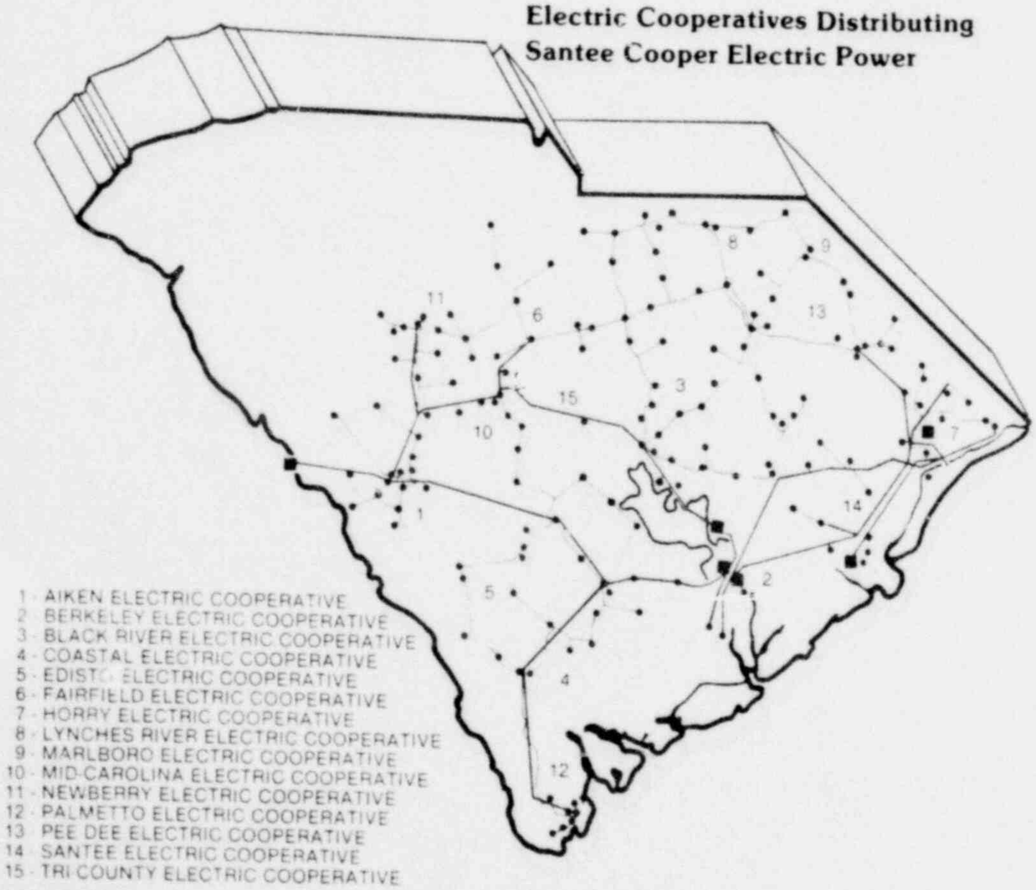
Transmission

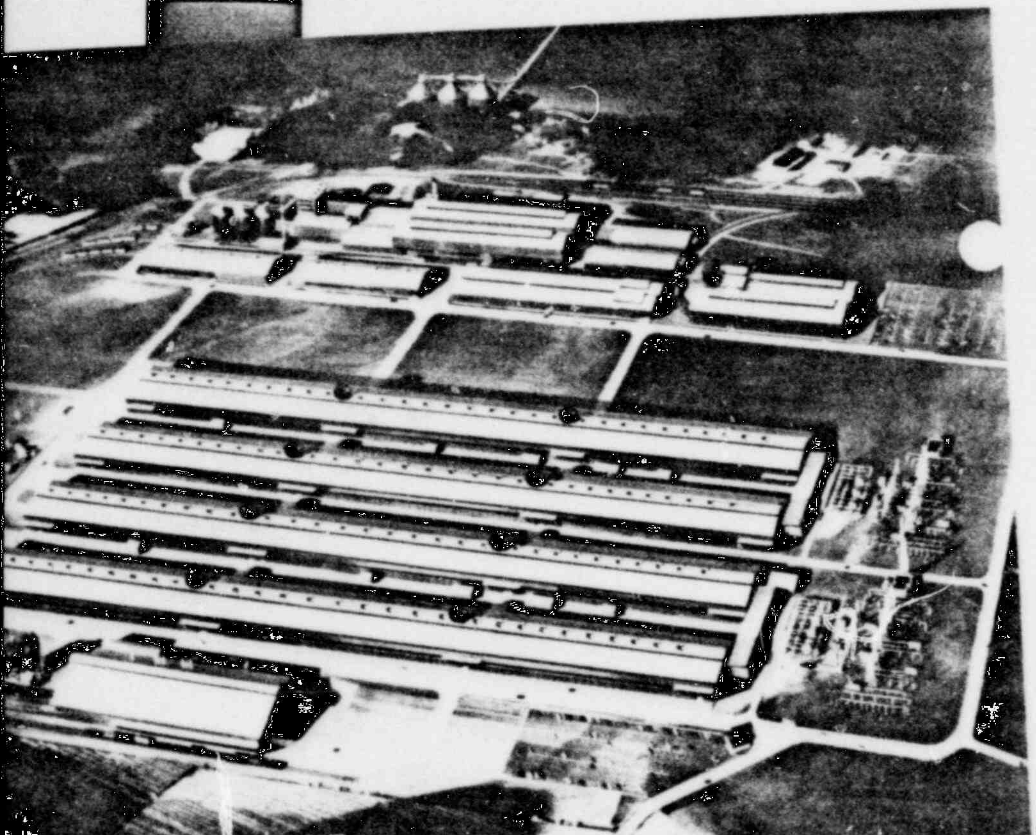
During the year approximately 5.5 billion kilowatt-hours of electricity were delivered to Santee Cooper customers over more than 2850 miles of transmission lines and through 89 transmission and distribution substations and switching stations. A large portion of Santee Cooper's transmission system is leased from Central Electric Power Cooperative, Inc., and is operated and maintained under a lease-purchase agreement.

The transmission system delivers power to Santee Cooper's Moncks Corner, Conway, and Myrtle Beach retail districts, the municipalities of Georgetown and Bamberg, to 15 electric cooperatives serving customers in 35 of the state's 46 counties, and to 21 industrial customers, as well as 3 military installations.

A major 230 Kv switching station was constructed at Lugoff and 230 Kv facilities were added at Blythewood and Perry Road substations. Three major 230 Kv lines were placed in service on the Santee Cooper System during the year. Major improvements were also made at various other substations. More than 200 miles of transmission lines were constructed and placed in service. Eight new wholesale delivery points were added to the transmission system during the year.

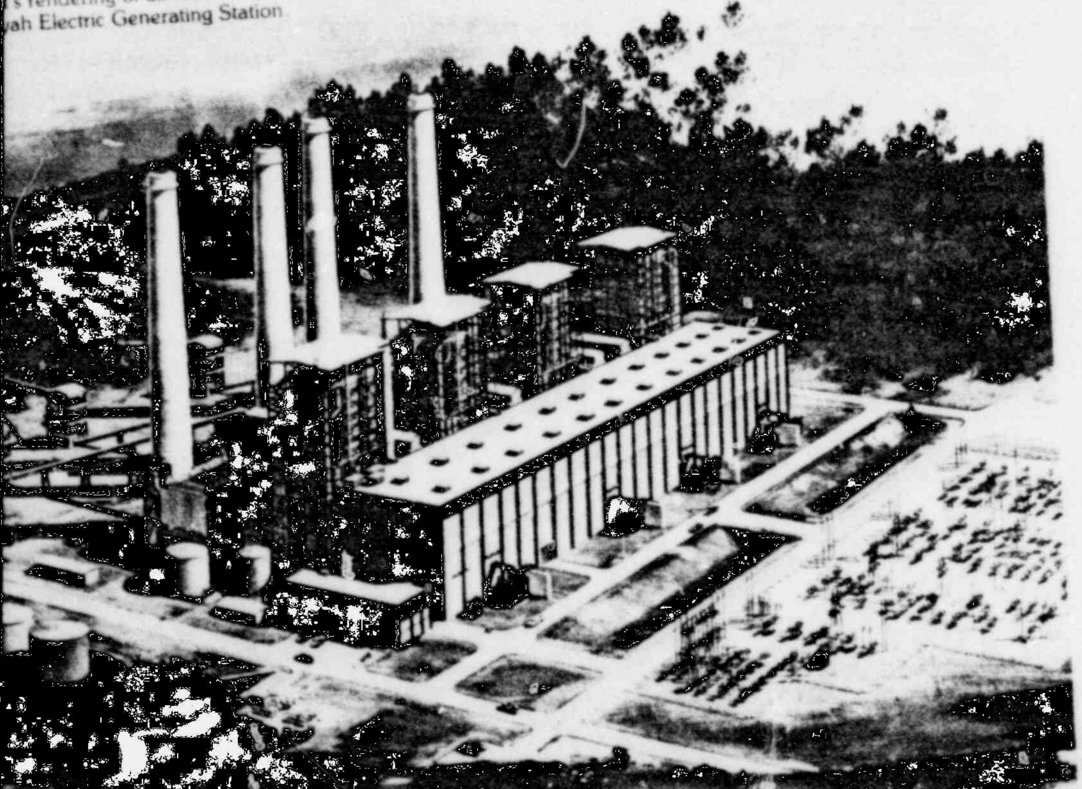
Electric Cooperatives Distributing Santee Cooper Electric Power





rendering of the Alumax aluminum
...tion plant to be constructed in Berkeley
...ty

...'s rendering of all four completed units at
...yah Electric Generating Station



POOR ORIGINAL

1067 133

Industrial Development

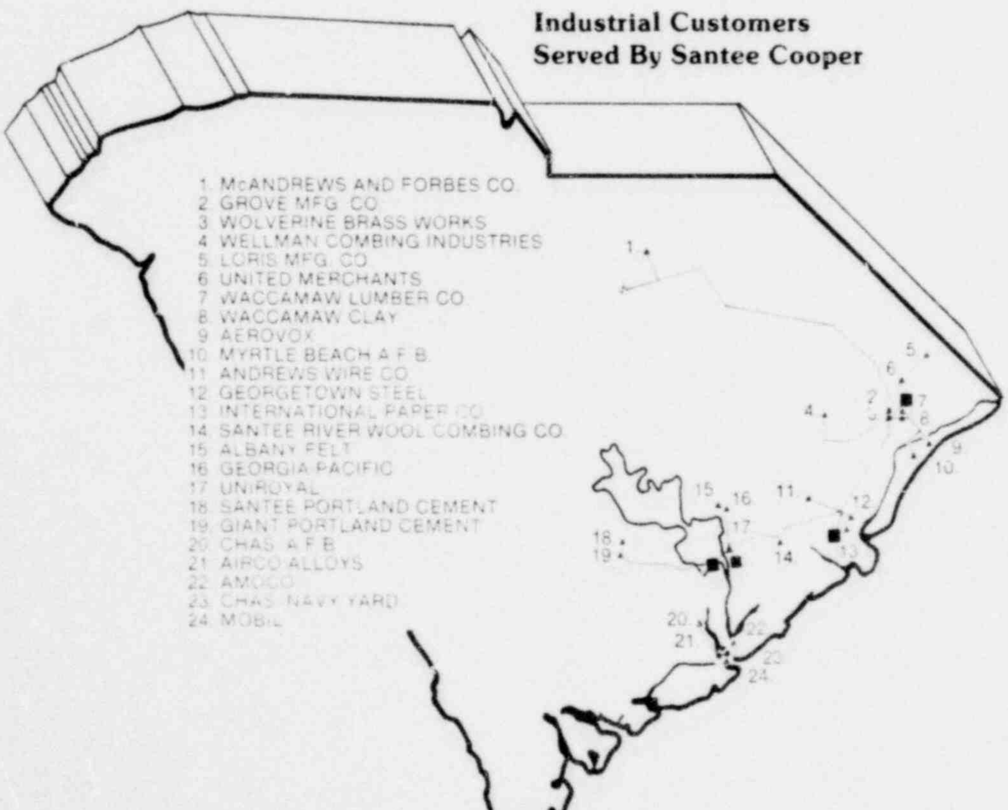
Large power users on the Santee Cooper system showed strong growth during the fiscal year. Measured in terms of kilowatt-hours used, the total industrial load increased 12.8% over the previous year. Only four industrial plants showed a decline in power consumption and three of those were in the textile field.

Alumax, Inc., a California based company, announced its intention to build a primary aluminum reduction plant and locate it on the Santee Cooper system. This will be the largest industrial plant ever to locate in South Carolina, with an initial capital investment of approximately $400,000,000. This plant will have a load of 335,000 kilowatts of power for the first two pot lines (provision for two more are being made in the power contract) with the power cost approaching $52,000,000 per year. It will require 1,500 construction workers more than two years to build the plant and an operations crew of 850.

Santee Cooper announced plans to move up the construction schedule on another coal-fired 280,000 kilowatt generating unit at Winyah to meet the increased projected demands created by the projected industrial growth coupled with growing demand and consumption by all customers.

Increased industrial activity is becoming more and more evident which forecasts continued growth in this important area of Santee Cooper's operations.

Industrial Customers Served By Santee Cooper



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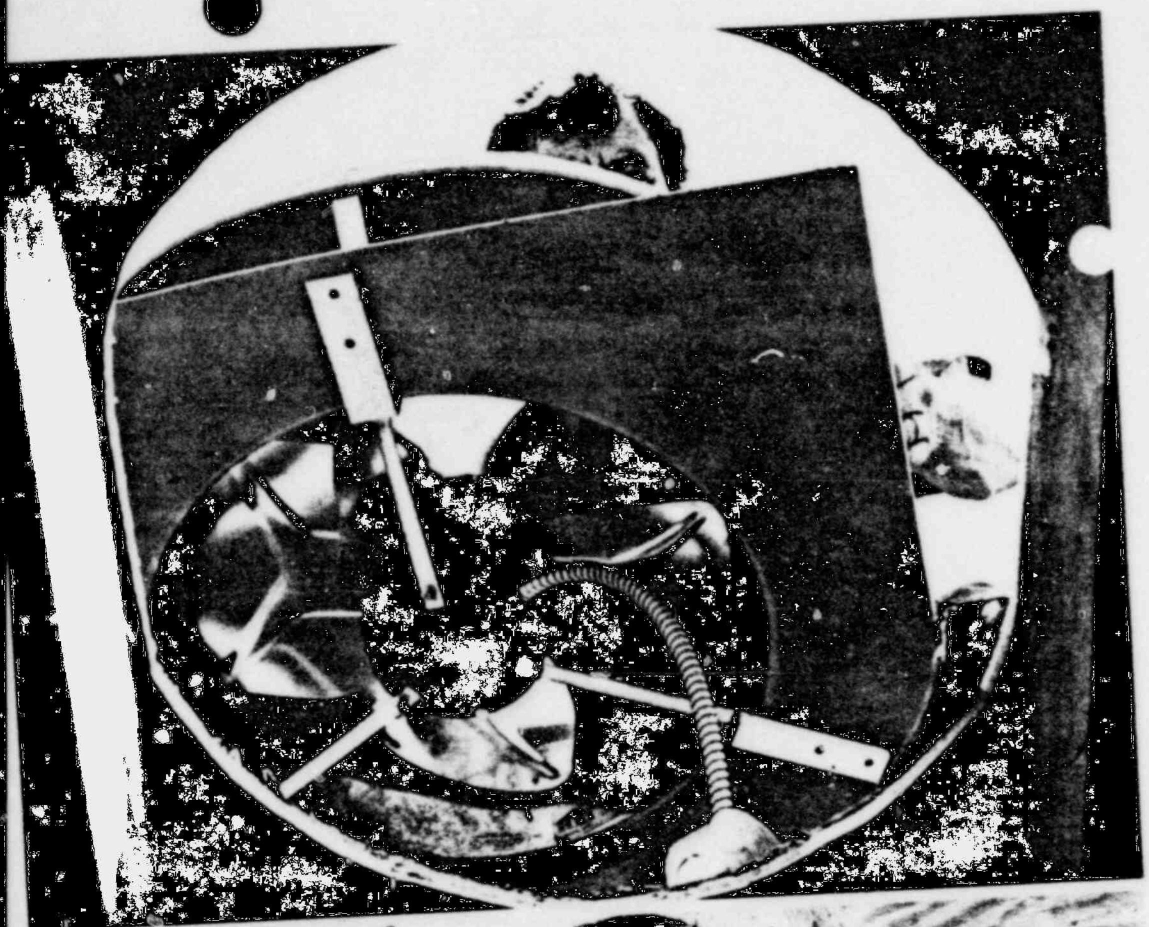

POOR ORIGINAL

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;ommercial Operations

stomer Services

her rates for energy, unusual
ather conditions, and the need to
serve national resources have
llenged the Customer Services
ision to provide consumer oriented
rmation on the efficient utilization
lectric energy. Civic programs,
nphlets, and advertising have been
zed to create a greater energy awar-
s and provide information to assist
omers with their conservation efforts.
active program to upgrade insulation
idards was directed toward the
ding industry.

isumer service programs emphasiz-
energy management and com-
iications with the electric coopera-
s served by Santee Cooper have
i expanded. Increased cooperation
resulted with the coops and neigh-
ng utilities to standardize recom-
idations and establish complemen-
programs.

lic Relations

tee Cooper's public relations
gram distributes information on a
lar basis to customers and to the
eral public about the utility's oper-
ns and activities.

ough news releases to the news-
er, radio and television media, the
ic is provided with timely information
it the wise and efficient use of
gy, electrical safety, and other con-
er related matters of concern.

1067 136

[illegible] One recrea[illegible]
[illegible] Cooper [illegible]

[illegible] and [illegible]
[illegible]
[illegible]

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1067 137

Recreation & Land Management

Public Recreational Facilities
Santee Cooper's recreational opportunities are widely recognized and enjoyed by thousands of visitors each year. Fishing is the most popular year 'round sport, and in the fall and winter hunters are attracted by a wide variety of game species. Other recreational activities include swimming, boating, camping, sightseeing, and golfing.

Several areas around the lakes are open to the public for swimming, water skiing, and picnicking, and numerous public boat launching ramps with parking areas have been established by the South Carolina Wildlife and Marine Resources Department on sites provided by Santee Cooper. Other sites are commercially leased to operators of campgrounds, fishing camps, and other facilities providing accommodations and recreational supplies.

Environmental Control
Santee Cooper is committed to a policy of preserving the environmental qualities of its lakes and surrounding areas with most of the shoreline designated to remain undeveloped. The purpose of this policy is to insure the protection of wildlife, forest, and natural areas for the enjoyment of the public and to provide a balance between public recreation and environmental control.

Game Management Areas
Santee Cooper leases thousands of acres of land and water to the U.S. Bureau of Sports and Fisheries and the S.C. Wildlife Resources Department.

These leases provide game refuge areas, sanctuaries, fish hatcheries, public landings, and hunting areas, making the Santee Cooper lakes the most popular fishing, hunting, and recreational area in the State.

Developed Land
Santee Cooper's leasing program provides for a number of commercial, recreational, and public leases which offer a variety of recreational activities on and around Lakes Moultrie and Marion.

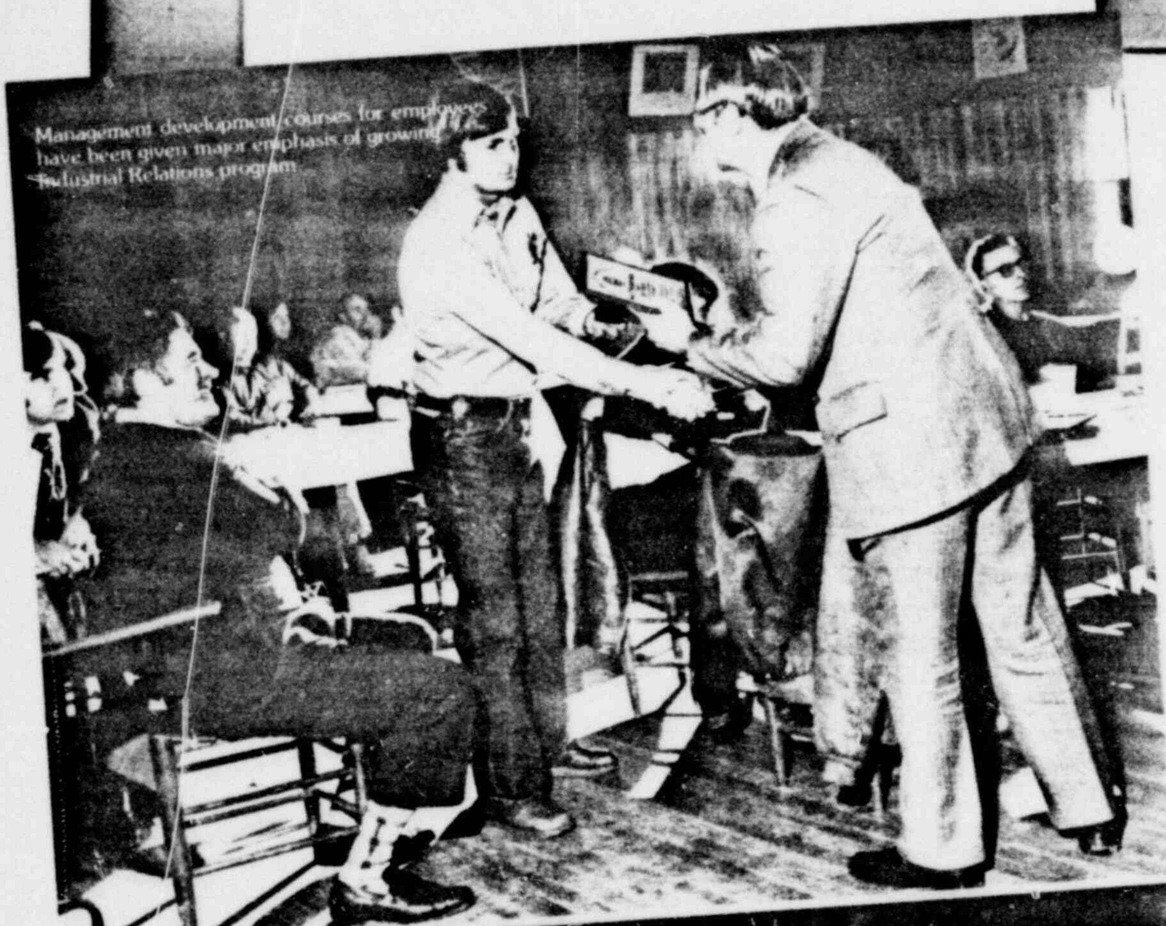
Public leases to state, federal, and municipal entities are made on a free basis and provide for a variety of activities such as athletic fields, recreation areas, Boy Scout and 4-H camps, a wildlife refuge, and a state park.

Forest Management and Undeveloped Land
More than 25,000 acres of land are included in Santee Cooper's forest management and undeveloped land program. The multiple use plan, which includes management and protection of timber, fish and wildlife, water recreation, range, and agriculture provides a variety of opportunities such as hunting, fishing, camping, hiking, picnicking, and other activities for the enjoyment of outdoor enthusiasts.

Forest lands of Santee Cooper are under an even-aged system of forest management for the pine and hardwood working groups. Fire prevention and suppression, disease and insect control, and timber stand improvement are of the utmost importance in the overall management of Santee Cooper's woodlands.

Flood Control
Spilling operations were conducted a total of eighty-four days during the months of October, November, and December, 1976 and January, March, and April, 1977.

The maximum daily average inflow of 1,302,000 gallons per second occurred on October 11, 1976, and resulted in a maximum daily average spill of 438,900 gallons per second on October 14, 1976. This resulted in the flood crest on the lower Santee River being reduced to about one-third of what would have been experienced without Santee Cooper's flood control facilities.



Management development courses for employees have been given major emphasis of growing Industrial Relations program.

Recognition certificate proudly displayed by first female to complete program.

POOR ORIGINAL

1067 139

Industrial Relations

Equal Employment Opportunity
Santee Cooper provides employment, compensation, promotions, and other conditions of employment without regard to race, color, religion, national origin, sex, or age, except where sex or age is a bonafide occupational qualification. Continued emphasis was placed on the Affirmative Action Plan.

Employment
Major emphasis was placed on recruiting activities in FY77. Advertising campaigns were conducted to attract qualified professional employees from a large geographical area. An extensive college recruiting program was conducted and resulted in the hiring of a group of promising recent college graduates in the fields of engineering, business, and accounting. In addition, close contact was maintained with other recruiting sources.

Total employment during the year reached an all-time high of more than 700 personnel.

Wage and Salary Administration
Industrial Relations administers the new pay-for-performance Wage and Salary Program. Employees and supervisors have become increasingly aware of their respective responsibilities under the program and the potential benefits to both the employee and Santee Cooper.

Employee Relations
An Employee Suggestion Program was developed and implemented. Employees were encouraged to make meaningful suggestions for the benefit of Santee Cooper and to earn monetary awards.

Employee relations meetings were conducted at various locations on a continuing basis to determine and resolve matters of concern to employees.

Employee Benefits
No major employee benefit changes were made during the fiscal year. Santee Cooper participates in the South Carolina Retirement System, in the state insurance plans, and the state workmen's compensation program.

Revisions and improvements were made, however, in the tuition aid, overtime and shift premium policies.

Benefits briefings were conducted for employees at various locations.

Training
A Management Development Program which included all supervision was completed. Major emphasis was placed on work-related professional seminars and workshops.

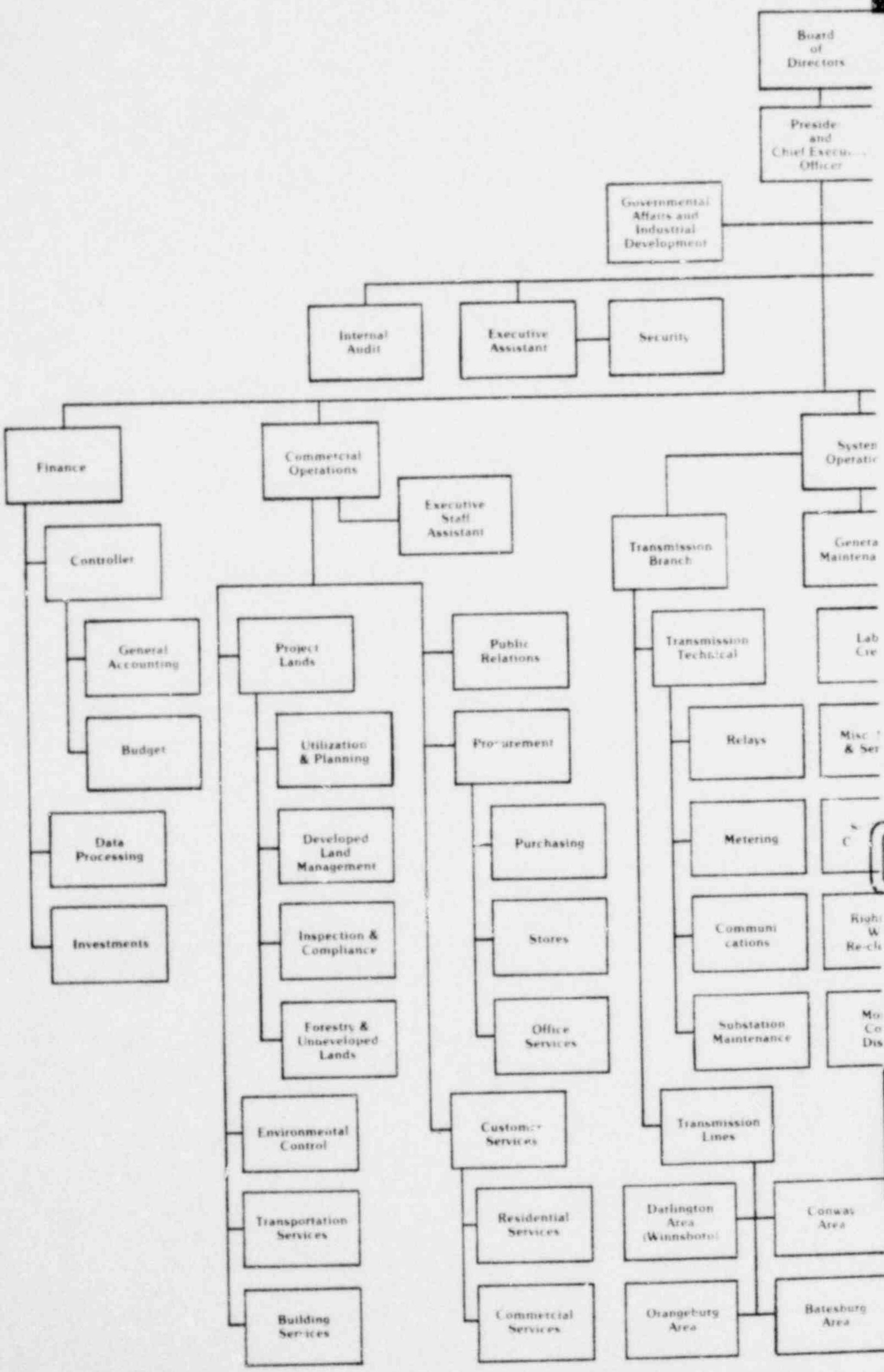
Santee Cooper began participation in a Cooperative Education Program, with four college students working on a quarterly basis in various functions.

A Career Foundation Program was implemented in which recent college graduates were hired to acquire varied experience in a job rotation program.

Safety
Santee Cooper received an Honorable Mention Award in the American Public Power Association's annual safety contest for 1976. Fourteen reporting units earned awards from the National Safety Council. This is the largest number of awards ever received at one time from the National Safety Council. Santee Cooper received the South Carolina Occupational Safety Council's First Place Award for the second consecutive year. Fifteen reporting units received the Council's Safety Achievement Certificates for operating five years or 50,000 man-hours without a disabling injury.

Fifty-three crews and sections earned the "President's Safety Award" for working under potentially hazardous conditions during 1976 without a disabling injury. Ninety-two employees received individual Safety Incentive "No Accident" pins. Eighty-five employees earned "Safe Driver Awards" for 1976.

40



POOR ORIGINAL

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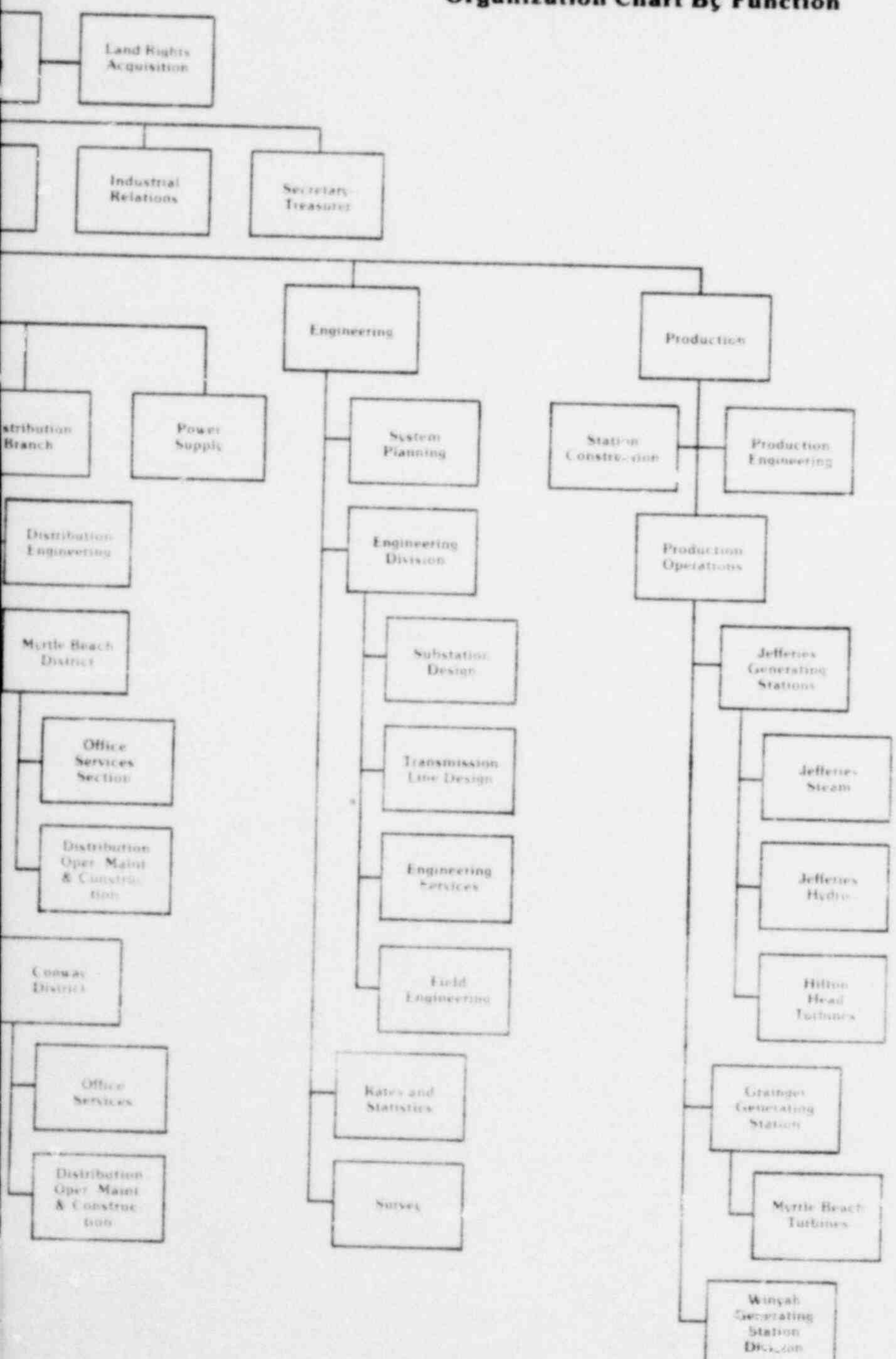
SANTEE COOPER
Organization Chart By Function



POOR ORIGINAL

1067 142

J.W. Hunt and Company
1607 St. Julian Place
Post Office Box 265
Columbia, S.C. 29202

Auditor's Opinion

South Carolina Public Service Authority
Moncks Corner, South Carolina

Gentlemen:

We have examined the balance sheet of the South Carolina Public Service Authority as of June 30, 1977, and June 30, 1976, and the related statements of accumulated net revenues, revenue and expenses and changes in financial position for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the South Carolina Public Service Authority as of June 30, 1977, and June 30, 1976, and the results of its operations and changes in financial position for the five years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Respectfully submitted,

J.W. Hunt Company

July 27, 1977

Santee Cooper
SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

Balance Sheets
June 30, 1977, and June 30, 1976

Exhibit A

Assets	June 30, 1977	June 30, 1976
ELECTRIC PLANT, AT ORIGINAL COST - NOTE 2		
Electric plant in service	$363,864,629	$222,733,496
Electric plant held for future use	739,587	647,108
Total	364,604,216	223,380,604
Less, accumulated depreciation	57,600,078	52,147,538
Balance	307,004,138	171,233,066
Construction work in progress	130,524,490	184,737,995
Total	437,528,628	355,971,061
UNEXPENDED FUNDS FROM SALE OF ELECTRIC SYSTEM EXPANSION REVENUE BONDS - NOTE 3	55,032,141	112,433,627
IMPOUNDED RESERVE FUNDS - NOTE 3	84,258,641	101,049,192
OTHER PHYSICAL PROPERTY	545,508	556,600
Less, accumulated depreciation	126,190	132,760
Balance	419,318	423,840
CURRENT ASSETS		
Funds held by Trustee	6,376,804	5,316,656
Other funds	2,985,720	4,313,744
Accounts receivable, less allowance for uncollectible accounts	13,650,309	10,778,338
Accrued interest receivable	473,121	496,693
Inventories (at average cost)		
Fuel	10,941,450	11,311,336
Material and supplies	1,522,102	1,326,413
Prepayments (insurance, etc.)	460,297	310,351
Total	36,409,803	33,853,531
DEFERRED DEBITS		
Unamortized debt expense	2,562,098	1,148,743
Unamortized loss on reacquired debt	11,125,225	—
Other deferred charges	511,261	550,717
Total	14,198,584	1,699,460
Total	$627,847,115	$605,430,711

See Accompanying Notes To Financial Statements

1067 144

Balance Sheets
(Continued)

Exhibit A

Liabilities and Other Credits	June 30, 1977	June 30, 1976
LONG-TERM DEBT - NOTE 4		
Priority obligations	$ 75,052,277	$ 76,364,492
Electric system expansion revenue bonds	422,975,000	408,060,000
Other long-term debt	3,025,000	4,317,989
Total	501,052,277	488,742,481
Unamortized debt discount and premium - net	7,795,180	6,971,422
Balance	493,257,097	481,771,059
CONSTRUCTION FUND LIABILITIES - ACCOUNTS PAYABLE	3,015,390	2,621,509
CURRENT LIABILITIES (EXCLUSIVE OF MONTHLY PAYMENTS TO TRUSTEE FOR DEBT SERVICE REQUIREMENTS - NOTE 4, AND PAYMENTS TO THE STATE OF SOUTH CAROLINA - NOTE 1)		
Accounts payable	8,383,968	5,137,883
Customers' deposits	1,210,644	984,513
Accrued sums in lieu of taxes	275,723	308,895
Other	378,989	284,70
Total	19,249,324	6,715,999
LONG-TERM LEASE COMMITMENTS - NOTE 6		
ACCUMULATED RESERVE FOR FUTURE RENTAL PAYMENTS	3,133,716	3,029,625
UNAMORTIZED GAIN ON REACQUIRED DEBT	2,321,706	2,668,392
CONTRIBUTIONS IN AID OF CONSTRUCTION		
Customers' contributions for construction	366,430	301,395
Capital contribution - U. S. Government Grants	34,438,263	34,438,263
Total	34,804,693	34,739,658
ACCUMULATED NET REVENUES - EXHIBIT B	81,065,189	73,884,469
Total	$627,847,115	$605,430,711

1067 145

Santee Cooper
South Carolina Public Service Authority

Statement of Accumulated Net Revenues
Years Ended June 30, 1977 and June 30, 1976

Exhibit B

Detail	1977	1976
ACCUMULATED NET REVENUES, BEGINNING OF PERIOD	$73,884,469	$62,826,474
NET REVENUE FOR THE PERIOD - EXHIBIT C	8,978,217	11,901,990
Total	82,862,686	74,728,464
DISTRIBUTION TO THE STATE OF SOUTH CAROLINA	1,797,497	843,995
ACCUMULATED NET REVENUES, END OF PERIOD	$81,065,189	$73,884,469

See Accompanying Notes To Financial Statements

Santee Cooper
South Carolina Public Service Authority

Statement of Revenue and Expenses
Years Ended June 30, 1977 and June 30, 1976

Exhibit C

Detail	1977	1976
ELECTRIC OPERATING REVENUE		
Sales of electricity		
Residential	$10,801,508	$ 9,107,234
Commercial and industrial	33,995,565	30,095,701
Public street and highway lighting	198,978	188,518
Sales to military bases	5,048,561	4,754,426
Sales for resale	43,240,100	36,722,318
Other sales	223,638	202,988
Total sales of electricity	93,508,350	81,071,185
Other operating income:		
Forfeited discounts	117,450	112,832
Rent from electric property	459,311	449,548
Income from wheeling	322,264	322,420
Other income	319,618	282,976
Total other operating income	1,218,643	1,167,776
Total electric operating revenue	$94,726,993	$82,238,961

1067 146

Statement of Revenue and Expenses
(Continued)

Exhibit C

Detail	1977	1976
ELECTRIC OPERATING EXPENSES		
Operating and maintenance expenses		
Electric power production expenses		
Fuel burned	$46,848,296	$42,716,672
Purchased power	8,331,935	2,213,916
Other	8,429,985	5,929,587
Total	63,610,216	50,860,175
Transmission expenses	3,720,148	3,262,871
Distribution expenses	920,531	817,709
Customer accounting expenses	895,972	748,615
Sales expense	194,593	156,473
Administrative and general expenses	2,562,405	1,890,723
Total operating and maintenance expenses	71,903,865	57,736,566
Depreciation	6,217,354	5,718,361
Sums in lieu of taxes	734,278	550,482
Total electric operating expenses	78,855,497	64,005,409
OPERATING INCOME	$15,871,496	$18,233,552
OTHER INCOME		
Interest income	$2,806,184	$2,806,586
Amortization of gain on reacquired debt - net	227,496	364,951
Miscellaneous	(35,803)	(59,291)
Total other income	2,997,877	3,112,246
Total	18,869,373	21,345,798
INTEREST CHARGES		
Interest on long-term debt	9,682,047	9,265,248
Amortization of debt discount and expense	145,149	99,148
Interest on customers' deposits	63,960	50,919
Other interest	—	28,493
Total interest charges	9,891,156	9,443,808
NET REVENUE	$8,978,217	$11,901,990

See Accompanying Notes To Financial Statements

Santee Cooper
SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

tatement of Changes in Financial Position
Years Ended June 30, 1977 and June 30, 1976

Exhibit D

Detail	1977	1976
WORKING CAPITAL PROVIDED		
By operations		
Net income	$8,978,217	$ 11,901,990
Charges (credits) to income not providing or requiring working capital		
Depreciation	6,217,354	5,718,361
Amortization of debt discount and expense	145,149	99,148
Increase (decrease) in accumulated reserve for future rental payments	104,091	615,212
Amortization of gain on reacquired debt - net	(227,496)	(364,951)
Total from operations	15,217,315	17,969,760
Sale of bonds	—	100,000,000
Other borrowed money	525,000	—
Increase (decrease) in Construction Fund liabilities	393,881	147,900
Addition to unamortized gain on reacquired debt	—	—
Reduction of current liabilities by bond refunding	2,508,852	—
Customers' contributions for construction	65,035	107,583
Total working capital provided	$ 18,710,083	$ 118,225,243
WORKING CAPITAL APPLIED		
Authorized distribution to the State of South Carolina	$ 1,797,497	$ 843,995
Retirement of long-term debt	4,305,204	3,540,890
Increase (decrease) in impounded reserve funds	(16,790,551)	901,452
Addition to unamortized debt discount and expense	45,529	2,170,468
Increase in electric plant and other physical property	87,770,399	83,723,329
Increase (decrease) in other deferred debits	(39,456)	161,620
Increase (decrease) in unexpended funds from sale of long-term obligations	(57,401,486)	22,724,469
Total working capital applied	19,687,136	114,066,223
INCREASE (DECREASE) IN WORKING CAPITAL	$ (977,053)	$ 4,159,020

1067 148

Exhibit D

Detail	1977	1976
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT		
Funds held by Trustee	$ 1,060,148	$ 751,059
Other funds	(1,328,024)	1,498,728
Accounts receivable	2,871,971	2,213,587
Accrued interest receivable	(23,572)	112,228
Inventories	(174,197)	901,978
Prepayments	149,946	53,801
Accrued interest on long-term debt	—	110,500
Accounts payable	(3,246,085)	(1,146,090)
Customers' deposits	(226,131)	(257,690)
Other current liabilities	33,172	9,451
Accrued sums in lieu of taxes	(94,281)	(88,532)
Increase in working capital	$ (977,053)	$ 4,159,020

See Accompanying Notes to Financial Statements

Santee Cooper
SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

Notes To Financial Statements, June 30, 1977

Exhibit E

NOTE 1 - **Summary of Significant Accounting Policies**

A - GENERAL ACCOUNTING METHODS. The accounting records of the Authority are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Power Commission.

B - ADDITIONS TO PLANT. The cost of additions, renewals and betterments to the electric plant is added to the electric plant. Such costs include direct labor and material, indirect construction costs (supervision and engineering) and net interest costs during construction on funds borrowed for such construction.

1067 149

C - DEPRECIATION. The Authority provides for depreciation on a straightline basis over the estimated useful life of the properties.

D - FUEL COSTS. Fuel costs are expensed as fuel is consumed. At June 30, 1977, and June 30, 1976, the Authority's electric rates included fuel adjustment clauses under which fuel costs above or below the base levels included in the various rate schedules were billed or credited to customers approximately thirty days to six months after such costs were incurred.

E - PENSION COSTS. Salaries paid by the Authority are subject to withholding and employer contributions in accordance with the provisions of a State Pension Plan administered by the South Carolina State Retirement System. Rates are fixed by State statutes.

F - BOND AND INTEREST MATURITIES DUE JULY 1, 1977. Requests had already been issued by the Authority at June 30, 1977 to the Trustee to transmit appropriate funds to the fiscal agents to meet interest payments and bond maturities due July 1, 1977. Such payments have been treated on the books and in this report as having been made as of June 30, 1977.

G - DISTRIBUTION TO THE STATE OF SOUTH CAROLINA. The South Carolina law provides that "The South Carolina Public Service Authority is a corporation, completely owned by and to be operated for the benefit of the people of South Carolina and any and all net earnings thereof not necessary or desirable for the prudent conduct and operation of its business or to pay the principal of and the interest on its bonds, notes, or other evidences of indebtedness or other obligations or to fulfill the terms and provisions of any agreements made with the purchasers or holders thereof or others shall be paid over semi-annually to the State Treasurer for the general funds of the State and shall be used to reduce the tax burdens of the people of this State." Payments to the State are indicated on exhibit B.

NOTE 2 - **Electric Plant**

See Note 1 above.

The Central "A-B" System is being acquired through an installment purchase contract (see Note 4), and the Authority is to receive title to the property upon payment of the full amount of the contract obligation to Central.

Other property being used by the Authority under long-term lease commitments has not been capitalized.

NOTE 3 - **Impounded Reserve Funds Held By Trustee and Unexpended Construction Funds From Sale of Authority Bonds**

Unexpended funds from sale of Authority bonds and impounded reserve funds held by the Trustee for other specific purposes are maintained and their use restricted in accordance with applicable provisions of various Trust Indentures and Bond Resolutions, Central System Agreements, and the Enabling Act included in the South Carolina law.

Exhibit E

NOTE 4 - Long-Term Debt Outstanding	June 30, 1977	June 30, 1976
Priority Obligations		
ELECTRIC REVENUE BONDS		
Series of 1950, 2-5/8 to 2.7%, due serially July 1, 1978-1993	$ 11,355,000	$ 11,580,000
Series of 1967		
Serial Bonds, 4%, due serially July 1, 1978-1981	575,000	705,000
Term Bonds, 4.1%, due July 1, 2006 (Sinking Fund installments due July 1, 1982-2006)	50,425,000	50,425,000
Total	51,000,000	51,130,000
REFUNDING BONDS		
Refunding Series of 1973, 5 to 5.50%, due serially July 1, 1978-1989	9,860,000	10,440,000
CONTRACT OBLIGATION		
Principal (funds expended during construction)	2,717,927	3,078,121
Accumulated interest during period of construction	119,350	136,371
Total	2,837,277	3,214,492
Total Priority Obligations	$ 75,052,277	$ 76,364,492
EXPANSION BONDS		
Electric System Expansion Revenue Bonds, 1971 Series		
Serial Bonds, 5.25% to 5.9%, due serially July 1, 1977-1991	$ —	$ 21,875,000
Term Bonds, 6-3/8%, due July 1, 2010 (Sinking Fund installments, due July 1, 1992-2009)	—	77,185,000
Total - refunded March 10, 1977 - (see Note 5)	—	99,060,000
Electric System Expansion Revenue Bonds, 1973 Series		
Serial Bonds, 5% to 5.4%, due serially July 1, 1980-1993	16,545,000	16,545,000
Term Bonds, 5.75%, due July 1, 2013 (Sinking Fund installments, due July 1, 1994-2013)	83,455,000	83,455,000
Total	100,000,000	100,000,000
Electric System Expansion Revenue Bonds, 1974 Series		
Serial Bonds, 6% to 6.5%, due serially July 1, 1980-1999	$30,140,000	$30,140,000

1067 151

	June 30, 1977	June 30, 1976
Term Bonds, 6.75%, due July 1, 2014 (Sinking Fund installments due July 1, 2000-2014)	$78,860,000	$78,860,000
Total	109,000,000	109,000,000
Electric System Expansion Revenue bonds, 1976 Series		
Serial Bonds, 5.35% to 6.75%, due serially July 1, 1981-1998	$—	$ 19,310,000
Term Bonds, 6-7/8%, due July 1, 2006 (Sinking Fund installments, due July 1, 1999-2006)	—	20,750,000
Term Bonds, 7%, due July 1, 2016 (Sinking Fund installments due July 1, 2007-2016)	—	59,940,000
Total - refunded March 10, 1977 (see Note 5)	—	100,000,000
Electric System Expansion Revenue Bonds, 1977 Refunding Series		
Serial Bonds, 2.75% to 5.7%, due July 1, 1978-1997	65,765,000	—
Term Bonds, 5-7/8%, due July 1, 2002 (Sinking Fund installments, due July 1, 1998-2002)	31,495,000	—
Term Bonds, 6%, due July 1, 2016 (Sinking Fund installments, due July 1, 2003-2016)	116,715,000	—
Total	213,975,000	—
Total Expansion Bonds	$422,975,000	$408,060,000
OTHER LONG-TERM DEBT		
4.42% note dated January 2, 1975	$ —	$ 3,750,000
2.325% note dated December 30, 1976 - due July 1, 1977	1,250,000	—
3.215% note dated December 30, 1976 - due July 3, 1978	1,250,000	—
Computer Equipment note payable in approximately 69 monthly installments - interest approximately 5%	—	567,989
4.25% note dated January 28, 1977 - due serially January 28, 1978-1984	525,000	—
Total Other Long-Term Debt	3,025,000	4,317,989
Total Long-Term Debt	$501,052,277	$488,742,481

Long-Term Debt Outstanding

The Contract Obligation arose through an agreement to purchase certain transmission lines (generally known as the "A-B" System) from Central Electric Power Cooperative, Inc. Interest at 2% per annum is payable semi-annually on remaining principal balances -- no interest is payable on the accumulated interest. Payments on the principal and accumulated interest during construction are due in semi-annual installments which commenced January 1, 1958, and extend over a period of twenty-six (26) additional years.

1067 152

Exhibit E

NOTE 4 - **Long-Term Debt Outstanding**

The Authority is required to make monthly payments from revenue to Corporate Trustees for debt service as set forth in the related Trust Indenture and Bond Resolutions. Monthly payments to be made during the fiscal year July 1, 1977, through June 30, 1978, are approximately $1,535,000.

NOTE 5 - **Long-Term Debt Refunding**

The Authority refinanced its Electric System Expansion Revenue Bonds, 1971 Series, and its Electric System Expansion Revenue Bonds, 1976 Series, with outstanding balances of $99,060,000 and $100,000,000, respectively, on March 10, 1977, by issuing $215,150,000 Electric System Expansion Revenue Bonds, 1977 Refunding Series, and $90,920,000 Electric System Expansion Revenue Bonds, 1977 Special Obligation Refunding Series. The refunding resulted in a net loss (the difference between the net carrying amount of the debt and the reacquisition price) of $11,244,416. The Uniform System of Accounts prescribed by the Federal Power Commission requires that this loss be amortized over future accounting periods that will receive the cost reduction benefits of the refinancing.

Net proceeds from the issuance of the 1977 Bonds were used to purchase direct obligations of the United States of America in the aggregate principal amount of $300,912,100. The Government Obligations were placed with a corporate Trustee under an irrevocable Refunding Trust Agreement and will mature in such amounts and at such time as shall be necessary and sufficient, (a) to pay the principal of and interest on the 1971 Bonds as the same shall become due and payable to and including January 1, 1982, (b) to pay the principal of and interest on the 1976 Bonds as the same shall become due and payable to and including July 1, 1986, (c) to pay on January 1, 1982, the full redemption price on the 1971 Bonds maturing after January 1, 1982, and (d) to pay on July 1, 1986, the full redemption price on the 1976 Bonds maturing after July 1, 1986, and shall bear interest payable in such amounts and at such times as shall be necessary and sufficient to pay the principal of and interest on the 1977 Special Refunding Bonds as the same shall become due and payable.

The above refinancing was done in accordance with appropriate provisions of the Bond Resolutions authorizing the issuance of the 1971 and 1976 Revenue Bonds and such bonds are no longer a lien against the Electric System Revenues. Since the holders of the refunded Revenue Bonds and the 1977 Special Obligation Refunding Series Bonds must look to the Refunding Trust Fund Trustee for payment of principal and interest, such obligations are not recorded as liabilites of the Authority. Likewise, U. S. Government Obligations held by the Trustee for payment of such Bonds are not recorded as assets of the Authority.

1067 153

ƆTE 6 - Long-Term Lease Commitments

The Authority has lease contracts with Central Electric Power Cooperative, Inc., covering a steam electric generation plant and various other facilities. The rental is a sum equal to the interest on and principal of Central's indebtedness to the Rural Electrification Administration for funds borrowed to construct the facilities involved. Rental payments are due quarterly. The Authority has an option to purchase the leased properties at any time during the period of the lease agreements for a sum equal to Central's indebtedness remaining outstanding on the property involved at the time the option is exercised or to return the properties at the termination of the lease.

Rental payments during the entire life of the lease contracts are equal to annual debt service for construction costs, including interest on funds borrowed for construction.

Total rental expense on these contracts during the years ended June 30, 1977, and June 30, 1976, aggregated $3,087,811 and $3,027,811, respectively. Aggregate rental payments due on these contracts in future years are approximately as follows:

Year ending June 30:	
1978	
1979	$3,565,000
1980	4,293,000
1981	5,370,000
1982	5,447,000
	5,445,000
Five-year periods ending June 30:	
1987	
1992	27,213,000
1997	27,213,000
	27,213,000
Remaining years (in total)	$35,566,000

NOTE 7 - Restatement of Gain on Reacquired Debt in Year Ended June 30, 1973

During the fiscal year ended June 30, 1973, a gain of $3,913,676 was realized by the Authority on an early extinguishment of debt accompanied with the issuance of Refunding Bonds. This gain was included in income on the books but the Federal Power Commission later ruled that such gains should be amortized against future operations. The accompanying financial statements have been restated to remove the gain from 1973 income and amortize such gain over the life of the Refunding Bonds.

NOTE 8 - Proposed Financing

The Authority proposes to issue and sell approximately $115,000,000 principal amount of Electric System Expansion Revenue Bonds, 1977 Series, to provide funds for completion of the Summer Nuclear Station and other general improvements.

Exhibit E

NOTE 9 - **Contingent Liabilities:**

As of June 30, 1977, the following civil actions against the Authority were pending on court calendars:

1. Ralph Bell, Jr. vs. S. C. Public Service Authority. This case involves a boundary dispute in which plaintiff seeks a restraining order, or, in the alternative "compensation to the plaintiff for the injury done to his property."

2. Grinnell Fire Protection Systems Company, Inc. vs. S. C. Public Service Authority. Breach of contract suit. Amount sought is $55,196.10.

3. Robert F. Marion vs. S. C. Public Service Authority. Wrongful taking of private property by drowning cows when spilling. Amount sought is $10,000.00.

4. McGregor T. Dennis vs. S. C. Public Service Authority. Same as 3, above. Amount sought is $5,000.00.

5. The following five cases arose when a 200 foot width was cleared for a 100 foot right-of-way.

   a. Amanda Earnhardt vs. Authority. Amount sought is $25,000.00.

   b. Russell R. Burgess vs. Authority. Amount sought is $75,000.00.

   c. J. B. Johnson vs. Authority. Amount sought is $75,000.00

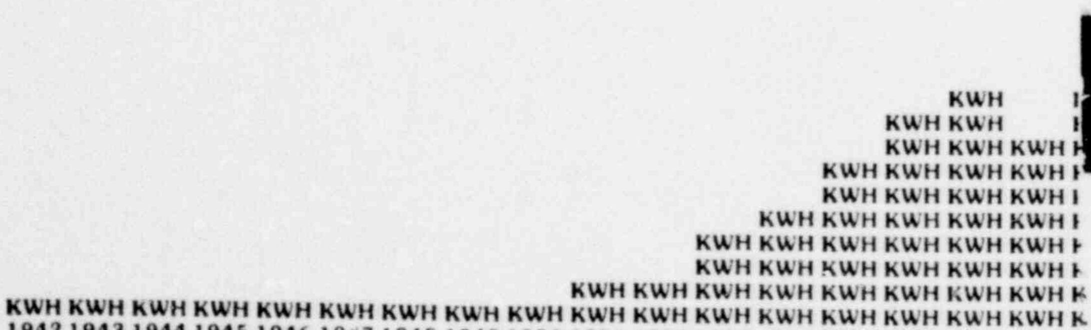
   d. W. E. Gore vs. Authority. Amount sought is $25,000.00.

   e. Gloria N. Perrone vs. Authority. Amount sought is $25,000.00.

6. Avinger vs. S. C. Public Service Authority. The statute under which Avinger's property was condemned provides, in substance, that if condemned land is not flooded within five years, the owner has a right for one year to buy the property back at the original price per acre paid by the Authority, and that the right may be extinguished upon 90 days written notice by the Authority. The Authority has never given such notice to any landowner. Avinger seeks to buy his family's property back pursuant to the statute. The Authority is pleading statute of limitations and laches.

7. Jack and Jeanna Myer vs. S. C. Public Service Authority, et al. Failure of transmission facilities resulted in damage to plaintiff's freezers used in quail business. Amount sought is $50,000.00. This claim is covered by insurance.

8. Nancy D. Boland, Administratrix vs. S. C. Public Service Authority. Suit for wrongful death. Death resulted when the deceased raised the mast of his sailboat into power line. Amount sought is $500,000.00 This claim is covered by insurance.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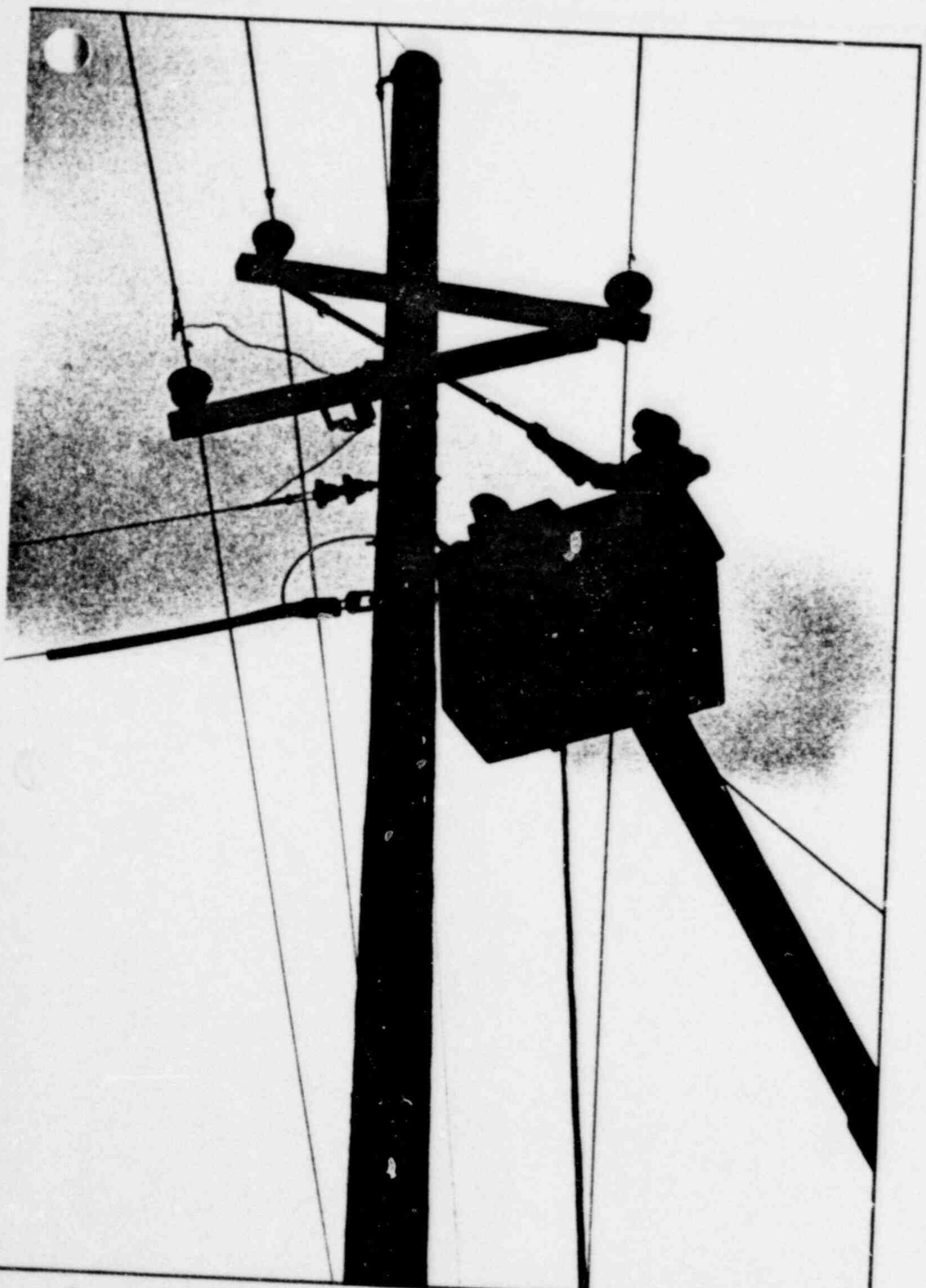
1067 156

Santee Cooper
SOUTH CAROLINA PUBLIC SERVICE AUTHORITY



Annual Report 1978

POOR ORIGINAL

1067 157

Comparative Highlights 1978

Generation and Sales**
(MWH)

	Fiscal Year 1978	Fiscal Year 1977
Power Generated - Net	5,978,256	5,137,833
Purchased & Interchanged	203,130	317,678
Net Sales to Customers*	5,561,560	5,104,226
Net Peak Hourly Load*	1,231	1,089

Generation, Purchases, Sales, and Hourly Peak Demand
(Net MWH)

Fiscal Year	Hydro Generation	Steam Generation	Combustion Turbine Generation	Purchased Power	Sales*	Peak*** Demand
1972	822,517	2,920,976	647	158,934	3,189,103	736
1973	825,562	3,459,491	6,753	256,718	3,623,630	829
1974	707,248	3,398,978	10,938	351,466	3,967,909	911
1975	784,102	3,012,235	10,739	715,648	4,259,300	943
1976	738,720	3,779,037	1,586	250,003	4,486,136	1085
1977	714,415	4,402,261	21,157	302,879	5,104,226	1161
1978	701,721	5,238,523	38,012	225,427	5,561,566	1231

Financial*

REVENUES	Fiscal Year 1978	Fiscal Year 1977	Increase (Decrease)
Electric Operating Revenue	$ 126,574,877	$ 94,726,993	$ 31,847,684
Interest Earned and Other Revenue	17,523,906	22,043,710	(4,519,804)
Gross Revenues	144,098,584	116,770,703	27,327,880
EXPENSES			
Operating and Maintenance Expenses	99,497,644	71,903,865	27,593,781
DEPRECIATION	14,221,732	9,662,441	4,559,291
Interest on Long Term Debt	2,110,000	1,840,000	270,000
Retirement of Bonds	436,820	436,820	-0-
Payment on Central Obligation	1,200,564	1,797,497	(596,933)
Payments to State of South Carolina	658,418	734,278	(75,862)
Sums in Lieu of Taxes			
Gross Expenses	138,264,162	107,792,486	30,471,616
Net Revenue	$ 5,834,432	$ 8,978,217	$ (3,143,735)
Equity of the State of South Carolina	$ 120,137,371	$115,503,452	$ 4,633,919

*Exclusive of Sales to Other Utilities **Fiscal Year ending June 30 ***Calendar Year

POOR ORIGINAL

1067 158

43rd Annual Report

For the Fiscal Year Ended June 30, 1978

Santee Cooper
SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

Table of Contents

1067 159

State Ownership

Santee Cooper is an agency of the state of South Carolina, established in 1934 as the South Carolina Public Service Authority. This ownership is unique in that the state has no investment in the Authority but still owns all its properties and assets. The original financing (1938-1942) was by a loan and grant from the United States, through the Public Works Administration, with subsequent major additions being funded partly by earnings but primarily by revenue bonds sold to private investors.

The South Carolina Public Service Authority was established by Act No. 887 of the Acts of the General Assembly of South Carolina in 1934 for the purpose of developing the Cooper, Santee, and Congaree Rivers as instrumentalities of interstate and intrastate commerce, for the production, distribution and sale of electric power, the reclamation and drainage of swampy and flooded land, and the reforestation of lands around its lakes. Although known as the Santee-Cooper Hydroelectric and Navigation Project, the organization was commonly referred to as Santee-Cooper. The hyphen in the name was discontinued in 1976.

Advisory Board

James B. Edwards
Governor

O. Frank Thornton
Secretary of State

Daniel R. McLeod
Attorney General

Earle E. Morris, Jr.
Comptroller General

Grady L. Patterson, Jr.
State Treasurer

POOR ORIGINAL

1067 160

Board of Directors

Robert S. Davis
Chairman
Chairman & President
of R. L. Bryan Co.
Columbia, S. C.

Vernon E. Sumwalt
First Vice-Chairman
Attorney-at-Law
Rock Hill, S. C.

J. Thomas Grier
Second Vice-Chairman
Partner, Grier & Co.
Spartanburg, S. C.

C. B. Boyne
Farmer and
Retired Merchant
Eastover, S.C.

Walter T. Cox
Vice President of
Student Affairs and
Dean of Students
Clemson University
Clemson, S. C.

W. B. Davis, Jr.
Business and Real Estate
Summerton, S. C.

Mark C. Garner
State Printing Co.
Myrtle Beach, S. C.

B. A. Jordan
Chairman
Board of Directors
Cherokee, Inc. &
L-J, Inc.
Columbia, S. C.

E. Jarvis Morris
Owner
Morris Real Estate
& Insurance Co.
Moncks Corner, S. C.

H. M. Robertson
President
Robertson Hardware
& Electrical Supply
Walterboro, S. C.

Marvin M. Thomas
Owner-Operator
Georgetown Laundry, Inc.
Georgetown, S. C.

New Director

C. B. Boyne of Eastover was appointed by Governor James B. Edwards as a member of the Board of Directors, effective June 30, 1977.

Born in lower Richland County, where he has always lived, Boyne helped found the Tri County Electric Cooperative in 1939, was on its original board of directors, and served as its president and secretary.

Upon appointment he was serving as president of the South Carolina Electric Cooperative Directors Association, a member of the board of directors and executive committee of Cooperative Electric Energy and Utility Supply, Inc., and president of the Eastover Development Corporation. He is Vice President of the advisory/governing board of the Eastover Health Center and is a former member of the board of directors of the Richland County Department of Social Services.

Prior to his cooperative experience, Boyne had organized the Sandhill Merchantile Company in Eastover in 1934, where he served as president and general manager until his retirement in 1975.

1067 161

The Staff

William C. Mescher
President and
Chief Executive Officer

Henry N. Cyrus
Senior Vice President
Engineering

Clarence S. Gramling
Senior Vice President
System Operations

Kenneth R. Ford
Vice President
Finance and Treasurer

Joe C. Norman
Vice President
Commercial Operations

Lucas C. Padgett
Vice President
Governmental Affairs and
Industrial Development

Robert V. Tanner
Vice President
Production

William A. Williams, Jr.
Vice President
Nuclear

Wallace S. Murphy
General Counsel

L. P. Dorman
Secretary

W. Andrew Burke
Executive Staff Assistant

Larry R. Bellavita
Controller

Albert Boyt, Jr.
Group Manager
Distribution

Hiram M. Hicks, Jr.
Group Manager
Engineering

David E. Jeffcoat
Group Manager
Transmission

Byron C. Rodgers
Group Manager
Production Operations

1067 162

Message From The Chairman of The Board

Growth challenges continued to test the ability of the people at Santee Cooper during Fiscal Year 1978.

Major financing was again necessary to maintain an extensive construction and expansion program. Two bond issues totalling $315 million were sold to keep pace with capital requirements for construction. The financing provided $97 million for another phase of the Summer Nuclear Station under shared ownership with South Carolina Electric and Gas Company, $186 million for Winyah III Generating Station at Georgetown, and $32 million for general system improvements.

Delicate negotiations continued most of the year with the Alumax Aluminum Company. A 35 year contract was signed on September 23, 1977, for electric service to a plant which was the largest industrial investment announced in the United States in 1977. The Alumax story spurred considerable interest by other industrial prospects to look at the lowcountry area of our state.

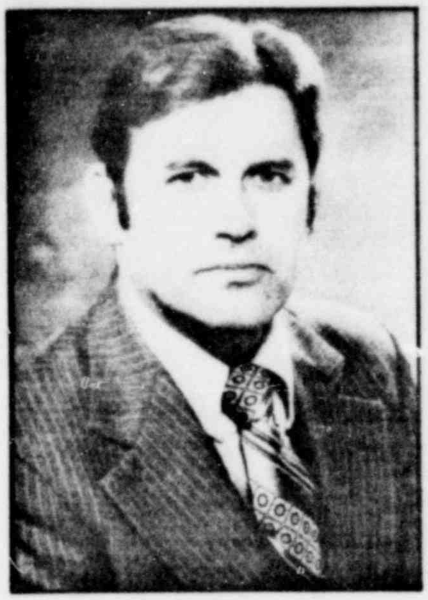
The rapid growth of the Santee Cooper system is evidence of its major influence in the economic and industrial growth and development of its service area and the State of South Carolina. This important role of leadership has been made possible by a conscientious board, dedicated employees, and a professional management team. They share the responsibility of meeting customer needs through long range planning, operating and maintaining the Santee Cooper system which stretches over three-fourths of the state, and providing electricity for use by more than 250,000 South Carolinians, several major industries, and three vital military installations.

We are proud that the people at Santee Cooper have met tremendous challenges again this year without requiring a rate increase, thereby holding our electric rates to a level among the lowest in the country and still maintaining credit ratings of A-1 and AA, representing strong security for bond buyers and low interest costs for financing new energy requirements.

Robert S. Davis

1067 163

Message From The President



Continued growth in both energy and demand during Fiscal Year 1978 required record levels of generation and produced record levels of revenue. Unprecedented industrial development and expansion, coupled with booming construction and commercial activity and strong growth in service to residential and electric cooperative customers are the factors helping Santee Cooper become one of the fastest growing electric utilities in the country.

Last year, Santee Cooper's energy growth in kilowatt-hours was 8.6 percent, compared to the national average of 2.6 percent. For the calendar year our demand growth in kilowatts was 6 percent, compared to the national average of 1.4 percent.

Excluding sales to other utilities, Santee Cooper's total wholesale and retail kilowatt-hour sales increased 8.9 percent in 1978 compared to 14.4 percent in 1977. Sale of wholesale power to the municipalities of Georgetown and Bamberg and to Central Electric Cooperative with its 15 coop distributors was 2.8 billion kilowatt-hours, 14 percent greater than the previous year, compared to a 16 percent increase in 1977. In Santee Cooper's retail area, consumption of electricity increased 9.7 percent for residential and commercial customers compared to 14 percent the previous year. Santee Cooper industrial customers consumed 1.44 billion kilowatt-hours of electricity during the past year, an increase of about 6.3 percent over the previous fiscal year, compared to a 12.8 percent in 1977. Our system peak hourly demand of 1,231 megawatts, occurring on June 28, 1978, was up 6 percent over the 1977 peak of 1161 megawatts.

This record growth resulted in gross revenues of $144 million, up 23.3 percent from $116.8 million in 1977. Gross expenses, however, increased from $107.8 million in 1977 to $138.3 million this year. This increase in expenses resulted in a 35 percent decline in net revenue from $8.9 million in 1977 to $5.8 million this year. A substantial portion of the increase in revenue and expenses was due to a 43 percent increase in fuel and purchased power cost which went from $55.2 million in 1977 to $79.0 million in 1978. The decrease in net revenues was caused by the impact of the first full year of debt

1067 164

service on unit two of the Winyah Generating Station.

Amoco completed construction of its new plant which will use Santee Cooper power to help produce more than one billion pounds per year of purified terephthalic acid (PTA) an essential ingredient in the film and synthetic fiber industry.

The influence of Santee Cooper's major role as an important catalyst for industrial growth and development was illustrated this year when Berkeley County became South Carolina's first billion dollar county in terms of industrial capital investment.

Amoco was not figured in Berkeley County's new top position of industrial investment. Neither was Alumax, which announced plans the previous year to construct a $400 million aluminum reduction plant in Santee Cooper's service territory. This year Santee Cooper negotiated and signed a contract to supply power to Alumax at standard industrial rates. Alumax is projected to begin operations in 1980, with start up of it's first pot line.

To improve our management of the phenomenal growth and development being experienced by our customers and ourselves, Santee Cooper has expanded the scope of its forecasting. A 15-year load and capability forecast has been developed to predict the size, date, and location of each generating capacity addition through 1991. A 10-year cash construction schedule has been developed to help us plan for long-range financing, and we are working on a 10-year manpower-requirements forecast and a 20-year transmission system-requirements forecast - all designed to help give us a sense of direction with a continuous updating as we move into the future.

Our projected normal load growth plus the projected load of known industrial and commercial installations has required a step-up in our construction activity. Work progressed on schedule for Units 3 and 4 at the Winyah Generating Station, planned to begin commercial operation in May, 1980, and May, 1982, respectively.

A contract was also awarded for the addition of a 60-megawatt combustion turbine peaking unit at our Hilton Head Generating Station with commercial operation scheduled for June, 1979.

Construction work on the Summer Nuclear Station in Fairfield County had reached 74% completion by the end of the fiscal year. Santee Cooper is one-third owner of this 900 megawatt generating station being constructed by South Carolina Electric and Gas Company. Our share of the output will be 300 megawatts. The commercial operating date is scheduled for 1980.

Site studies were made and engineering designs started for a new generating station site for units which are forecast to be required after 1982.

The coal miners' strike presented a unique challenge this year. Fortunately, we anticipated the strike and in-

creased our coal stockpile from a 70-day supply to about 115 days. This stockpile was used to generate needed electric power to meet our customers' demands as well as send electric power to other parts of the country hard hit by the strike.

To reduce the problems caused by a shortage of railroad hopper cars, we entered into contracts to acquire 154 hopper cars, adequate for two unit trains, which will assure more stability in shipping coal under our most economical long-term contracts. Also, to assure a future supply of coal, we contracted for exclusive rights to reserves sufficient to provide enough fuel for one major generating unit for 20 years. The reserves are located on the Norfolk and Western Railroad, our first contract with a shipping point not located on the Louisville and Nashville Railroad.

Santee Cooper's greatest source of energy in responding to needs and growth of its customers and as a catalyst for economic development is its people. The dedicated, professional service of our employees blends an experienced staff with a corps of energetic, innovative, younger employees. This team is dedicated to the corporate goal and commitment to our customers and the people of South Carolina to operate as efficiently and economically as possible to continue providing low cost reliable electric power.

William C. Mescher

1067 166

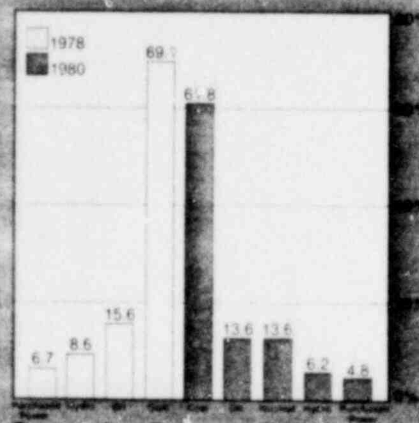
Generation

Generation Capacity & Load Growth

During Fiscal Year 1978, Santee Cooper generated a total of 5,978,256,000 kilowatt-hours of electricity, purchased and interchanged 203,129,780 kilowatt-hours, and sold 5,561,559,739 kilowatt-hours. This was an increase over the previous fiscal year of 16.4% in kilowatt-hours generated and 8.96% in kilowatt-hours sold. The kilowatt-hours purchased and interchanged over the same period decreased 36.1%.

A new record hourly peak load of 1231 megawatts was set on June 28, 1978, exceeding the previous 1977 calendar year peak of 1161 MW by 6 percent.

An hourly peak load of 1364 megawatts has been forecast for calendar year 1979.



Generating Capacity (%)

Production

Station Construction

Units 3 and 4 at the Winyah Generating Station are under construction with scheduled commercial dates of May 1, 1980, and May 1, 1982. Winyah Unit No. 3 construction cost estimate is $142,230,000. At the end of the fiscal year, contract commitments totalled $81,867,000 with on-site construction approximately 10.5 percent complete.

The Unit No. 4 main station foundation construction will start in October, 1978. Orders for major equipment with long lead times have been placed. The current construction cost estimate is $146,175,000.

Facility Improvements

Jefferies Steam Unit Nos. 3 and 4 were converted from forced to balanced draft boilers. This major modification will result in lower maintenance cost, extend the life of the units, and greatly improve working conditions in the station.

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1067 167

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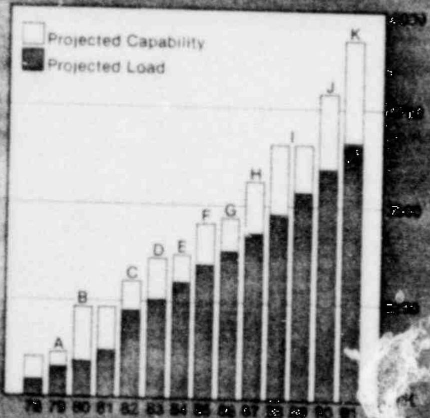
1047 168

Expanding Facilities

Preliminary engineering and environmental studies have been initiated for future generation to supply the electrical demands of Santee Cooper customers. Continued load growth will require construction of a generating station at a new site in the mid-1980's.

A contract has been awarded for a third peaking unit at the Hilton Head Generating Station. The new unit, a 56 MW combustion turbine, is scheduled for commercial operation in June, 1979.



A	Hilton Head #3	56 MW
B	Winyah #3	280 MW
	Summer Nuclear #1	300 MW
C	Winyah #4	280 MW
D	St. Stephen Hydro	20 MW
	New Site X #1	450 MW
E	St. Stephen Hydro	28 MW
	St. Stephen Hydro	[illegible]
F	New Site X #2	450 MW
G	St. Stephen Hydro	20 MW
H	New Site X #3	450 MW
I	New Site X #4	450 MW
J	New Site Y #1	650 MW
K	New Site Y #2	650 MW

Load & Capability Forecasts 1978-1991.

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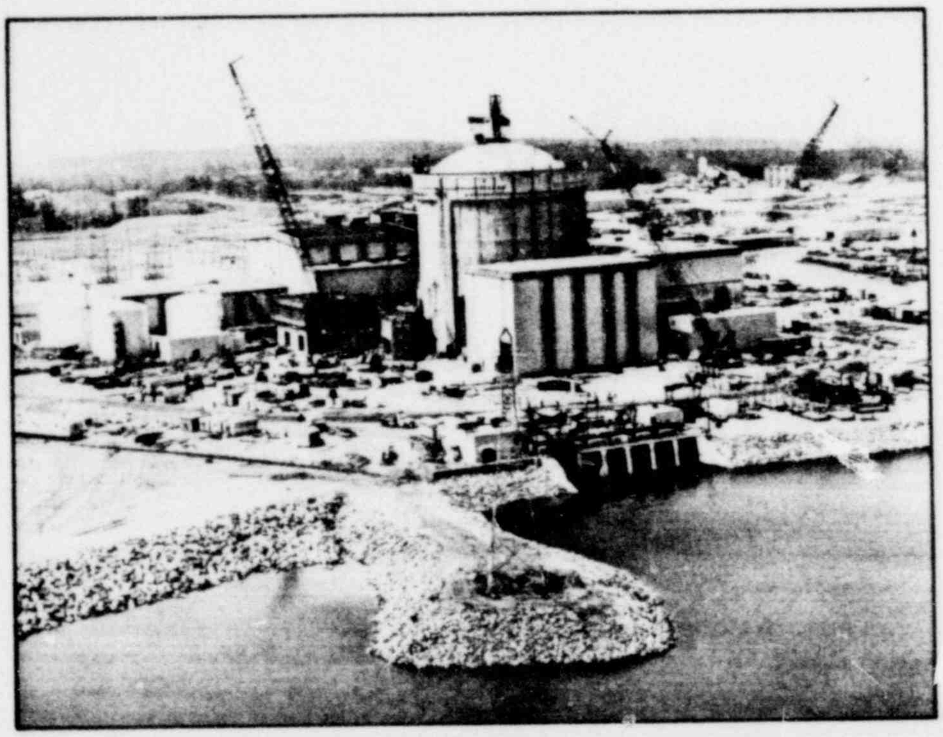
1067 169



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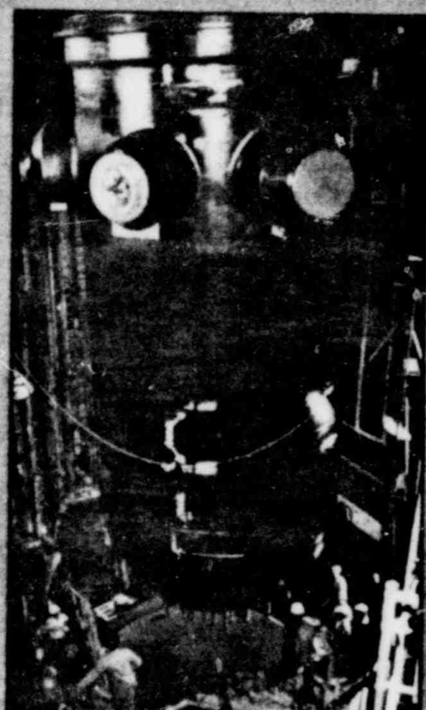
Summer Nuclear

Construction work continued at the Virgil C. Summer Nuclear Station site approximately 26 miles northwest of Columbia. Santee Cooper is a one-third owner of this 900,000 kilowatt generating station and will receive 300,000 kilowatts of its output when it is



completed and becomes operational in 1980. South Carolina Electric and Gas Company (SCE&G) acts as agent for Santee Cooper and is responsible for the design, construction, operation, and maintenance of the project. At the end of June, the project was estimated to be 74% complete.

The application for an operating license was made during the fiscal year with the Nuclear Regulatory Commission based on a commercial operating date of May 1980.

The legal action initiated against Westinghouse in October, 1975, regarding a nuclear fuel supply contract, continued during the year and closing arguments were concluded in the U. S. District Court for the Eastern District of Virginia on June 3, 1978. The court took the case under advisement and on June 12, Westinghouse submitted a proposal for settlement to SCE&G. Evaluation of this proposal was in progress at the end of the fiscal year. At this time, it is not possible to estimate the amount of damages, if any, caused by the Westinghouse action. This litigation is not expected, however, to affect the operating schedule for the Summer project since adequate uranium has been obtained for the initial fuel loading.

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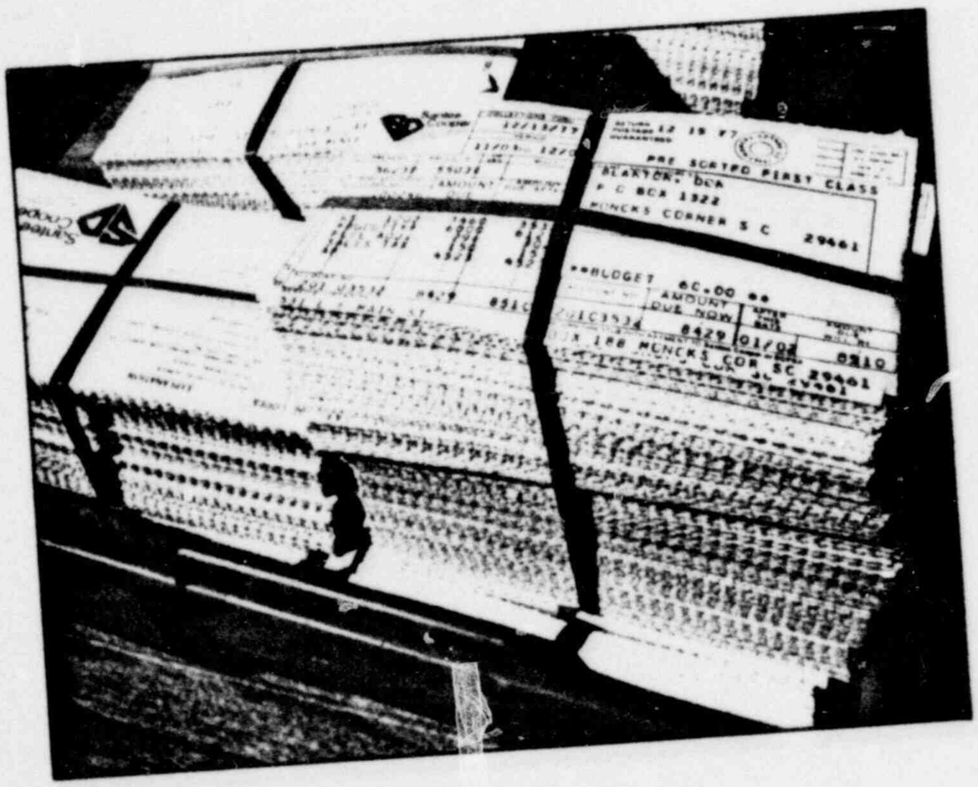

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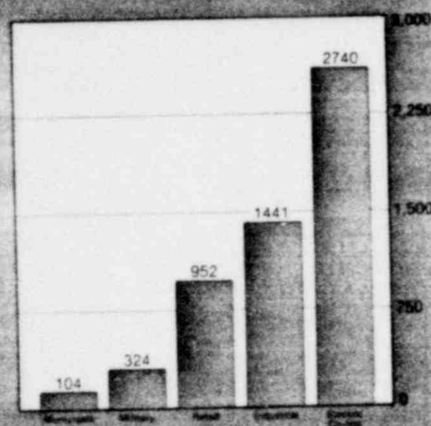
Sales

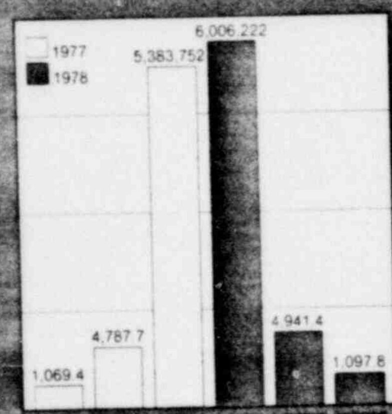
At the end of the fiscal year, Santee Cooper residential, commercial, and small industrial customers totalled 44,253, an increase of 3,449 over the previous year, or about 8.5 percent. Sales to these customers during the year totalled 985,700,000 kilowatt-hours of electricity, up 7.7 percent over the previous year. These figures reflect a leveling off during the fiscal year when compared to respective increases the previous year of 6 percent in the number of customers and 14.7 percent in kilowatt-hour sales.

Sales to large industrial customers increased by about 6.2 percent during the year, compared to a 13 percent increase the previous fiscal year. Total sales to the U. S. Air Force bases at Charleston and Myrtle Beach and to the Charleston Naval Shipyard, however, increased about 6.9 percent, compared to less than a one percent increase the previous year.

Sales to 15 of the state's 20 electric cooperatives through Central Electric Power Cooperative, Inc., and to the municipalities of Georgetown and Bamberg were more than 2.8 billion kilowatt-hours, an increase of 10.4 percent over the previous year. The electric cooperatives and municipalities distribute Santee Cooper power to more than 200,000 customers in 35 of the state's 46 counties.



Sales (Millions of KWH) FY-1978.



Average Monthly Consumption Per Santee Cooper Customer (KWH).

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1067 173

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1067 174

Finance and Accounting

Since the creation of Santee Cooper on May 22, 1934, a net amount of $495,129,000 has been expended for production, transmission, distribution, and general plant facilities. These capital additions have been financed through net revenues, issuance of electric revenue bonds, and a Federal grant in aid of $34,438,000.

On August 31, 1977, Santee Cooper issued $115,000,000 Electric System Expansion Revenue Bonds, 1977 Series, for the major purpose of providing payment for the completion of the one-third share of the Summer Nuclear Station.

On March 21, 1978, $200,000,000 Electric System Expansion Revenue Bonds, 1978 Series, were issued. The major purpose of this issue is to pay the estimated costs of construction of Unit 3 of the Winyah Generating Station. The net interest costs of these two issues were 5.76% and 5.88%, respectively.

On March 21, 1978, Santee Cooper's Board of Directors adopted a general rate increase to become effective May 1, 1979, two years since the last increase. The rate increase will produce approximately $9,000,000 additional revenue for the fiscal year beginning July 1, 1979.

Santee Cooper's net revenues since delivery of power started in 1942 have totalled $97,980,000. After payments in lieu of taxes to the State of South Carolina in the amount of $13,332,000 and to counties and municipalities within our service territory in the amount of $3,593,000, the remaining net revenues of $81,065,000 have been reinvested in generating facilities and other system improvements.

Revenue bonds totalling $1,047,594,000 have been issued since the creation of Santee Cooper. Bonds which were originally issued in 1949, 1971, and 1976 were advance refunded in 1973 and 1977 and have been defeased. These bonds had an outstanding balance of $215,674,000 at the time they were refunded. Principal payments on all bond issues, including the issues refunded, total $21,730,000. Outstanding bonds as of June 30, 1978, totalled $810,190,000. The average annual interest cost on these bonds is 5.67%

As of June 30, 1978, unexpended funds from the sale of bonds amounted to $217,258,000 in addition to debt reserve and interest funds which totalled $153,112,000.

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1067 175

Schedule of Bonds Outstanding (In Thousands) As of June 30, 1978

Maturity Date July 1	1950 Issue		1967 Issue		1973 Refunding Issue		1973 Issue		1974 Issue	
	Int. Rate	Amt.	Int. Rate	Amt.	Int. Rate	Amt.	Int. Rate	Amt.	Int. Rate	Amt.
1978	2.70	235	4	135	5½	610				
1979	2.70	240	4	140	5½	645				
1980	2.70	245	4	150	5½	680	5	825	6	100
1981	2.70	255	4	150	5.40	715	5	870	6	880
1982	2.70	260	4.10*	160	5	755	5	920	6	885
1983	2.70	265	4.10*	185	5	795	5	970	6	980
1984	2.70	275	4.10*	335	5	830	5	1,025	6	1,035
1985	2.70	285	4.10*	630	5	875	5.20	1,075	6	1,105
1986	2.70	290	4.10*	660	5	920	5.20	1,130	6	1,170
1987	2.70	300	4.10*	685	5	965	5.20	1,185	6	1,250
1988	2.70	310	4.10*	715	5	1,010	5.20	1,250	6	[illegible]
1989	2.70	480	4.10*	575	5	1,060	5¼	1,315	6.10	1,405
1990	2.70	1,900	4.10*	420			5¼	1,380	6.20	1,505
1991	2.70	1,950	4.10*	440			5.30	1,456	6¼	1,590
1992	2.70	2,005	4.10*	455			5.40	1,530	6.30	1,695
1993	2.70	2,060	4.10*	480			5.40	1,615	6.30	1,795
1994			4.10*	2,605			5¾*	1,700	6.40	1,910
1995			4.10*	2,720			5¾*	1,795	6.40	2,035
1996			4.10*	2,845			5¾*	1,900	6.40	2,155
1997			4.10*	2,975			5¾*	2,010	6½	2,295
1998			4.10*	3,105			5¾*	2,125	6½	2,435
1999			4.10*	3,245			5¾*	2,245	6½	2,580
2000			4.10*	3,385			5¾*	2,375	6¾*	2,750
2001			4.10*	3,545			5¾*	2,510	6¾*	2,920
2002			4.10*	3,705			5¾*	2,655	6¾*	3,110
2003			4.10*	3,870			5¾*	2,810	6¾*	[illegible]
2004			4.10*	4,045			5¾*	2,970	6¾*	3,505
2005			4.10*	4,230			5¾*	3,140	6¾*	3,730
2006			4.10*	4,420			5¾*	3,325	6¾*	3,950
2007							5¾*	3,515	6¾*	4,205
2008							5¾*	3,715	6¾*	4,470
2009							5¾*	3,930	6¾*	4,745
2010							5¾*	4,155	6¾*	5,045
2011							5¾*	11,520	6¾*	5,350
2012							5¾*	12,180	6¾*	5,695
2013							5¾*	12,880	6¾*	6,045
2014									5¾*	20,045
2015										
2016										
2017										
2018										
Total Outstanding		$11,355		51,000		[illegible]		[illegible]		100,000
Bonds Redeemed to 6/30/78		$ 3,945		600		[illegible]				
Original Issue		$15,300		51,600		[illegible]		[illegible]		[illegible]

Bonds issued in 1949, 1971, and 1976 have been advance refunded and are no longer a

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1067 176

1977 Refunding Issue		1977 Issue		1978 Issue		Total Principal Maturities	Accruing Interest	Total Debt Service
Int. Rate	Amt.	Int. Rate	Amt.	Int. Rate	Amt.			
3.10	1,520					2,500	45,973	48,473
3.40	1,565					2,590	45,880	48,470
3.70	1,615					3,615	45,779	49,394
4	2,405			4.20	100	5,375	45,625	51,000
4.15	2,500	4	420	4.30	200	6,100	45,377	51,477
4.30	2,595	4.10	410	4.40	895	7,075	45,097	52,172
4.45	2,710	4.20	435	4½	780	7,425	44,771	52,196
4.60	2,835	4.30	445	4.60	970	8,220	44,422	52,642
4¾	2,975	4.40	470	4.70	1,015	8,630	44,029	52,659
4.90	3,120	4½	490	4.80	1,070	9,065	43,610	52,675
5	3,280	4.60	515	4.90	1,125	9,530	43,163	52,693
5.10	3,450	4.70	540	5	1,200	10,025	42,683	52,708
5.20	3,626	4.80	570	5.05	1,155	10,550	42,176	52,726
5.30	3,830	4.90	590	5.10	1,220	11,075	41,668	52,743
5.40	4,035	5	625	5.15	1,285	11,630	41,127	52,757
5½	4,260	5.10	660	5.20	1,355	12,225	40,547	52,772
5.60	4,480	5.20	720	5¼	1,440	12,855	39,933	52,788
5.65	4,710	5.30	785	5.30	1,515	13,560	39,243	52,803
5.70	4,995	5.40	830	5.35	1,585	14,310	38,510	52,820
5.70	5,285	5.45	890	5.40	1,670	15,105	37,731	52,836
5 7/8*	5,590	5½	935	5.40	1,760	15,950	36,906	52,856
5 7/8*	5,915	5½	1,005	5.70*	1,860	16,850	36,023	52,873
5 7/8*	6,275	5.55	1,065	5.70*	1,940	17,800	35,0[illegible]	52,885
5 7/8*	6,665	5.60	1,130	5.70*	2,045	18,815	34,085	52,900
5 7/8*	7,050	5.80	1,220	5.70*	2,145	19,885	33,027	52,912
6*	7,490	5¾*	1,295	5.70*	2,260	21,020	31,907	[illegible]
6*	7,950	5¾*	1,380	5.70*	2,360	22,230	30,712	52,942
6*	8,450	5¾*	1,460	5.70*	2,500	23,510	29,447	52,957
6*	8,970	5¾*	1,570	5.70*	2,630	24,886	28,108	52,973
6*	9,400	5¾*	1,795	5.70*	7,385	26,300	26,690	52,990
6*	9,950	5¾*	1,945	5.70*	7,845	27,825	25,116	53,041
6*	10,565	5¾*	2,080	5 7/8*	8,330	29,650	23,445	53,095
6*	11,210	5¾*	2,225	5 7/8*	8,845	31,480	21,656	53,136
6*	4,980	5¾*	2,180	5 7/8*	9,390	33,420	19,756	53,176
6*	5,315	6¾*	2,300	5 7/8*	9,980	35,470	17,757	53,227
6*	5,625	5¾*	2,500	5 7/8*	10,590	37,640	15,634	53,274
6*	6,010	5¾*	2,640	5 7/8*	11,250	39,945	13,382	53,327
6*	9,515	5¾*	21,065	5 7/8*	11,950	42,530	10,856	53,386
6*	11,285	5¾*	21,235	5 7/8*	12,555	45,075	8,372	53,447
		5¾*	34,580	5 7/8*	13,190	47,770	5,736	53,506
				5 7/8*	50,600	50,600	2,973	53,573
	213,975		115,000		200,000	810,190	1,344,017	2,154,207
	1,175					7,910		
	215,150		115,000		200,000	818,100		

liability of Santee Cooper. *Term Bonds

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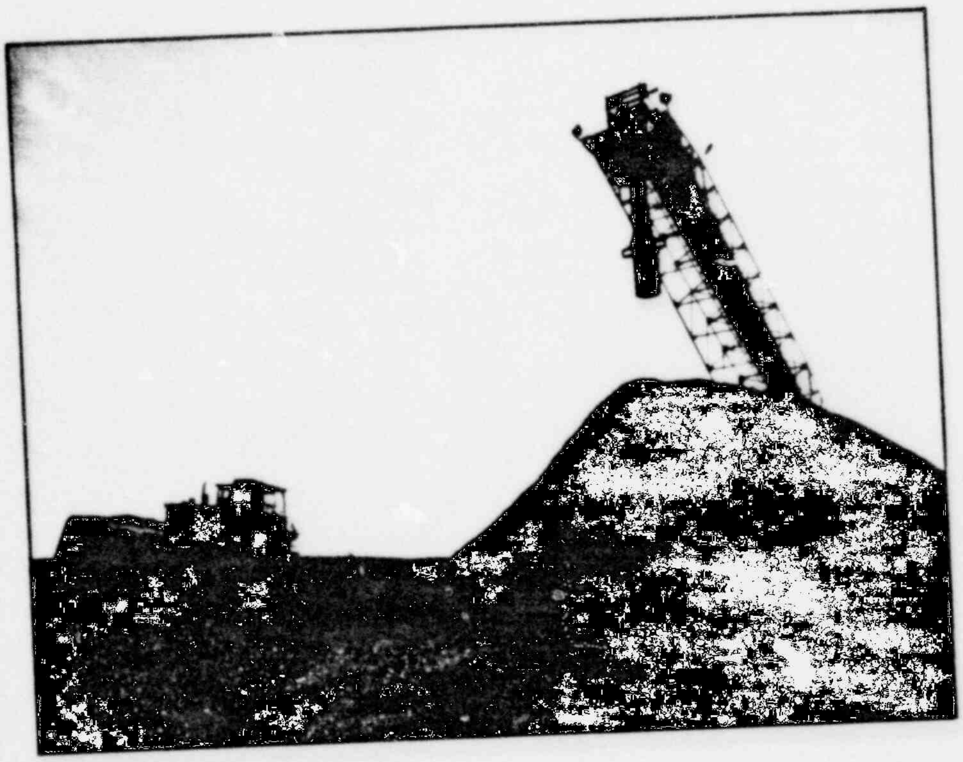

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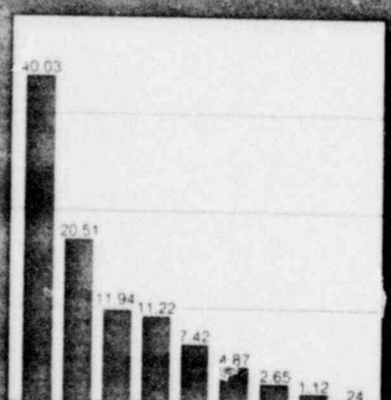
The Revenue Dollar

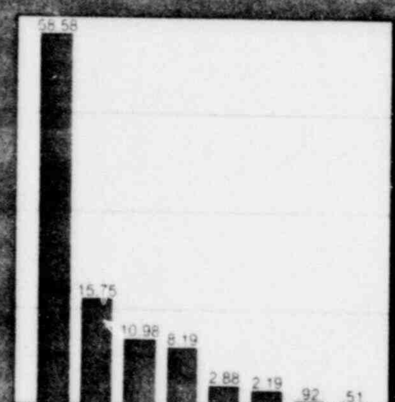
Forty-five percent of Santee Cooper's FY 1978 electric revenue was generated by power sales to 15 of the state's 20 electric cooperatives for distribution to the more than 200,000 customers which they serve. About 23 percent was derived from retail and another 23 percent from industrial customers. The remaining nine percent was obtained from power sales to investor-owned utilities and municipalities plus land rental and interest income.

Based on known industrial load additions and historical load growth, sales to the industrial classification will replace sales to the cooperatives as the major source of revenue.



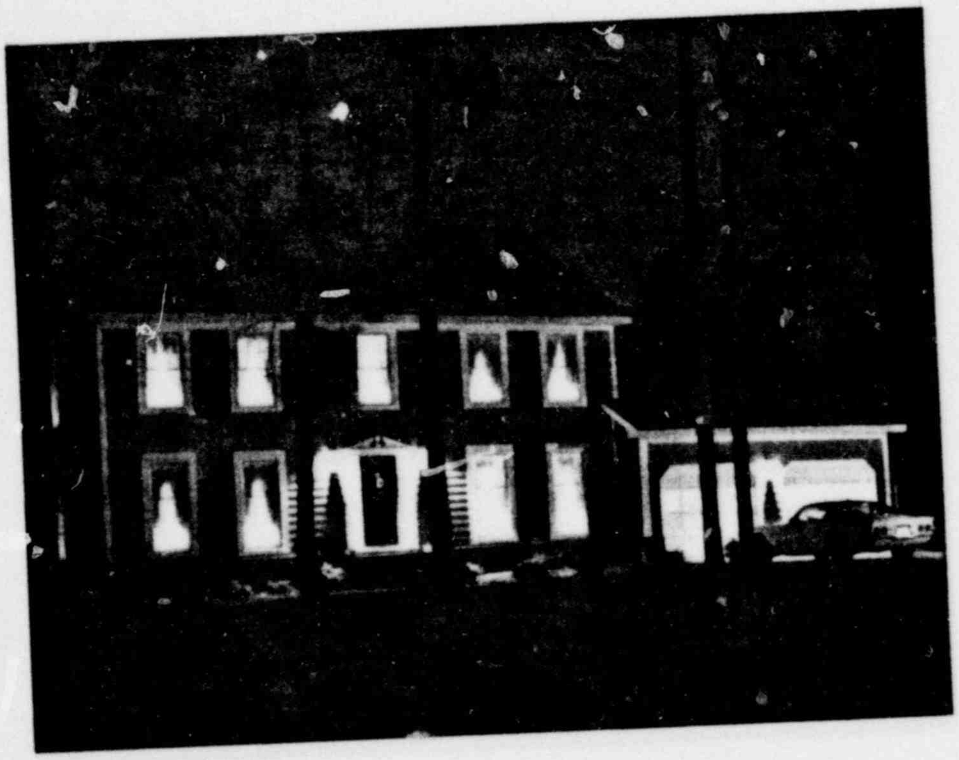
1	Sales to Electric Cooperatives	$52,046,866
2	Industrial Sales	26,672,168
3	Commercial Sales	15,530,212
4	Residential Sales	14,585,308
5	Other Sales for Resale	9,649,008
6	Military Sales	6,329,355
7	Other Income	3,447,308
8	Other Electric Revenue	1,456,916
9	Other Sales	303,040
	TOTAL	$130,021,988

Revenue Dollar Source of Income.



1	Fuel for Generation	$76,168,514
2	Operation and Maintenance	20,482,970
3	Interest	14,274,183
4	Additions to Plant, Inventories, etc	10,648,995
5	Retirement of Debt	3,742,176
6	Purchased Power	[illegible]
7	Payment to State of South Carolina	[illegible]
8	Sums in Lieu of Taxes	[illegible]
	TOTAL	$130,021,988

Revenue Dollar Distribution of Income.



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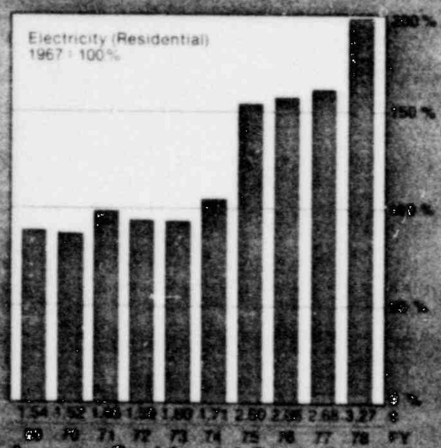
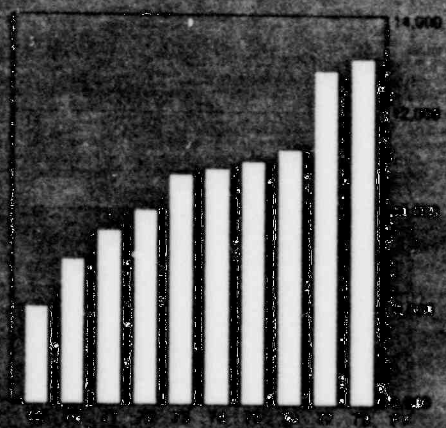
Average Residential Consumption

The average residential consumption of electricity by customers served directly by Santee Cooper during the year was 13,174 kilowatt-hours, an increase of about 2.67 percent, as compared to a 12 percent increase the previous year.

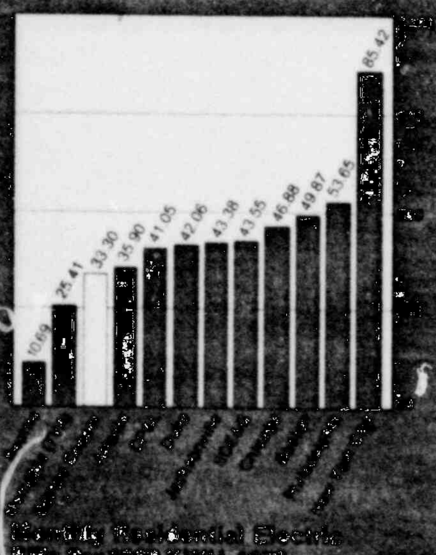
This modest increase is believed to reflect customer response to our energy conservation program coupled with the somewhat milder summer and winter temperatures experienced this year.



Average Residential Cost of Electricity Per KWH. (¢)



Average Residential Consumption (KWH)

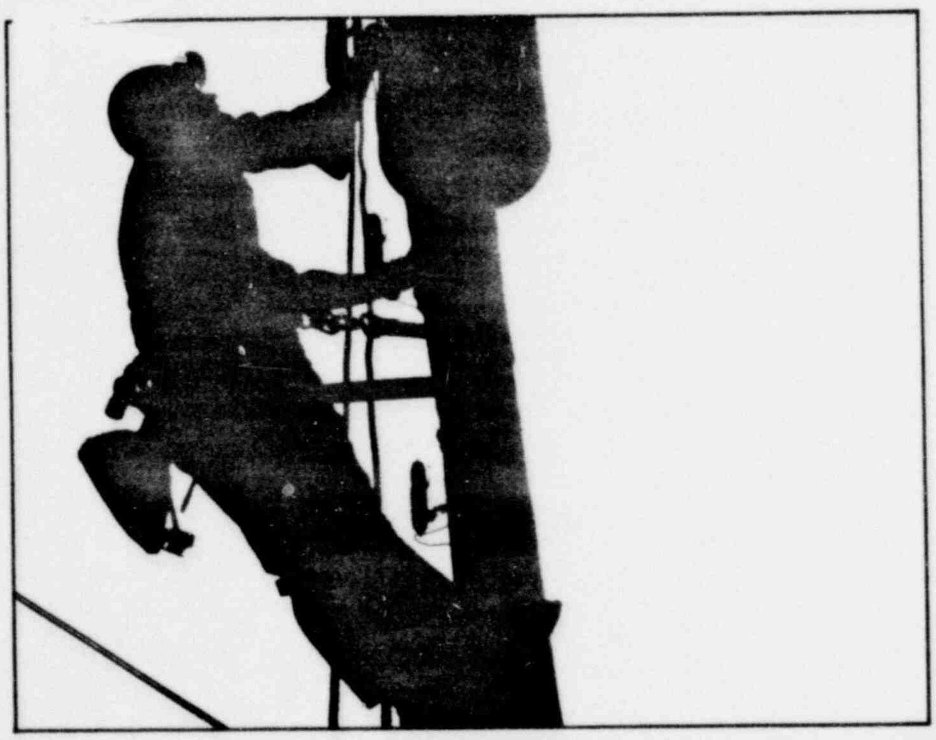


Monthly Residential Electric Bills Per 1000 KWH-1978

[illegible] include base rate and fuel [illegible] charge and applicable [illegible]

1067 181

POOR ORIGINAL



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1067 182

Districts

Myrtle Beach

The Myrtle Beach District serves the towns of North Myrtle Beach, Atlantic Beach, Briarcliffe, Myrtle Beach, Surfside and also other areas on or near the Grand Strand such as Little River, Dunes, Socastee, Garden City, Litchfield, and Pawleys Island. Customer growth was 10.6 percent to a total of 32,520 and sales of energy increased 9 percent.

There were approximately 1250 additional mobile homes and campsites created during the year. The residential developments of Windjammer Village, Timberridge, Briarwood, The Landing, and Carpoines are part of the more than 620 new residential lots that were added, many of them being served underground. New motel units, including a 60 unit Holiday Inn with restaurant at Surfside, amounted to 250. Including shopping centers, restaurants, and waterslides, there were more than 30 new businesses established. The Myrtle Beach District continues to grow both in tourism and permanent residences.

Conway

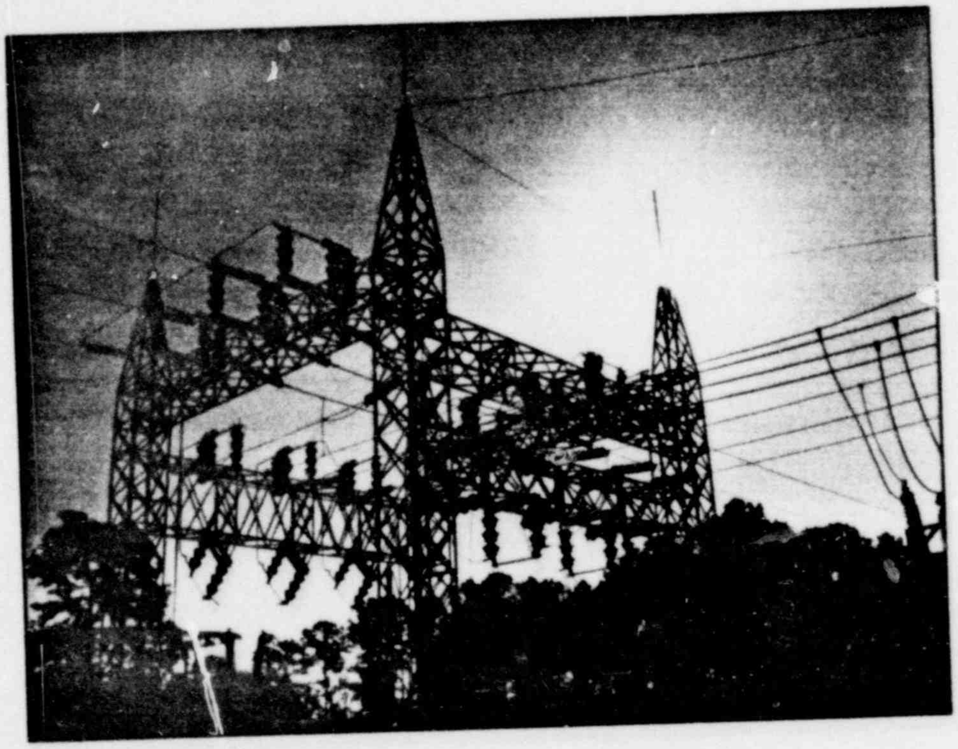
The Conway District service area includes the towns of Conway and Loris, the Red Hill, Bucksport, and Gurly communities and areas surrounding these locations. The number of customers in Conway increased 2.1 percent to a total of 7,762 and the number of kilowatt hours consumed increased 6.4 percent.

Service was provided for two new buildings (student union and library) at the Coastal Carolina College. Horry-Georgetown Technical Education Center added a new administrative section which required service. New underground services were installed to Loris Hospital and an expanded Waccamaw Pottery. Both Quail Creek and Cypress Creek Subdivisions expanded by adding more than 60 new residential lots.

Moncks Corner

The Moncks Corner District provides service to the towns of Moncks Corner and St. Stephen, as well as the adjacent areas of Pinopolis and Bonneau Beach. The number of customers increased by 4.3 percent to 3971 while consumption decreased by 1.2 percent.

Kraptel Corporation, which manufactures connection blocks for computer circuitry, began operation. The Moncks Corner Youth Association installed two hundred and fifty-two 1500 watt quartz lights for ball park lighting on their three recreational fields.



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System Operations

Reliability

Santee Cooper is one of the thirty member organizations in the Southeastern Electric Reliability Council (SERC), which includes all power suppliers in the region with a generating capacity of 25 MW or more. The Council cooperatively assists member systems in coordinating overall planning and studies to achieve maximum reliability.

Santee Cooper is also one of seven power systems in the Virginia-Carolinas Reliability (VACAR) Group, which includes South Carolina Electric and Gas Company, Carolina Power and Light Company, Duke Power Company, Virginia Electric and Power Company, Yadkin, Inc., and Southeastern Power Administration. The member systems have a coordination agreement to further safeguard the reliability of their service.

Interconnections are maintained with the South Carolina Electric and Gas Company at Bushy Park, North Charleston, St. George, and Columbia; with the Southeastern Power Administration at Clark Hill; and with the Carolina Power and Light Company at Kingstree, Darlington, Hemingway, Lugoff, and Robinson.

Transmission

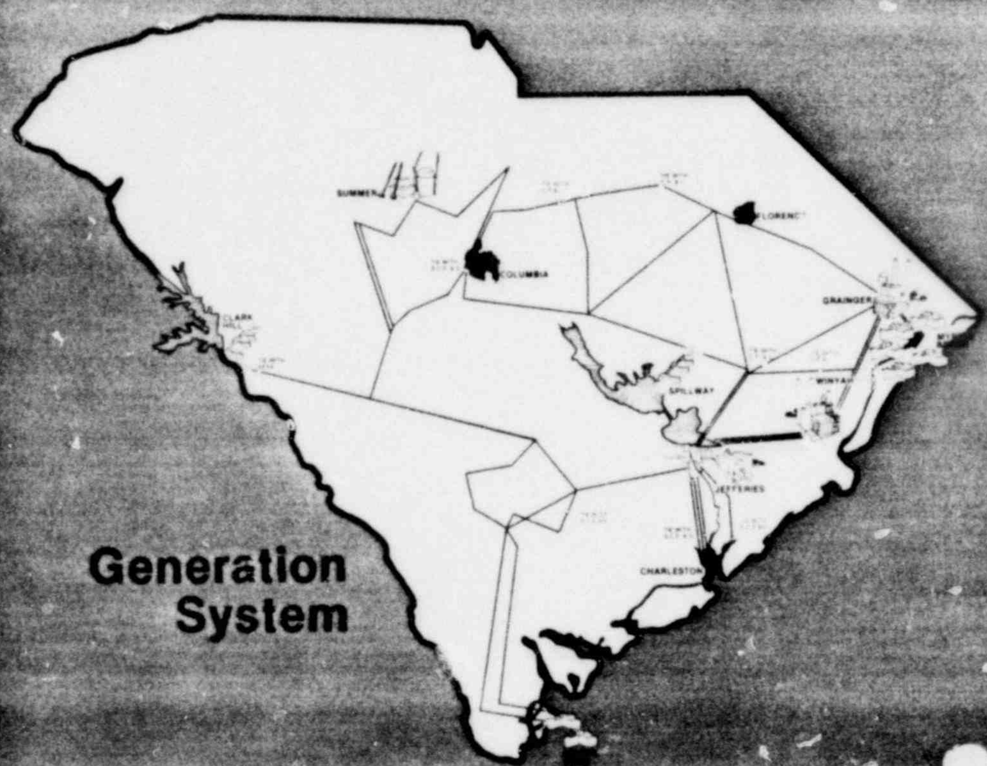
Santee Cooper's transmission system consists of approximately three thousand miles of transmission lines with voltages ranging from 34 through 230 KV. The transmission system extends through [illegible] the state's 46 counties providing service to two municipalities, three military installations, twenty-two industrial customers, and fifteen electric cooperatives having approximately 170 delivery points.

The new Amoco plant near Huger was completed with 230 KV service provided by Santee Cooper.

Planning and construction of extensive 230 KV additions also began at the Batesburg, Newberry, Blythewood, and Camden substations, with completion scheduled for the fall of 1978.

At present, Santee Cooper has approximately 90 transmission and distribution substations and switching stations. Approximately 6 billion kilowatt hours of electricity were delivered to customers through these facilities. Five new cooperative substations and one new industry were added to the transmission system during the year.

Santee Cooper Power: Where It Comes From



Retail Customers Served Directly

Cherry Grove
Chestnut Hill
Conway
Crescent Beach
Garden City
Litchfield Beach
Loris
Moncks Corner
Myrtle Beach
N. Myrtle Beach
Ocean Drive
Pawley's Island
Pinopolis
St. Stephen
Surfside

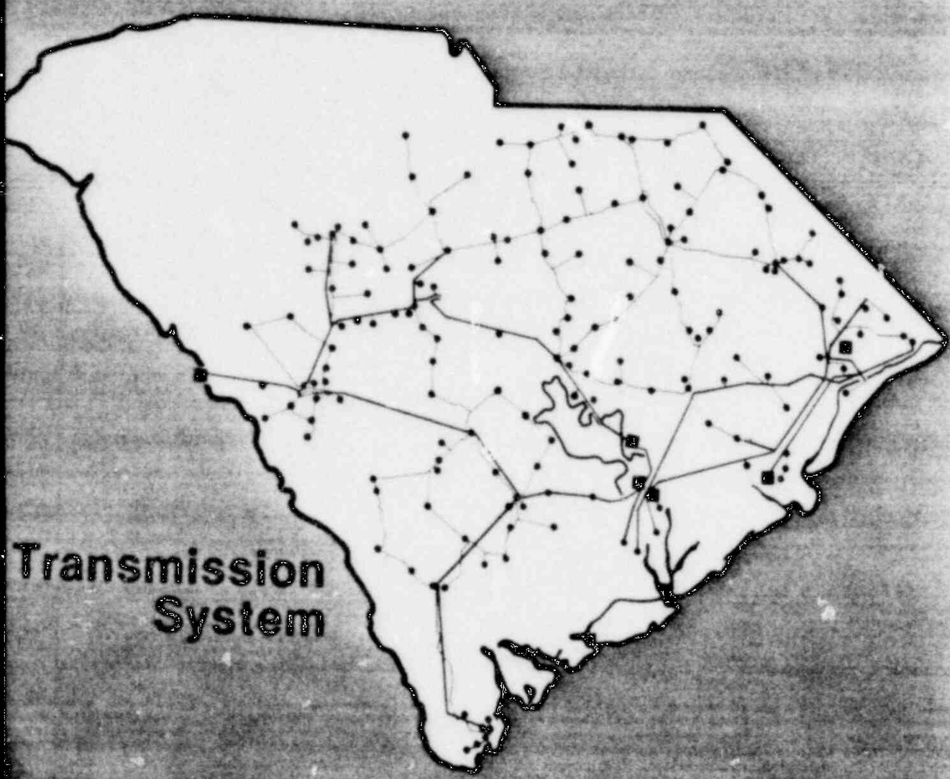
Electric Cooperative Distributors

Aiken Electric Cooperative
Berkeley Electric Cooperative
Black River Electric Cooperative
Coastal Electric Cooperative
Edisto Electric Cooperative
Fairfield Electric Cooperative
Horry Electric Cooperative
Lynches River Electric Cooperative
Marlboro Electric Cooperative
Mid-Carolina Electric Cooperative
Newberry Electric Cooperative
Palmetto Electric Cooperative
Pee Dee Electric Cooperative
Santee Electric Cooperative
Tri-County Electric Cooperative

POOR ORIGINAL

1067 186

& Where It Goes.



Industrial Customers

Airco, Inc.
Albany Felt Co.
Amoco Chemicals Corp.
Andrews Wire Corp.
AVX Ceramics Corp.
Georgetown Steel Corp.
Georgia-Pacific Corp.
Giant Portland Cement Co.
Grove Mfg. Co.
International Paper Co.
Lo[illegible] Mfg. Co.
McAndrews and Forbes Co.
Mobil Chemical Co.
Santee Portland Cement Co.
Santee River Wool Combing Co.
Uniroyal, Inc.
United Merchants and Manufacturers, Inc.
Waccamaw Clay Products Co.
Waccamaw Lumber Co.
Wellman Industries, Inc.
Wolverine Brass Works

Military Installations

Charleston Air Force Base
Charleston Naval Shipyard
Myrtle Beach Air Force Base

Municipal Distributors

Bamberg
Georgetown

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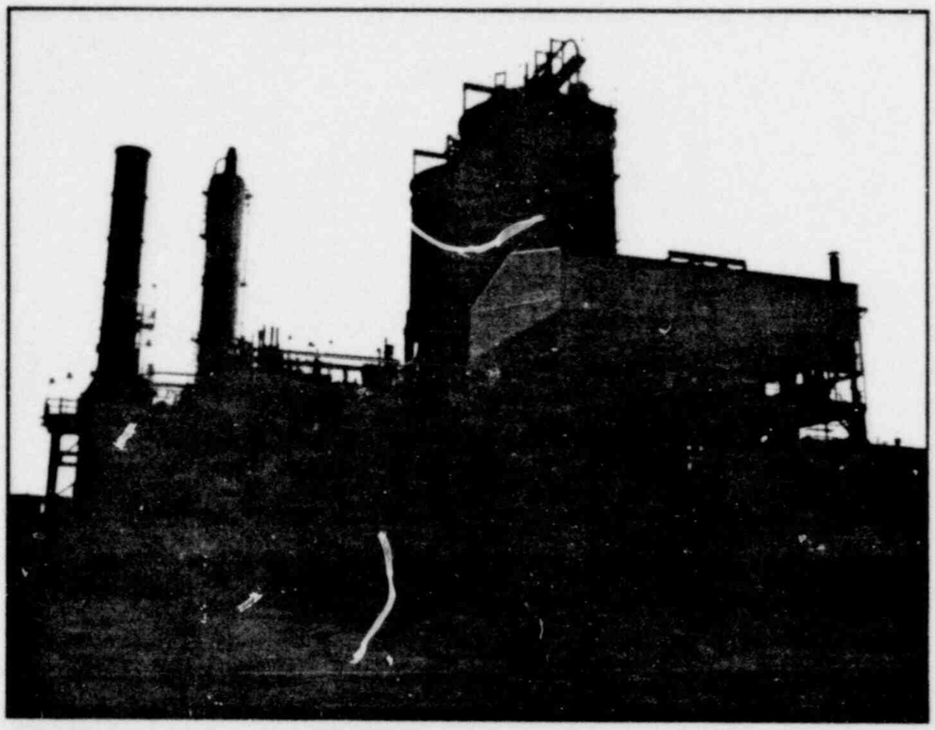

POOR ORIGINAL

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Industrial Development

A long-term contract for power between Santee Cooper and Alumax, Inc. was negotiated and signed during the fiscal year. Construction of the California-based firm's newest primary aluminum reduction plant is now under way in Berkeley County, with initial delivery of production power scheduled for July 1980.

Industrial customers continued to use approximately 25% of the power generated by Santee Cooper. A healthy increase in consumption by most customers was noted; however, the total industrial load, measured in terms of kilowatt hours used, increased only 6.25%, due in large part to the closing of the MacAndrews and Forbes Co. early in the fiscal year.

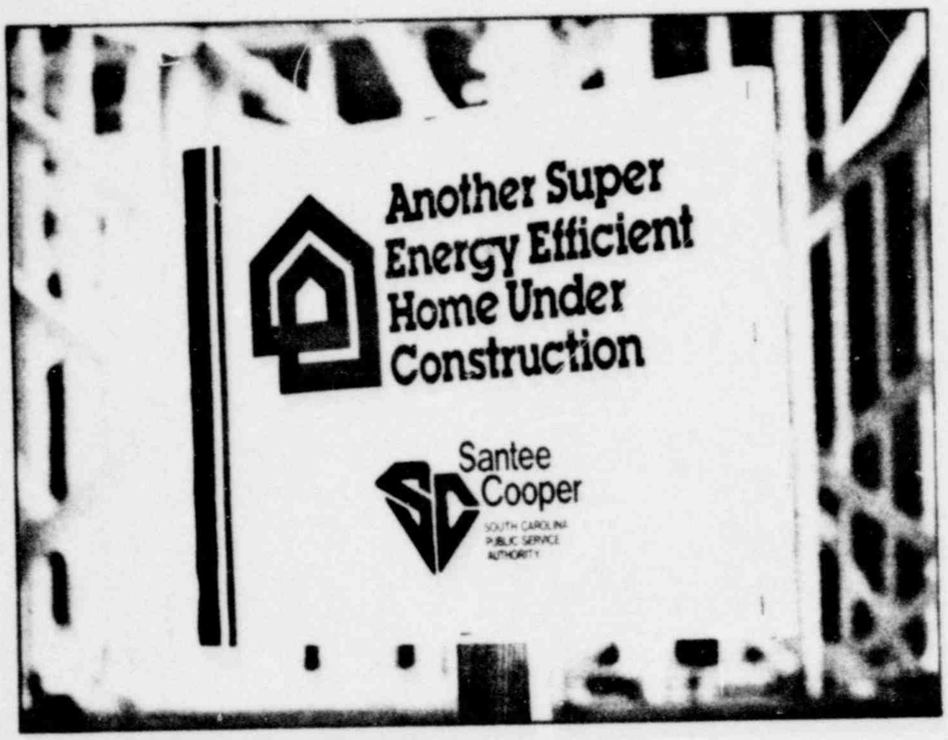
Construction was completed on the new Amoco chemicals plant in Berkeley County. It is scheduled to begin operations in November 1978 and will produce more than 1 billion pounds per year of PTA, Purified Terephthalic Acid, a key ingredient in the manufacture of film and synthetic fibers.

A pronounced increase in industrial development activity occurred in our service area, with foreign investors expressing particular interest.

John F. Hassell, III, previously Industrial Relations Representative, was assigned to Governmental Affairs and Industrial Development as Assistant to the Vice President, with primary responsibility of establishing and maintaining contact with industrial prospects.

POOR ORIGINAL

1067 189


Another Super
Energy Efficient
Home Under
Construction
Santee
Cooper
SOUTH CAROLINA
PUBLIC SERVICE
AUTHORITY

Commercial Operations

Customer Services

Santee Cooper intensified its consumer oriented customer services program to promote and emphasize the efficient utilization of electric energy. More than 500 conservation surveys and energy audits were provided for residential, commercial, and industrial customers to identify inefficient energy uses and recommend methods and means to eliminate energy waste. Assistance in the establishment of detailed energy management programs was provided for commercial and industrial customers.

Civic programs, pamphlets, and advertising were utilized to create a greater energy awareness and provide general information to assist customers with their conservation efforts.

An Energy Efficient Home Awards Program was established to recognize homes meeting a high level of thermal design. The program is designed to be an effective vehicle to reduce peak demand and to promote efficient energy usage.

Programs and films were presented at schools within the service area to familiarize tomorrow's energy users with today's problems. Santee Cooper is cooperating with other utilities in the state to present a program, "Energy Today and Tomorrow", to secondary schools. This program, developed by Oak Ridge Associated Universities, makes an outstanding presentation designed to create an energy awareness among our youth.

Public Relations

Santee Cooper's Public Relations activities were expanded during the year with the addition of an assistant to administer the internal communications program, so vital in a growing organization.

Major emphasis was placed on increased flow of information and support for programs designed to improve employee morale. Special support was given to the employee's associations to generate increased involvement and activity among and within those organizations.

The advertising program concentrated on promoting the wise and efficient use of electricity. "Over Your Next Cup of Coffee, Think Insulation," was among the constant advertising reminders to customers.

A major campaign was introduced to promote the new Energy Efficient Home Recognition Program.

Santee Cooper was honored by local and district recognition for some of its print media advertising used to promote energy conservation.

Environmental Control

Mosquito Abatement

A management plan for area wide mosquito abatement was implemented this year. Abatement activities were conducted throughout the five county area of the project in the combined interest of mosquito control, outdoor recreation, tourism, industrial development, and wildlife development and protection.

Aquatic Plant Management

Research studies by Clemson University, Santee Cooper and the U. S. Army Corps of Engineers Waterways Experiment Station were conducted on the noxious aquatic plant, Brazilian elodea, which covers thousands of acres in Lake Marion. Large scale field management studies of experimental chemical control agents were conducted to evaluate their efficiency and impact on water quality. A long-term management plan for the control of all species of noxious aquatic plants was developed and published. Interim control measures were executed to provide water access to landings and marinas.

Water Quality Management

Water quality studies of the Santee Cooper lakes by the Department of Health and Environmental Control were completed. These studies will provide data for maintaining acceptable water quality. Environmental Control and Clemson University are conducting an additional water quality study at 21 sampling stations on Lakes Marion and Moultrie. Twenty parameters are being analyzed at monthly intervals from all inflowing tributaries and point source discharge sites. Harmful pollutants, which accelerate the normal ageing process of the lakes, will be identified and measured.

Aquaculture

Two species of tropical fish, commonly referred to as "Tilapia", were introduced into the 400 acre Winyah Generating Station cooling reservoir. Stocking of these fish was conducted to establish biological weed/algae control and beneficial use technology of thermal waste. The primary objective of this program is to maintain continuous control of aquatic plant growths and to study the commercial profitability of fish production and marketing.

POOR ORIGINAL

1067 193

POOR ORIGINAL

1067 194

Federal Energy Regulatory Commission

Santee Cooper completed all of the work required by the Federal Energy Regulatory Commission in the relicensing procedure for the Santee Cooper project. A new Recreation Plan, Master Land Use Plan, and land use classifications were among the exhibits submitted to the FERC. The FERC Administrative Law Judge certified this information to the Commission on June 19, 1978. It is expected we will receive the new license before the end of FY 1979.

Project Mapping and Aerial Photography

Mapping of all project property began this year to provide current data required as part of the new license. All ground control, aerial photography, and analytical triangulation were completed. In addition, a resurvey of all ownership and project boundaries has begun. The end result will be the preparation of a new set of project maps for submission to the FERC as part of the requirements for the new project license.

Data Processing

Data Processing implemented a highly responsive Payroll/Personnel System in a data base, data communications environment.

A comprehensive general ledger/budget system was also introduced by Data Processing as the nucleus of a Management Information System. All of the major sub-systems were tied into the new system, which should provide timely and essential management information about all areas within Santee Cooper.

Plans were developed for a modern retail billing system, which will be highly responsive to customer needs. Most of the initial design phase has been completed, with the development phase scheduled for FY 1979.

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Recreation & Land Management

Public Recreation Facilities

Seventeen public landings are now available for boating access to the Santee Cooper Lakes. These areas offer launching and parking facilities without charge and remain open day and night throughout the year. Three more public landings are planned for construction in the near future.

Public use of lake facilities which offer launching, food, boat and motor rentals, fishing, water skiing, swimming, golf, hunting, camping, and many other types of recreation increased substantially during the year.

Santee State Park, the Santee National Wildlife Refuge, and the Francis Marion National Forest are several of the public areas of interest located nearby which are attracting increased numbers of visitors.

Game Management Areas

In the interest of game management, 15,593 acres of prime wildlife and waterfowl habitat were leased during the year to the S. C. Wildlife and Marine Resources Department on a gratis basis. These areas provide sportsmen some of the finest large and small game hunting in the state. Proceeds from the sale of Game Management Area permits are put back into the Game Management Area Program on Santee Cooper lands and are utilized for planting dove fields, game food plots, construction and placement of wood-duck nests, and prescribed burning.

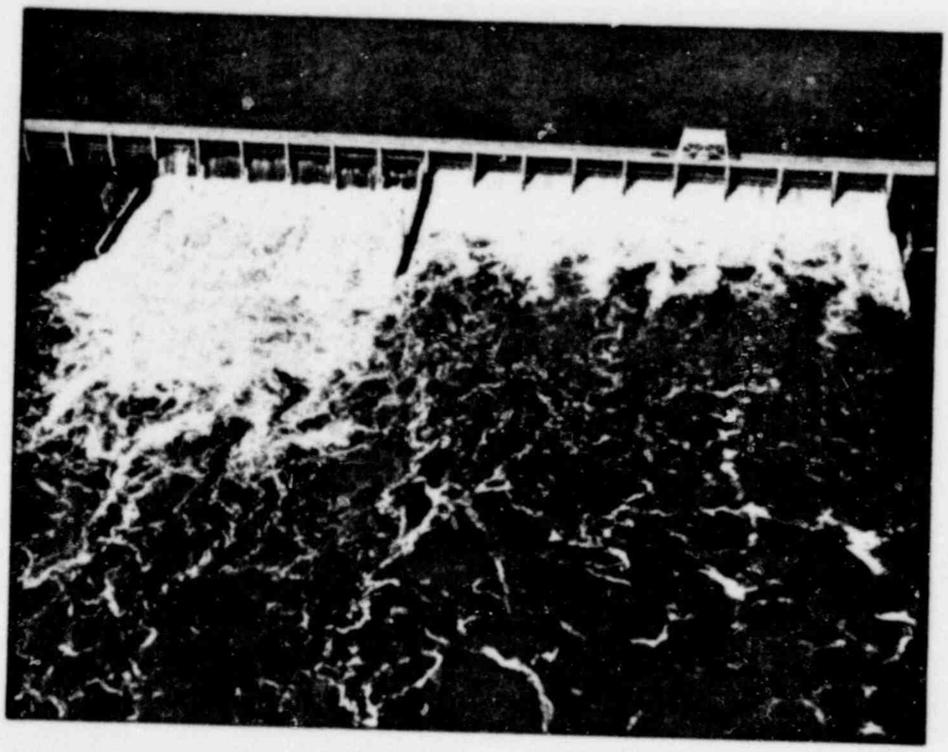
Including land and water areas, 5,468 acres were leased to the U. S. Department of the Interior as part of the Santee National Wildlife Refuge. This refuge provides valuable wintering grounds for the various species of waterfowl and greatly enhances waterfowl hunting in those areas throughout the lake system located outside of the refuge.

Developed Land

Santee Cooper's leasing program includes 3,750 recreational leases, 83 commerical leases and 19 public, quasi-public,and civic leases. These leased lots provide a wide variety of recreation oriented facilities to the public and important economic benefits to the counties in [illegible] located.

POOR ORIGINAL

1067 197



Forest Management and Undeveloped Land

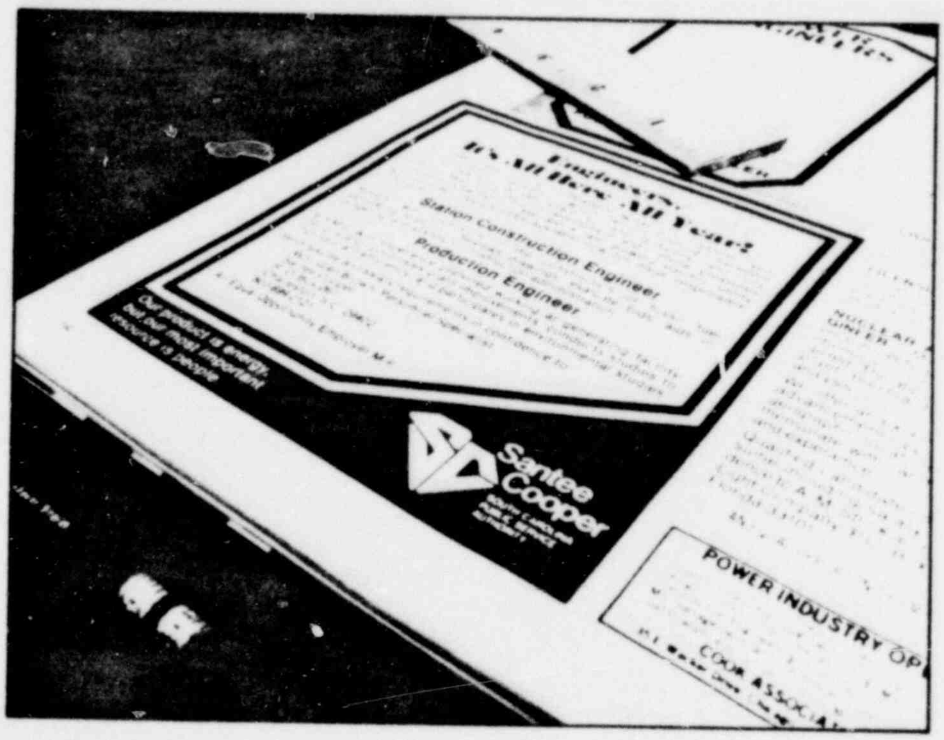
Timber production included 7 million board feet of sawtimber and 2,560 cords of pulpwood harvested from Santee Cooper's forest lands, which comprise 25,000 acres. Santee Cooper's forestry program provides opportunities for various forms of forest recreation including hiking, bird watching, hunting, primitive camping, and nature study.

Forest lands are under an even age system of forest management based on a 60 year rotation. In addition to the many forestry activities performed, intensive prescribed burning procedures were conducted at various intervals for the purpose of enhancing wildlife habitat, controlling forest diseases, and reducing fuel buildup.

Flood Control

Santee Cooper conducted spilling operations a total of 15 days during the months of January, February, and May, 1978, as part of its flood control program.

The maximum daily average inflow of 804,200 gallons per second occurred on January 27, 1978, and resulted in a maximum daily average spill of 272,230 gallons per second. This resulted in the flood crest on the lower Santee River being reduced to about one-third of what would have been experienced without Santee Cooper's flood control operations.



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Industrial Relations

Affirmative Action Plan goals were revised and continued emphasis was placed on this program.

Competitive pay posture, especially in relation to southeastern utilities and local industry, was carefully analyzed. Major emphasis continues to be placed on the "Pay for Performance" concept.

An extensive Employee Opinion Survey was conducted. Major attitude improvement toward the organization was indicated when comparing the 1978 results with the survey conducted in 1974.

Participation in the Employee Suggestion Program has increased substantially. Suggestions were accepted and awards granted for those benefiting the organization in the areas of cost savings and safety.

Major employee benefits changes included revision of the vacation program, an increase in the long-term disability maximum salary coverage, participation in the unemployment compensation program, and increase in the mandatory retirement age to 70. A retirement counseling program began, and plans were completed for introduction of a dental insurance program.

An Occupational Health Program was initiated which included the employment of a registered nurse responsible for emergency care and consultation regarding employees work-related illnesses and injuries. In addition, plans were finalized to employ a company physician on a part-time contract basis.

Under the Career Foundation Program, which provides rotation assignments to recent college graduates, several participants have been assigned to regular positions. In addition, participation has increased in the College Cooperative Education Program.

Employment growth during the year was approximately 7%. Multiple recruiting sources and practices were utilized including the use of agencies, college recruiting, advertising, and direct referrals.

Santee Cooper adheres to a policy of making all employment, compensation, promotion, and other related decisions without regard to race, color, sex, religion, national origin, age, handicap, or veteran status. These decisions are based solely on job related qualifications.

POOR ORIGINAL

1067 201


INSTRUCTOR
FIRST
AID
AMERICAN RED CROSS
CPR
BASIC LIFE SUPPORT

Safety

Santee Cooper continues to maintain one of the most outstanding electric utility safety records in the nation. In 1977, we placed second in the American Public Power Association's annual competition for electric utilities operating in excess of one million man-hours.

Eighteen awards from the National Safety Council and 24 from the South Carolina Occupational Safety Council were presented to Santee Cooper units for their outstanding safety records.

The Jefferies Generating Stations received the Award of Merit - the second highest presented - from the National Safety Council. This was in recognition for operating more than one million man-hours (since 1972) without a lost time accident.

As an innovative approach to recognizing employees for their outstanding safety participation, the annual safety meeting was replaced with a series of 12 President Safety Award Dinners, each held with the respective units in their locale.

The APPA Safety Manual was adopted as the official one for use by Santee Cooper, and safety training programs continued in first aid, cardiopulmonary resuscitation, and defensive driving.

1067 203

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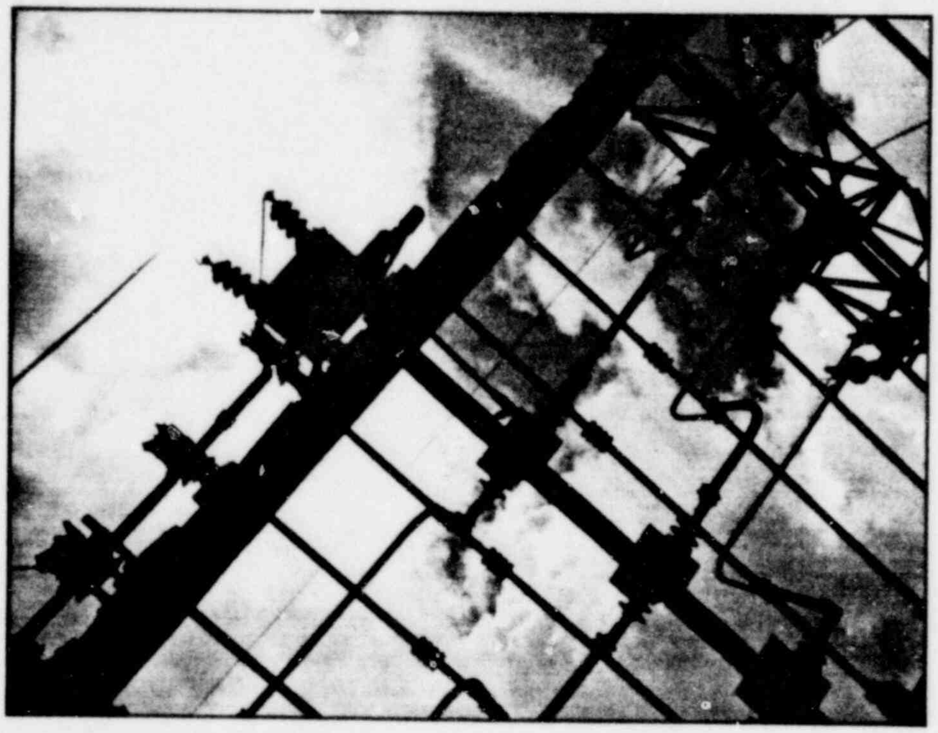

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1067 204

ORIGINAL

Auditor's Opinion

J.W. Hunt and Company
1607 St. Julian Place
Post Office Box 265
Columbia, S.C. 29202

The Advisory Board
South Carolina Public Service Authority
Columbia, South Carolina

Gentlemen:

We have examined the balance sheet of the South Carolina Public Service Authority as of June 30, 1978, and June 30, 1977, and the related statements of accumulated net revenues, revenue and expenses, and changes in financial position for the two years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

For the year ended June 30, 1978, the method used for computing the allowance for funds used during construction was changed, in accordance with order 561 from the Federal Energy Regulatory Commission. This resulted in an increase in the amount of interest capitalized by $946,015 with a resultant increase in net revenues of the same amount. See Note 10.

In our opinion, the accompanying financial statements present fairly the financial position of the South Carolina Public Service Authority as of June 30, 1978, and June 30, 1977, and the results of its operations and changes in financial position for the two (2) years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except as set forth in the preceding paragraph.

Respectfully submitted,

J.W. Hunt and Company

September 21, 1978

Exhibit A

BALANCE SHEET
JUNE 30, 1978 AND 1977

Assets	1978	1977
ELECTRIC PLANT, AT ORIGINAL COST - NOTE 2:		
Electric plant in service	$377,591,327	$363,498,199
Electric plant held for future use	652,775	739,587
Total	378,244,102	364,237,786
Less, accumulated depreciation	66,412,477	57,600,078
Balance	311,831,625	306,637,708
Construction work in progress	206,158,403	130,524,490
Total	517,990,028	437,162,198
OTHER PHYSICAL PROPERTY:	622,838	545,508
Less, accumulated depreciation	132,392	126,190
Balance	490,446	419,318
IMPOUNDED RESERVE FUNDS - NOTE 3:	154,598,462	90,599,868
UNEXPENDED FUNDS FROM SALE OF ELECTRIC SYSTEM EXPANSION REVENUE BONDS - NOTE 3	217,258,039	55,032,141
CURRENT ASSETS:		
Funds held by Trustee	7,311,424	6,376,804
Other funds	5,894,262	2,985,72
Accounts receivable, less allowance for uncollectible accounts	12,438,059	13,650,309
Accrued interest receivable	940,931	473,121
Inventories (at average cost):		
Fuel	15,713,110	10,941,450
Materials and supplies	1,783,825	1,522,102
Prepayments (insurance, etc.)	394,177	460,297
Total	44,475,788	36,409,803
DEFERRED DEBITS:		
Unamortized debt expense	3,223,189	2,562,098
Unamortized loss on reacquired debt	10,738,401	11,125,225
Other deferred charges	379,586	511,261
Total	14,341,176	14,198,584
Total	$949,153,939	$633,821,912

POOR ORIGINAL

1067 206

Liabilities and Other Credits	1978	1977
LONG-TERM DEBT - NOTE 4:		
Priority obligations..................	$ 74,860,842	$ 76,178,480
Electric System Expansion Revenue Bonds	737,975,000	424,150,000
Other long-term debt	1,700,000	3,025,000
Total	814,535,842	503,353,480
Unamortized debt discount and premium - net	12,882,827	7,795,180
Balance	801,653,015	495,558,300
Accrued interest due July 1 - funds remitted to paying agent and carried as impounded funds......	8,108,685	4,016,950
CONSTRUCTION FUND LIABILITIES: ACCOUNTS PAYABLE:	1,965,331	3,015,390
CURRENT LIABILITIES (EXCLUSIVE OF MONTHLY PAYMENTS TO TRUSTEE FOR DEBT SERVICE REQUIREMENTS - NOTE 4, AND PAYMENTS TO THE STATE OF SOUTH CAROLINA - NOTE 1):		
Accounts payable...............	9,528,424	8,383,968
Customer deposits	1,491,237	1,210,644
Accrued interest on customer deposits	235,446	187,840
Accrued interest on long-term debt	57,076	59,970
Accrued sums in lieu of taxes...	297,783	275,723
Miscellaneous current and accrued liabilities	65,131	36,523
Accrued sales and use tax	81,788	117,730
Total........................	11,756,885	10,272,398
LONG-TERM LEASE COMMITMENTS - NOTE 6:		
ACCUMULATED RESERVE FOR FUTURE RENTAL PAYMENTS:.....	3,538,373	3,133,716
UNAMORTIZED GAIN ON REACQUIRED DEBT:	1,994,279	2,321,706
CAPITAL CONTRIBUTIONS : U.S. Government Grants...........	34,438,264	34,438,263
ACCUMULATED NET REVENUES : EXHIBIT B	85,699,107	81,065,189
Total........................	$949,153,939	$633,821,912

See Accompanying Notes To Financial Statements

Exhibit B

STATEMENT OF ACCUMULATED NET REVENUES,
YEARS ENDED JUNE 30, 1978, AND JUNE 30, 1977

Detail	1978	1977
ACCUMULATED NET REVENUES, BEGINNING OF PERIOD:	$81,065,189	$73,884,469
NET REVENUE FOR THE PERIOD: EXHIBIT C	5,834,482	8,978,217
Total	86,899,671	82,862,686
DISTRIBUTION TO STATE OF SOUTH CAROLINA:	1,200,564	1,797,497
ACCUMULATED NET REVENUES, END OF PERIOD:	$85,699,107	$81,065,189

See Accompanying Notes To Financial Statements

POOR ORIGINAL

1067 208

Exhibit C

STATEMENT OF REVENUE AND EXPENSES,
YEARS ENDED JUNE 30, 1978, AND JUNE 30, 1977

	1978	1977
ELECTRIC OPERATING REVENUE:		
Sales of electricity:		
Residential	$ 14,585,306	$ 10,801,508
Commercial and industrial	42,202,378	33,995,565
Public street, highway lighting	222,843	198,978
Sales to military bases	6,329,365	5,048,561
Sales for resale	61,695,673	43,240,100
Other sales	303,040	223,638
Total sales of electricity	125,338,605	93,508,350
Other operating income:		
Forfeited discounts	160,847	117,450
Rent from electric property	481,393	459,311
Income from wheeling	322,107	322,264
Other income	271,725	319,618
Total other operating income	1,236,072	1,218,643
Total electric operating revenue	126,574,677	94,726,993
ELECTRIC OPERATING EXPENSES:		
Operating and maintenance expenses:		
Electric power production expenses:		
Fuel burned	[illegible]6,168,514	46,848,296
Purchased power	2,813,724	8,331,935
Other	11,110,060	8,429,985
Total	90,092,298	63,6[illegible]0,216
Transmission expenses	4,705,856	3,720,148
Distribution expenses	960,885	920,531
Customer accounting expenses	1,273,236	895,972
Sales expenses	235,142	194,593
Administrative and general expenses	2,230,227	2,562,405
Total operating and maintenance expenses	99,497,644	71,903,865
Depreciation:	8,874,910	[illegible],217,354
Sums in lieu of taxes:	658,418	734,278
Total electric operating expenses	109,030,972	78,855,497
OPERATING INCOME	17,543,705	15,871,496

POOR ORIGINAL

1067 209

STATEMENT OF REVENUE AND EXPENSES, ETC. (Continued)

	1978	1977
OTHER INCOME		
Interest income:	$ 17,139,443	$12,563,297
Allowance for funds used during construction:		
Borrowed funds - prior to July 1, 1977 - Note 10.	-	9,298,720
Other than borrowed funds - subsequent to June 30, 1977 - Note 10.	467,670	-
Amortization of gain (loss) on reacquired debt - net	(59,397)	227,496
Miscellaneous - net:	(34,021)	(35,803)
Total other income	17,523,907	22,043,710
INTEREST CHARGES:		
Interest on long-term debt:	35,977,328	28,727,880
Amortization of debt discount and expense:	391,786	145,149
Interest on customers' deposits:	79,356	63,960
Allowance for borrowed funds used during construction - subsequent to June 30, 1977 - Note 10:	(7,215,703)	-
Other interest:	363	-
Total interest expense	29,233,130	28,936,9[illegible]
NET REVENUE	$ 5,834,462	$ 8,978,217

POOR ORIGINAL

See Accompanying Notes to Financial Statements.

Detail	1978	1977
WORKING CAPITAL PROVIDED:		
By operations:		
Net income	$ 5,834,462	$ 8,978,217
Charges (or credits) to income not providing or requiring working capital:		
Depreciation	8,874,910	8,217,354
Amortization of debt discount and expense	391,786	145,149
Increase in accumulated reserve for future rental payments	404,657	104,091
Amortization of (gain or loss) on reacquired debt - net	59,397	(227,496)
Total from operations	15,565,232	15,217,315
Sale of bonds:	315,000,000	-
Other borrowed money :	-	525,000
Increase (decrease) in construction fund liabilities:	(1,050,059)	393,881
Reduction of current liabilities by bond refunding:	-	2,508,852
Increase (decrease) accrued interest due July 1 - funds remitted to paying agent and carried as impounded funds:	4,091,735	(986,615)
Customer contributions for construction:	-	65,035
Decrease in other deferred charges	131,67[illegible]	39,456
Total working capital provided:	333,738,583	17,782,924
WORKING CAPITAL APPLIED:		
Authorized distribution to State of South Carolina:	1,200,564	1,797,497
Retirement of long-term debt	3,817,638	4,872,589
Increase (decrease) in impounded reserve funds:	63,998,594	(18,301,478)
Addition to unamortized debt discount and expense:	6,140,524	45,529
Increase in electric plant and other physical property:	89,773,868	87,770,399
Increase (decrease) in unexpended funds from sale of long-term obligations:	162,225,897	(57,401,486)
Total working capital applied	327,157,085	18,783,050

1067 210

EMENT OF CHANGES IN FINANCIAL POSITION
nued)

	1978	1977
EASE (DECREASE) IN WORKING APITAL:	$6,581,498	$(1,000,126)
REASE (DECREASE) IN WORKING APITAL BY COMPONENT:		
unds held by Trustee	$ 934,620	$ 1,060,148
Other funds	2,908,542	(1,328,024)
Accounts receivable	(1,212,250)	2,871,971
Accrued interest receivable	467,810	(23,572)
Inventories	5,033,383	(174,197)
Prepayments	(66,120)	149,946
Accounts payable	(1,144,456)	(3,246,085)
Customer deposits	(280,593)	(226,131)
Accrued sums in lieu of taxes	(22,060)	33,172
Miscellaneous liabilities	(37,378)	(117,354)
Total	$6,581,498	$(1,000,126)

See Accompanying Notes to Financial Statements

Exhibit E

CUSTOMERS' CONTRIBUTIONS FOR CONSTRUCTION,
YEARS ENDED JUNE 30, 1978, AND JUNE 30, 1977

Detail	1978	1977
ACCUMULATED BALANCE, BEGINNING OF PERIOD	$ -	$301,395
ADDITIONAL CONTRIBUTIONS	-	65,035
TOTAL	-	366,430
BALANCE WRITTEN OFF - credited to electric plant in service, in accordance with Order 490 of the Federal Energy Regulatory Commission - See Note 8	-	366,430
ACCUMULATED BALANCE, END OF PERIOD	-	-

See Accompanying Notes to Financial Statements

POOR ORIGINAL

1067 212

Exhibit F

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978

NOTE 1 - Summary of Significant Accounting Policies

A - GENERAL ACCOUNTING METHODS. The accounting records of the Authority are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (formerly the Federal Power Commission).

B - ADDITIONS TO PLANT. The cost of additions, renewals, and betterments to the electric plant is added to the electric plant. Such costs include direct labor and material, indirect construction costs (supervision and engineering), and interest during construction.

C - DEPRECIATION. The Authority provides for depreciation on a straight line basis over the estimated useful life of the properties.

D - FUEL COSTS. Fuel costs are expensed as fuel is consumed. At June 30, 1978, and June 30, 1977, the Authority's electric rates included fuel adjustment clauses under which fuel costs above or below the base levels included in the various rate schedules were billed or credited to customers approximately thirty days to six months after such costs were incurred.

E - PENSION COSTS. Salaries paid by the Authority are subject to withholding and employer contributions in accordance with the provisions of a State Pension Plan administered by the South Carolina State Retirement System. Rates are fixed by State statutes.

F - BOND AND INTEREST MATURITIES DUE JULY 1, 1977 AND 1978. At June 30, 1977, the bond and interest maturities due July 1, 1977, had been remitted to paying agent and were treated on the books and financial statements as having been paid on June 30, 1977.

At June 30, 1978, this was changed. The funds are shown as being held in impounded reserve funds and the liability is shown therefor. The balance sheet for June 30, 1977, has been restated to show funds being held in such reserve funds. The funds held are as follows:

	JUNE 30 1978	JUNE 30 1977
Bonds and coupons, July 1, maturity	$10,827,094	$6,318,153
Coupons, prior maturities	35,014	23,073
Total	10,862,108	6,341,226

POOR ORIGINAL

1067 213

In summary, the bonds and interest maturities were treated as having been paid when remitted to the fiscal agent. Under the new method, the bonds and interest are treated as paid when the fiscal agent actually pays the bonds. In the meantime such funds are carried as impounded reserve funds.

G - DISTRIBUTION TO THE STATE OF SOUTH CAROLINA. South Carolina law provides that "The South Carolina Public Service Authority is a corporation, completely owned by and to be operated for the benefit of the people of South Carolina and any and all net earnings thereof not necessary or desirable for the prudent conduct and operation of its business or to pay the principal of and the interest on its bonds, notes, or other evidences of indebtedness or other obligations or to fulfill the terms and provisions of any agreements made with the purchasers or holders thereof or others shall be paid over semi-annually to the State Treasurer for the general funds of the State and shall be used to reduce the tax burdens of the people of this State." Payments to the State are indicated on exhibit B.

NOTE 2 - **Electric Plant**

See Note 1 above.

The Central "A-B" System is being acquired through an installment purchase contract (see Note 4), and the Authority is to receive title to the property upon payment of the full amount of the contract obligation to Central.

Other property being used by the Authority under long-term lease commitments has not been capitalized.

NOTE 3 - **Impounded Reserve Funds Held By Trustee and Unexpended Construction Funds From Sale of Authority Bonds.**

Unexpended funds from sale of Authority bonds and impounded reserve funds held by the Trustee for other specific purposes are maintained and their use restricted in accordance with applicable provisions of various Trust Indentures and Bond Resolutions, Central System Agreements, and the Enabling Act included in the South Carolina law.

NOTE 4 - **Long-Term Debt Outstanding**

	JUNE 30, 1978	JUNE 30, 1977
PRIORITY OBLIGATIONS:		
ELECTRIC REVENUE BONDS:		
Series of 1950, 2-5/8 to 2.7%, due serially July 1, 1978-1993	$11,355,000	$11,580,000

POOR ORIGINAL

1067 214

NOTE 4 - LONG-TERM DEBT OUTSTANDING
(Continued)

	JUNE 30 1978	1977
Series of 1967:		
Serial Bonds, 4%, due serially July 1, 1978-1981	575,000	705,000
Term Bonds, 4.1%, due July 1, 2006 (Sinking Fund installments due July 1, 1982-2006)	50,425,000	50,425,000
Total	51,000,000	51,130,000
REFUNDING BONDS:		
Refunding Series of 1973, 5 to 5.50%, due serially July 1, 1978-1989	9,860,000	10,440,000
CONTRACT OBLIGATION:		
Principal (funds expended during construction)	2,535,004	2,900,619
Accumulated interest during period of construction........	110,838	127,861
Total.......................	2,645,842	3,028,480
Total Priority Obligations ...	$74,860,842	$76,178,480
EXPANSION BONDS:		
Electric System Expansion Revenue Bonds, 1973 Series:		
Serial Bonds, 5% to 5.4%, due serially July 1, 1980-1993......	$16,545,000	$16,545,000
Term Bonds, 5.75%, due July 1, 2013 (Sinking Fund installments, due July 1, 1994-2013)....................	83,455,000	83,455,000
Total......................	100,000,000	100,000,000
Electric System Expansion Revenue Bonds, 1974 Series:		
Serial Bonds, 6% to 6.5%, due serially July 1, 1980-1999..........................	30,140,000	30,140,000
Term Bonds, 6.75%, due July 1, 2014 (Sinking Fund installments due July 1, 2000-2014)..................	78,860,000	78,860,000
Total.......................	109,000,000	109,000,000

	1978	1977
Electric System Expansion Revenue Bonds, 1977 Refunding Series:		
Serial Bonds, 2.75%, to 5.7%, due July 1, 1978-1997	65,765,000	66,940,000
Term Bonds, 5-7/8%, due July 1, 2002 (Sinking Fund installments, due July 1, 1998-2002).....................	31,495,000	31,495,000
Term Bonds, 6%, due July 1, 2016 (Sinking Fund installments, due July 1, 2003-2016).....................	116,715,000	116,715,000
Total	213,975,000	215,150,000
Electric System Expansion Revenue Bonds, 1977 Series:		
Serial Bonds, 4% to 5.6%, due July 1, 1982-2002	14,750,000	-
Term Bonds, 5.75%, due July 1, 2017 (Sinking Fund installments due July 1, 2003-2017)	100,250,000	-
Total..........................	115,000,000	-
Electric System Expansion Revenue Bonds, 1978 Series:		
Serial Bonds, 4.28% to 5.4%, due July 1, 1981-1998	20,340,000	-
Term Bonds, 5.7%, due July 1, 2008 (Sinking Fund installments due July 1, 1999-2008).....................	32,980,000	-
Term Bonds, 5-1/8%, due July 1, 2018 (Sinking Fund installments due July 9, 2018) (Sinking Fund installments due July 1, 2009-2018)	146,680,000	-
Total..........................	200,000,000	-
Total Expansion Bonds	$737,975,000	$424,150,000

POOR ORIGINAL

1067 216

POOR ORIGINAL

NOTE 4 - LONG-TERM DEBT OUTSTANDING (Continued)

OTHER LONG-TERM DEBT:	1978	1977
2.325% note dated December 30, 1976 - due July 1, 1977	$ -	$ 1,250,000
3.215% note dated December 30, 1976 - due July 3, 1978	1,250,000	1,250,000
4.[illegible]% note dated January 28, 1977 - due serially January 28, 1978-1984	450,000	525,000
Total Other Long-Term Debt	1,700,000	3,025,000
Total Long-Term Debt	$814,535,842	$503,353,480

The Contract Obligation included above arose through an agreement to purchase certain transmission lines (generally known as the "A-B" System) from Central Electric Power Cooperative, Inc. Interest at 2% per annum is payable semi-annually on unpaid principal balances. Payments on the principal and accumulated interest during construction are due in semi-annual installments which commenced January 1, 1958, and extend over a period of twenty-six (26) additional years.

The Authority is required to make monthly payments from revenue to Corporate Trustees for debt service as set forth in the relat[illegible] Trust Indenture and Bond Resolutions. Monthly payments to be ma[illegible] during the fiscal year July 1, 1978, through June 30, 1979, are approximately $1,606,000.

NOTE 5 - **Long-Term Debt Refunding:**

The Authority refinanced its Electric System Expansion Revenue Bonds, 1971 Series, and its Electric System Expansion Revenue Bonds, 1976 Series, with outstanding balances of $99,060,000 and $100,000,000 respectively, on March 10, 1977, by issuing $215,150,000 Electric System Expansion Revenue Bonds, 1977 Refunding Series, and $90,920,000 Electric System Expansion Revenue Bonds, 1977 Special Obligation Refunding Series. The refunding resulted in a net loss (the difference between the net carrying amount of the debt and the reacquisition price) of $11,244,416. The Uniform System of Accounts prescribed by the Federal Power Commission requires that this loss be amortized over future accounting periods that will receiv[illegible] the cost reduction benefits of the refinancing.

Net proceeds from the issuance of the 1977 Bonds were used to purchase direct obligations of the United States of America in the aggregate principal amount of $300,912,100. The Government Obligations were placed with a corporate Trustee under an irrevocable Refunding Trust Agreement and will mature in such amounts and at such time as shall be necessary and sufficient, (1) to pay the principal of and interest on the 1971 Bonds as the same shall become due and payable to and including January 1, 1982, (b) to pay the principal of and interest on the 1976 Bonds as the same shall become due and payable to and including July 1, 1986, (c) to pay on January 1, 1982, the full redemption price on the 1971 Bonds maturing after January 1, 1982, and (d) to pay on July 1, 1986, the full redemption price on the 1976 Bonds maturing after July 1, 1986, and shall bear interest payable in such amounts and at such times as shall be necessary and sufficient to pay the principal of and interest on the 1977 Special Refunding Bonds as the same shall become due and payable.

The above refinancing was done in accordance with appropriate provisions of the Bond Resolutions authorizing the issuance of the 1971 and 1976 Revenue Bonds and such bonds are no longer a lien against the Electric System Revenues. Since the holders of the refunded Revenue Bonds and the 1977 Special Obligation Refunding Series Bonds must look to the Refunding Trust Fund Trustee for payment of principal and interest, such obligations are not recorded as liabilities of the Authority. Likewise, U.S. Government Obligations held by the Trustee for payment of such Bonds are not recorded as assets of the Authority.

TE 6 - Long-Term Lease Commitments

The Authority has lease contracts with Central Electric Power Cooperative, Inc., covering a steam electric generation plant and various other facilities. The rental is a sum equal to the interest on and principal of Central's indebtedness to the Rural Electrification Administration for funds borrowed to construct the facilities involved. Rental payments are due quarterly. The Authority has an option to purchase the leased properties at any time during the period of the lease agreements for a sum equal to Central's indebtedness remaining outstanding on the property involved at the time the option is exercised or to return the properties at the termination of the lease.

Rental payments during the entire life of the lease contracts are equal to annual debt service for construction costs, including interest on funds borrowed for construction.

Total rental expense on these contracts during the years ended June 30, 1978, and June 30, 1977, aggrega[illegible] and $3,087,811, respectively. Aggregate rental payments due [illegible] these contracts in future years are approximately as follows:

NOTE 6 - LONG-TERM LEASE COMMITMENTS
(Continued)

Year ending June 30:	
1979	$4,293,000
1980	5,370,000
1981	5,447,000
1982	5,445,000
1983	$5,445,000
Five-year periods ending June 30:	
1988	$27,213,000
1993	27,213,000
1998	$27,213,000
Remaining years (in total)	$30,121,000

The Authority presently accounts for leases entered into prior to January 1, 1977, in accordance with generally accepted accounting principles established prior to the issuance to FASB Statement No. 13, "Accounting for Leases." By 1981, the Authority will have to restate its financial statements to reflect the accounting for these leases in accordance with the Statement. Capital leases entered into subsequent to December 31, 1976, amount to $158,707 at cost. Such leases have been capitalized but the effect on earnings is not material. This change in accounting principles will result in certain leases bei[illegible] capitalized with an increase (decrease) in the amounts reflected [illegible] the Authority's financial statements as follows:

DETAIL	....JUNE 30..... 1978	1977
Electric Plant	$68,552,000	$62,802,000
Capital Lease Obligations:		
Current	1,449,000	1,362,000
Non-current	75,466,000	75,466,000
Net Income (year ended June 30)	$(318,000)	$(628,000)

Future minimum payments, by [illegible] and in the aggregate, under the capital leases and non-cancellab[illegible] operating leases with initial or remaining terms of one year or mo[illegible] consisted of the following at June 30, 1978:

POOR ORIGINAL

1067 219

DETAIL Year ending June 30:	CAPITAL LEASES	OPERATING LEASES
1978	$ 3,233,000	$ 263,800
1979	4,830,000	263,800
1980	4,910,000	48,816
1981	5,450,000	24,576
1982	5,490,000	20,508
Thereafter	93,571,000*	44,820
Total minimum lease payments	117,484,000	$666,320
Less, amounts representing interest	40,569,000*	
Present value of net minimum lease payments	$76,915,000*	

* This total does not include approved loans in the amount of $18,252,000 and $24,766,000, at June 30, 1978 and 1977, respectively, which amounts have not been advanced to Central and for which no payment schedules can be prepared at this time.

NOTE 7 - Restatement of Gain on Reacquired Debt in Year Ended June 30, 1973.

During the fiscal year ended June 30, 1973, a gain of $3,913,676 was realized by the Authority on an early extinguishment of debt accompanied with the issuance of Refunding Bonds. This gain was included in income on the books but the Federal Power Commission later ruled that such gains should be amortized against future operations. The accompanying financial statements have been restated to remove the gain from 1973 income and amortize such gain over the life of the Refunding Bonds.

NOTE 8 - Customers' Contribution for Construction

Effective June 30, 1977, the Customers' Contribution for Construction in the amount of $366,430 was charged off and the electric plant in service was reduced by an equal amount. This adjustment has been made in accordance with Order 490 of the Federal Energy Regulatory Commission. All contributions subsequent to this date are being credited to plant account. The balance sheet has been restated as of June 30, 1977, to reflect this change.

NOTE 9 - Commitments (Winyah #4, Hilton Head Turbine #3, and Coal Cars)

The Authority's capital improvement program includes the construction of a 280 MW coal fired generating unit to be in service in 1982; a 60 MW combustion turbine generator to be in service in 1979; and the lease of 154 coal hopper cars starting in December, 1978. As of June 30, 1978, the Authority has approved contract commitments totaling approximately $53,690,534 in connection with these projects.

NOTE 10 - Allowance for Funds used During Construction:

Allowance for funds used during construction (AFUDC), a non-cash item, reflects the cost for the period of capital devoted to plant under construction. This cost represents interest charges on borrowed funds and a reasonable rate of return on other funds so used. This accounting practice results in the inclusion as a component of construction cost of amounts of AFUDC. Effective January 1, 1977, the FERC issued Order 561 which provided a formula for computing a maximum allowable AFUDC rate. The AFUDC rate for year ended June 30, 1978, was 4.64% and does not exceed the maximum allowable rate.

Beginning with fiscal year ended June 30, 1978, pursuant to FERC order, the interest portion of AFUDC related to borrowed funds has been shown as a reduction in "Interest Charges." The AFUDC resulting from use of other funds has been credited to other income. Also, interest received on borrowed funds has been credited to other income.

In prior years, AFUDC was only applied to jobs for which funds were borrowed to finance such jobs. The net long-term debt (long-term interest paid, less interest income on invested funds) was capitalized on such jobs. No interest was capitalized on other funds used to finance jobs. Also, in prior years the interest earned on invested construction funds and allowance for funds during construction was credited to long-term interest paid. The long-term interest expense shown was the amount of long-term interest expense, less interest income on borrowed funds and allowance for funds during construction. The long-term interest for the year ended June 30, 1977, is being restated to separate the components for the year, as follows:

Long-term debt - net (shown in financial statements for year ended June 30, 1977)	$9,682,047DR.
Restated as:	
Other Income - interest income on funds borrowed for construction	$ 9,747,113CR.
Allowance for funds used during construction (AFUDC) - only on borrowed money	9,298,720CR.
Interest on long-term debt	28,727,880DR.
Balance	9,682,047DR.

POOR ORIGINAL

1067 221

The change in the method of computing the AFUDC to the method prescribed by the Federal Energy Regulatory Commission for the year ended June 30, 1978, increased the AFUDC for the year, which also increased the net revenue for the year by the same amount, as follows:

AFUDC for borrowed money - increase over the amount that would have been capitalized under prior method	$ 488,136
AFUDC for other than borrowed funds	457,879
Total increase in net revenues	$ 946,015

In comparing the years, the allowance for funds used during construction in prior year has been shown under "Other Income". For the current year, the comparable item is shown as a reduction of interest charges.

NOTE 11 - Contingent Liabilities

As of June 30, 1977, the following civil actions against the Authority were pending.

1. Ralph Bell, Jr. vs. S. C. Public Service Authority. This case involves a boundary dispute in which Plaintiff seeks a restraining order, or, in the alternative "compensation to the Plaintiff for the injury done to his property."

2. Avinger vs. S. C. Public Service Authority. The statute under which Avinger's property was condemned provides, in substance, that if condemned land is not flooded within five years, the former owner has a right for one year to buy the property back at the original price per acre paid by the Authority, and that the right may be extinguished upon 90 days written notice by the Authority. The Authority has never given such notice to any landowner. Avinger seeks to buy his family's property back pursuant to the statute.

3. Five cases arose when 200 feet width was cleared for a 100 feet right-of-way. These cases were settled subsequent to June 30, 1978, by relocating the transmission line and payment of $1,000 per lot to landowners.

POOR ORIGINAL

1067 222

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

FINANCIAL STATEMENT

JUNE 1979

- N A R R A T I V E -

1

Statement prepared in the Office of the Controller for the use of Management, covering the month of June 1979 and the fiscal year to date.

Gentlemen:

Electric operating revenue for the month of June 1979 was $12,276,258 or $1,401,024 (12.9%) more than June 1978. Reinvested earnings were $1,446,741 or $2,754,628 more than the same period last year. The increase in earnings was due primarily to an increase in revenue, reduction in fuel cost, an increase in other income, and an increase in allowance for funds used. KiloWatthour sales were 495,269,097 or an increase of 13,302,958 (2.8%).

Electric operating revenue for the year was $135,709,427 or a $16,729,250 (14.1%) increase over last year. Reinvested earnings of $12,107,340 were $6,605,058 more than the same period last year. KiloWatthour sales were 5,952,800,106 or an increase of 391,234,331 (7.0%).

Major cost increases year-to-date of $16,318,272 were related to increased fuel cost, $4,714,805; depreciation, $568,183; sums in lieu of taxes, $67,899; other operating and maintenance expenses, $4,109,396; and purchased power, $6,857,995.

As of April 1, 1979 and 1978, respectively, purchased power has been restated to include sales to other utilities. The Federal Energy Regulatory Commission classification of purchased power includes the net settlements for exchange of electricity or power, such as economy energy, off-peak energy for on-peak energy, spinning reserve capacity, etc. Therefore, this account will fluctuate with the net interchange sales and purchases between Santee Cooper and other utilities. This reclassification is the reason for purchased power increasing $6,857,995.

The Central leases have been reinstated for the years 1978 and 1979, respectively, on the statement of reinvested earnings to comply with the Financial Accounting Standards No. 13, Accounting for Leases. The net effect was a reduction in reinvested earnings of $332,200 for FY 1978 and $56,596 for FY 1979.

Allowance for funds used during construction (AFUDC) for the year 1979 has been restated to reflect the current cost of capital as related to the associated debt issues, which, in turn, increased AFUDC by approximately $3,741,000 for the year.

Electric operating revenue year-to-date was $10,525,000 under the budget. Electric operating and maintenance expenses were $11,880,000 less than the budgeted amount which is primarily due to an underrun of fuel burned of $11,445,000. This underrun is largely attributable to above average hydro generation. Other expenses netted to an underrun of $435,000. Other income was over the budget by $4,304,000 and reinvested earnings were $11,620,000 more than budgeted.

The charts on the following pages show the results for last year and the current year compared to the budget for the current and cumulative years.

L R Bellavita

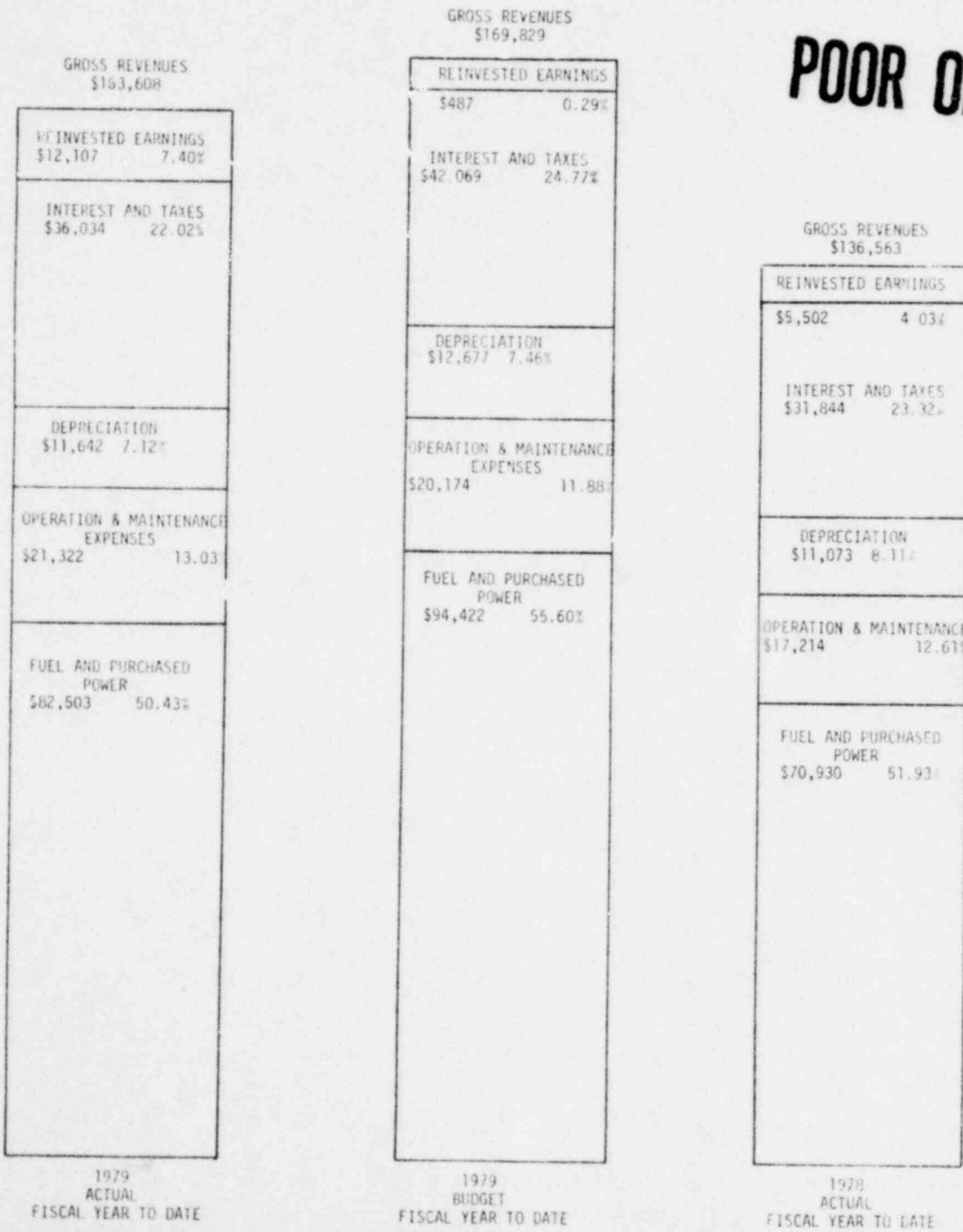
L. R. Bellavita
Controller

LRB:ar

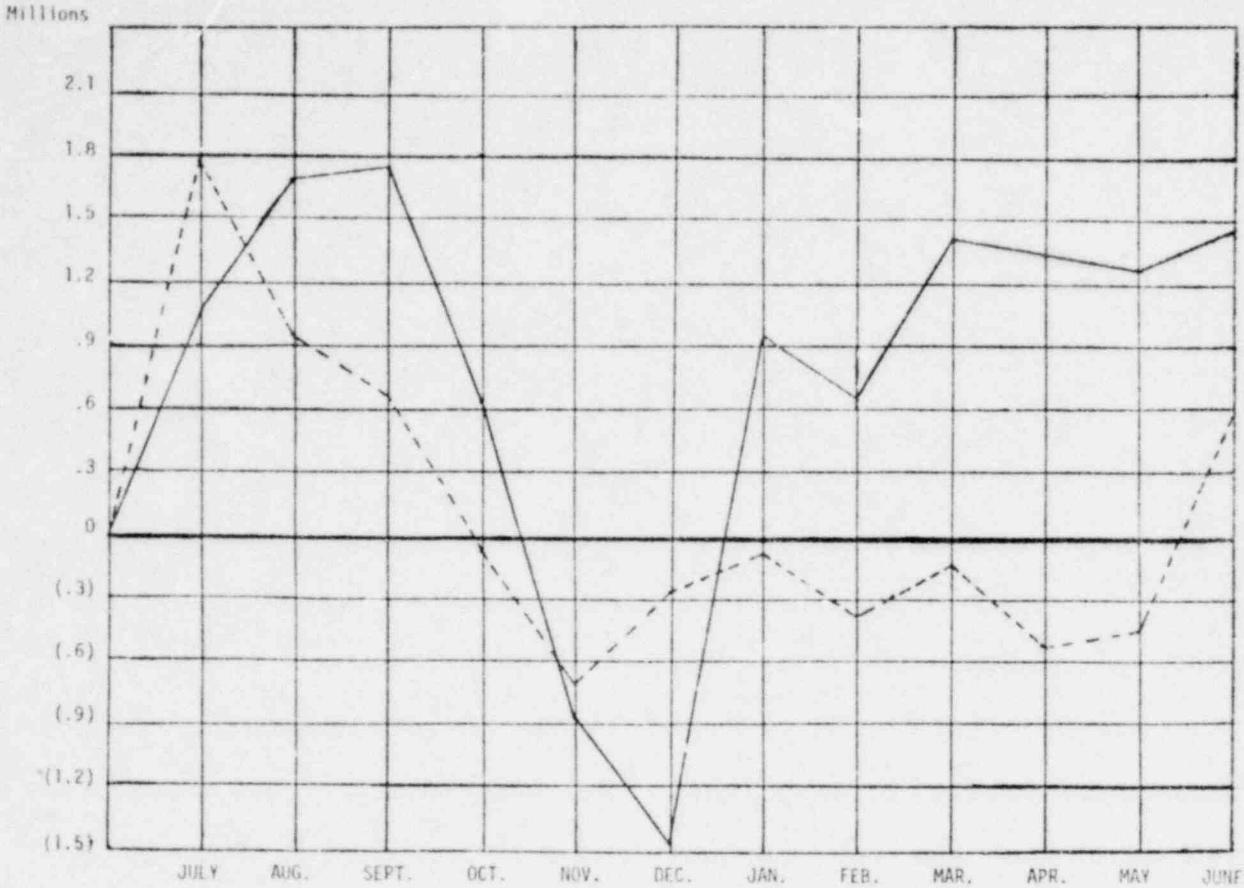
1067 225

ACTUAL COMPARED TO BUDGET
REVENUES AND EXPENSES
1979 FISCAL YEAR TO DATE
(DOLLARS IN THOUSANDS)

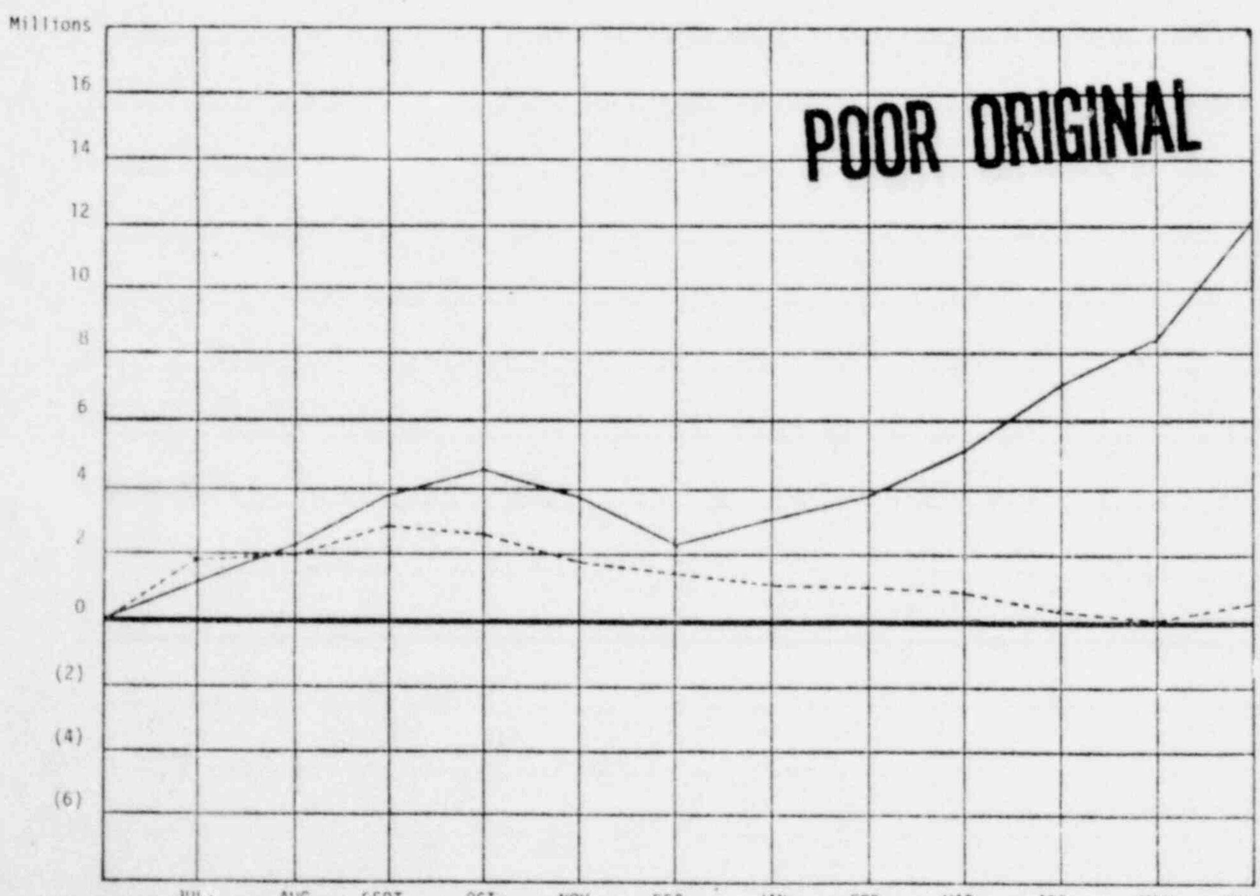
POOR ORIGINAL



ACTUAL COMPARED TO BUDGET
MONTHLY REINVESTED EARNINGS
FISCAL YEAR 1979



FISCAL YEAR TO DATE
ACTUAL COMPARED TO BUDGET
REINVESTED EARNINGS
FISCAL YEAR 1979



POOR ORIGINAL

LEGEND:

ACTUAL REINVESTED EARNINGS

1067 227

EXHIBIT

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
BALANCE SHEET
JUNE 30, 1979
(Un-audited)

A S S E T S

ELECTRIC PLANT:		
Electric Plant in Service	$494,102,604.12	
Less Accumulated Provision for Depreciation - Amortization	(97,030,024.94)	
Total Plant in Service		$ 397,072,579.18
Construction Work in Progress		363,955,289.29
Electric Plant Held for Future Use	652,775.43	
Less Accumulated Provision for Depreciation	(252,912.02)	399,863.41
Total Electric Plant		$ 761,427,731.88
OTHER PHYSICAL PROPERTY:	635,593.37	
Less Accumulated Provision for Depreciation and Amortization	(152,860.91)	482,732.46
SPECIAL FUNDS - EXHIBIT 6		171,341,938.27
UNEXPENDED FUNDS FROM SALE OF BONDS - EXHIBIT 6		206,014,182.01
CURRENT AND ACCRUED ASSETS:		
Operating Funds - Exhibit 6	5,451,771.54	
Miscellaneous Funds - Exhibit 6	1,808,977.42	
Accounts Receivable - (Less Accumulated Provision for Uncollectable Accounts)	13,135,282.23	
Accrued Interest Receivable	4,451,120.53	
Materials and Supplies	2,627,135.51	
Fuel Stocks	17,255,696.28	
Prepayments - Insurance, Etc.	369,689.97	
TOTAL CURRENT AND ACCRUED ASSETS		45,099,673.48
DEFERRED DEBITS:		
Unamortized Debt Expense	3,459,108.73	
Unamortized Loss on Reacquired Debt	10,354,288.33	
Miscellaneous Deferred Debits	401,101.05	
TOTAL DEFERRED DEBITS		14,214,498.11
TOTAL ASSETS		$1,198,580,756.21

L I A B I L I T I E S

LONG-TERM DEBT:		
Priority Obligations		
Electric Revenue Bonds, 2.375-2.7% , Due Serially July 1, 1964 - 1993	$ 11,120,000.00	
Electric Revenue Bonds, Series of 1967	50,865,000.00	
Contract Obligations	2,257,809.34	
Refund Bonds of 1973	9,250,000.00	
Expansion Bonds		
Electric System Expansion Revenue Bonds		
Bonds of 1973	100,000,000.00	
Bonds of 1974	109,000,000.00	
Bonds of 1977	115,000,000.00	
Bonds of 1977 Refunding Series	212,455,000.00	
Bonds of 1978	200,000,000.00	
Bonds of 1979A	110,000,000.00	
Capital Lease Obligations	88,119,450.07	
Long-Term Purchase Agreement	375,000.00	
Credit Agreement	25,000,000.00	
Less Unamortized Discount - Net	(14,130,011.78)	
Long-Term Debt, Net		$1,019,312,247.63
CONSTRUCTION FUND LIABILITIES		16,044,938.25
CURRENT AND ACCRUED LIABILITIES - (EXCLUDING MONTHLY PAYMENTS TO TRUSTEE FOR BOND PRINCIPAL PAYMENTS):		
Accounts Payable	7,394,998.66	
Customer Security Deposits	1,777,730.63	
Accrued Interest on Customer Deposits	295,135.20	
Accrued Interest on Long-Term Debt	24,900,150.00	
Accrued Sums in Lieu of Taxes	353,304.22	
Misc. Current and Accrued Liabilities	79,854.66	
Accrued Sales and Use Taxes	66,653.57	
Total Current and Accrued Liabilities		34,867,826.94
DEFERRED CREDITS		
Unamortized Gain on Reacquired Debt		1,687,109.36
CAPITAL CONTRIBUTIONS		
U. S. Government Grants		34,438,263.79
ACCUMULATED REINVESTED EARNINGS		92,230,370.24
TOTAL LIABILITIES		$1,198,580,756.21

POOR ORIGINAL

4

1067 228

EXHIBIT 2

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
CONSOLIDATED STATEMENT OF REINVESTED EARNINGS
FOR THE TWELVE MONTHS ENDED 06-30-79

	1979	1978
ELECTRIC OPERATING REVENUES	$135,709,427	$118,980,177
ELECTRIC OPERATING EXPENSES		
PRODUCTION		
PURCHASED POWER	2,109,655	(4,748,340)
FUEL EXPENSES	80,392,778	75,677,973
OTHER OPERATING EXPENSES	4,110,934	3,624,363
MAINTENANCE EXPENSES	8,116,087	5,978,025
TOTAL PRODUCTION	94,729,454	80,532,021
TRANSMISSION		
OTHER OPERATING EXPENSES	1,235,628	1,117,307
MAINTENANCE EXPENSES	1,342,761	1,119,795
TOTAL TRANSMISSION	2,578,389	2,237,102
DISTRIBUTION		
OPERATING EXPENSES	725,303	603,867
MAINTENANCE EXPENSES	382,465	357,018
TOTAL DISTRIBUTION	1,107,768	960,885
CUSTOMER ACCOUNTING	1,268,554	1,273,235
CUSTOMER SVC & INFO	3,119	4,155
SALES PROMOTION	214,227	230,987
GENERAL & ADMINISTRATIVE		
OPERATING EXPENSES	3,631,936	2,651,347
MAINTENANCE EXPENSES	292,571	254,096
TOTAL GENERAL & ADMINISTRATIVE	3,924,507	2,905,443
TOTAL OPERATING & MAINTENANCE EXPENSES	103,826,018	88,143,828
DEPRECIATION	11,641,516	11,073,333
TAXES & SUMS IN LIEU OF TAXES	726,316	658,417
TOTAL ELECTRIC OPERATING EXPENSES	116,193,850	99,875,578
NET OPERATING INCOME	19,515,577	19,104,599
OTHER INCOME		
INTEREST INCOME	4,727,776	3,481,324
INTEREST INCOME-BORROWED FUNDS	21,953,981	13,678,122
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	1,084,631	457,879
MISCELLANEOUS INCOME	132,397	(34,021)
TOTAL OTHER INCOME	27,898,785	17,583,304
INTEREST EXPENSES		
INTEREST ON LONG-TERM DEBT	49,389,448	37,870,421
ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION	(14,803,516)	(7,215,703)
INTEREST ON CUSTOMER DEPOSITS	96,608	79,356
OTHER INTEREST	0	363
AMORTIZATION OF: DEBT DISCOUNT & EXPENSE-NET	547,539	391,786
REACQUIRED DEBT-NET	76,943	59,398
TOTAL INTEREST EXPENSES	35,307,022	31,185,621
TOTAL REINVESTED EARNINGS	$ 12,107,340	$ 5,502,282

POOR ORIGINAL

5

1067 229

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
STATEMENT OF REINVESTED EARNINGS
UN-AUDITED

EXHIBIT 3
Sheet 1 of 6

	--------06-30-79-------- CURRENT MONTH THIS YEAR	MILLS PER KWH	LAST YEAR	INCREASE	FISCAL YEAR TO DATE THIS YEAR	MILLS PER KWH	LAST YEAR	INCREASE
ELECTRIC OPERATING REVENUE	12,276,258	24.787	10,875,234	1,401,024	135,709,427	22.798	118,980,177	16,729,250
ELECTRIC OPERATING EXPENSES								
PRODUCTION								
PURCHASED POWER	(354,182)	(.715)	102,183	(456,365)	2,109,655	.354	(4,748,340)	6,857,995
FUEL EXPENSES	6,786,465	13.703	7,313,917	(527,452)	80,392,778	13.505	75,677,973	4,714,805
CENTRAL LEASE AGREEMENTS	0	.000	0	0	0	.000	0	0
OTHER OPERATING EXPENSES	470,587	.950	490,191	(19,604)	4,110,934	.691	3,624,363	486,571
MAINTENANCE EXPENSES	1,721,773	3.476	1,218,512	503,261	8,116,087	1.363	5,978,025	2,138,062
TOTAL PRODUCTION	8,624,643	17.414	9,124,803	(500,160)	94,729,454	15.913	80,532,021	14,197,433
TRANSMISSION								
CENTRAL LEASE AGREEMENTS	0	.000	0	0	0	.000	0	0
OTHER OPERATING EXPENSES	130,061	.263	136,907	(6,846)	1,235,628	.208	1,117,307	118,321
MAINTENANCE EXPENSES	249,333	.503	200,219	49,114	1,342,761	.226	1,119,795	222,966
TOTAL TRANSMISSION	379,394	.766	337,126	42,268	2,578,389	.434	2,237,102	341,287
DISTRIBUTION								
OPERATING EXPENSES	89,738	.181	71,378	18,360	725,303	.122	603,867	121,436
MAINTENANCE EXPENSES	54,462	.110	65,432	(10,970)	382,465	.064	357,018	25,447
TOTAL DISTRIBUTION	144,200	.291	136,810	7,390	1,107,768	.186	960,885	146,883
CUSTOMER ACCOUNTING	134,800	.272	233,623	(98,823)	1,268,554	.213	1,273,235	(4,681)
CUSTOMER SVC & INFO	(1,277)	(.003)	0	(1,277)	3,119	.001	4,155	(1,036)
SALES PROMOTION	24,030	.049	27,184	(3,154)	214,227	.036	230,987	(16,760)
GENERAL & ADMINISTRATIVE								
OPERATING EXPENSES	396,918	.801	330,532	66,386	3,631,936	.610	2,651,347	980,589
MAINTENANCE EXPENSES	37,382	.075	38,649	(1,267)	292,571	.049	254,096	38,475
TOTAL GENERAL & ADMIN	434,300	.876	369,181	65,119	3,924,507	.659	2,905,443	1,019,064
TOTAL OPR & MNT EXPENSES	9,740,090	19.665	10,228,727	(488,637)	103,826,018	17.442	88,143,828	15,682,190
DEPRECIATION	906,788	1.831	952,507	(45,719)	11,641,516	1.956	11,073,333	568,183
TAXES & SUMS IN LIEU OF TAXES	3,202	.006	11,264	(8,062)	726,316	.122	658,417	67,899
TOTAL ELECTRIC OPERATING EXP.	[illegible],650,080	21.502	11,192,498	(542,418)	116,193,850	19.520	99,875,578	16,318,272
NET OPERATING INCOME	1,626,178	3.285	(317,264)	1,943,442	19,515,577	3.278	19,104,599	410,978

POOR ORIGINAL

1067 230

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
STATEMENT OF REINVESTED EARNINGS
UN-AUDITED
--------06-30-79--------

	CURRENT MONTH THIS YEAR	MILLS PER KWH	LAST YEAR	INCREASE	FISCAL YEAR TO DATE THIS YEAR	MILLS PER KWH	LAST YEAR	INCREASE
OTHER INCOME								
INTEREST INCOME	548,174	1.107	414,124	134,050	4,727,776	.794	3,481,324	1,246,452
INTEREST INCOME-BORROWED FDS	2,385,502	4.817	2,328,201	57,301	21,953,981	3.688	13,678,122	8,275,859
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	136,077	.275	38,152	97,925	1,084,631	.182	457,879	626,752
REFORESTATION EXP,ETC-NET	(2,094)	(.004)	(6,749)	4,655	132,397	.022	(34,021)	166,418
TOTAL OTHER INCOME	3,067,659	6.[illegible]5	2,773,728	293,931	27,898,785	4.686	17,583,304	10,315,481
INTEREST EXPENSES								
INTEREST ON LONG-TERM DEBT	4,702,655	9.495	3,993,381	709,274	49,389,448	8.297	37,870,421	11,519,027
ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION	(1,517,455)	(3.064)	(451,950)	(1,065,505)	(14,803,516)	(2.487)	(7,215,703)	(7,587,813)
INTEREST ON CUSTOMER DEPOSITS	8,885	.018	7,442	1,443	96,608	.016	79,356	17,252
OTHER INTEREST	0	.000	363	(363)	0	.000	363	(363)
AMORTIZATION OF								
DEBT DISCOUNT & EXPENSE-NET	46,599	.094	210,166	(163,567)	547,539	.092	391,786	155,753
REACQUIRED DEBT-NET	6,412	.013	4,949	1,463	76,943	.013	59,398	17,545
TOTAL INTEREST CHARGES	3,247,096	6.556	3,764,351	(517,255)	35,307,022	5.931	31,185,621	4,121,401
REINVESTED EARNINGS	1,446,741	2.924	(1,307,887)	2,754,628	12,107,340	2.033	5,502,282	6,605,058

ACC REINVESTED EARNINGS-JUNE 30, 1979	81,323,410
ADD REINVESTED EARNINGS FYTD	12,107,340
SUB - TOTAL	93,430,750
LESS AUTHORIZED DISTRIBUTION TO STATE OF SOUTH CAROLINA	1,200,380
ACCUMULATED REINVESTED EARNINGS	92,230,370

POOR ORIGINAL

1067 231

POOR ORIGINAL

S. C. PUBLIC SERVICE AUTHORITY
ELECTRIC REVENUE
PERIOD ENDING 06-30-79

EXHIBIT 3
SHEET 3 OF 6

	CURRENT MONTH				FISCAL YEAR TO DATE			
			MILLS PER KWH SOLD				MILLS PER KWH SOLD	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
SALES OF ELECTRICITY IN DOLLARS								
RETAIL SALES								
RESIDENTIAL	$ 1,499,784	$ 1,074,051	39.140	37.418	$ 15,254,806	$ 14,585,306	34.421	32.684
COMMERCIAL	2,067,543	1,514,645	38.615	36.472	16,822,099	15,530,212	33.229	31.731
PUBLIC STREET LIGHTING	30,506	18,902	47.517	3?.640	236,006	222,843	40.568	39.239
OTHER	33,118	37,950	26.558	30.568	310,297	303,040	27.833	27.571
TOTAL RETAIL SALES	$ 3,630,951	$ 2,645,547	38.730	36.769	$ 32,623,208	$ 30,641,401	33.758	32.174
INDUSTRIAL SALES								
AVX CERAMICS CORP	53,684	46,395	20.281	19.417	571,050	431,896	19.901	19.035
AIRCO, INC.	645,528	788,915	20.173	19.489	9,584,535	7,661,678	19.188	19.017
ALBANY FELT COMPANY	25,909	22,919	24.410	22.406	268,553	246,647	23.673	22.651
ALUMAX, INC.	2,604	0	53.586	.000	6,819	0	40.839	.000
AMOCO CHEMICAL CORP.	518,201	54,676	19.708	20.604	4,324,286	132,718	20.664	22.263
ANDREWS WIRE CORP.	30,594	23,729	23.011	21.459	316,201	302,807	22.035	20.711
DAVOL, INC.	18,858	0	21.948	.000	35,137	0	21.526	.000
GEORGETOWN STEEL CORP	808,984	699,879	19.402	17.303	9,350,542	7,969,306	18.550	16.628
GEORGIA PACIFIC CORP	104,500	82,864	17.820	16.286	1,185,676	983,268	17.707	15.519
GIANT PORTLAND CEMENT CO.	153,013	127,441	20.143	19.364	1,674,866	1,509,870	19.938	18.972
GROVE MANUFACTURING CO.	15,713	12,749	27.594	25.532	166,623	150,875	26.315	25.501
UNIROYAL, INC-WM HELLER PLT	16,794	13,144	23.932	22.199	158,118	156,161	23.628	21.959
INTERNATIONAL PAPER CO.	170,297	150,877	21.612	20.319	1,885,514	1,717,705	20.585	19.976
LORIS MFG. CO. - PLANT 2	15,835	14,570	23.083	21.328	161,484	146,685	22.793	22.022
MACANDREWS & FORBES CO.	1,983	22,395	55.073	221.498	89,907	449,400	107.170	29.152
MOBILE CHEMICAL COMPANY	40,170	38,737	21.018	20.038	481,900	412,764	20.342	19.859
SANTEE PORTLAND CEMENT CO.	194,886	205,079	20.890	19.553	2,450,155	2,195,951	20.055	19.290
SANTEE RIVER WOOL COMBING CO	33,592	28,370	22.225	21.623	317,290	298,855	22.862	21.901
UNITED MERCHANTS	49,527	45,375	20.740	19.869	541,304	497,920	21.046	20.100
WACCAMAW CLAY PRODUCTS CO.	9,582	7,937	29.357	26.038	101,022	97,552	27.095	25.063
WACCAMAW LUMBER & SUPPLY CO.	22,753	16,652	25.051	23.689	239,644	204,412	24.206	23.334
WELLMAN INDUSTRIES, INC.	101,778	103,623	20.130	20.423	1,219,897	1,105,676	20.556	19.946
TOTAL INDUSTRIAL SALES	3,034,828	2,510,329	20.138	19.109	35,130,523	26,672,166	19.647	18.503
SALES TO MILITARY BASES								
CHARLESTON AIR FORCE BASE	140,743	147,670	21.938	20.317	1,457,974	1,364,787	21.657	20.464
CHARLESTON NAVAL SHIPYARD	385,365	399,263	20.818	19.692	4,198,755	4,057,077	20.307	19.163
MYRTLE BEACH AIR FORCE BASE	81,976	81,576	21.843	20.367	910,041	907,501	21.439	20.006

1067 232

POOR ORIGINAL

S. C. PUBLIC SERVICE AUTHORITY
ELECTRIC REVENUE
PERIOD ENDING 06-30-79

EXHIBIT 3
SHEET 4 OF 6

	CURRENT MONTH THIS YEAR	CURRENT MONTH LAST YEAR	CURRENT MONTH MILLS PER KWH SOLD THIS YEAR	CURRENT MONTH MILLS PER KWH SOLD LAST YEAR	FISCAL YEAR TO DATE THIS YEAR	FISCAL YEAR TO DATE LAST YEAR	FISCAL YEAR TO DATE MILLS PER KWH SOLD THIS YEAR	FISCAL YEAR TO DATE MILLS PER KWH SOLD LAST YEAR
TOTAL MILITARY BASES	$ 608,083	$ 628,509	21.203	19.922	$ 6,566,771	$ 6,329,365	20.746	19.549
SALES OF ELECTRICITY IN DOLLARS - CON'T								
SALES FOR RESALE								
TOWN OF BAMBERG	59,376	55,062	22.804	20.384	632,185	602,336	20.809	19.624
CITY OF GEORGETOWN	142,617	133,835	23.517	20.560	1,537,211	1,452,022	21.171	19.742
CENTRAL ELECTRIC POWER COOP	4,656,303	4,816,895	21.813	20.248	57,805,894	52,046,666	20.803	18.997
TOTAL SALES FOR RESALE	4,858,296	5,005,792	21.871	20.258	59,975,290	54,101,024	20.812	19.023
TOTAL GENERAL BUSINESS	12,132,158	10,790,177	24.496	22.387	134,295,792	117,743,956	22.560	21.171
SALES TO OTHER ELEC UTILITIES								
S C ELECTRIC & GAS COMPANY	30	10	25.876	23.364	281	149	27.455	24.520
CAROLINA POWER & LIGHT CO.	0	0		0	0	0	.000	0
TOTAL SALES TO OTHER ELECTRIC UTILITIES	30	10	25.876	23.364	281	149	27.455	24.520
TOTAL SALES OF ELECTRICITY	12,132,187	10,790,187	24.496	22.388	134,296,072	117,744,105	22.560	21.171
OTHER OPERATING REVENUE								
CUSTOMER DISCOUNTS FORFEITED	8,045	8,612			157,656	160,847		
MISCELLANEOUS SERVICES	14,808	10,379			128,517	245,09[illegible]		
SALES OF WATER & WATER POWER	0	0			1,161	859		
RENT FROM ELECTRIC PROPERTY	44,007	42,760			654,866	481,392		
INCOME FROM WHEELING	26,453	26,470			321,887	322,107		
OTHER ELECTRIC REVENUE	50,759	(3,173)			149,267	25,777		
TOTAL OTHER OPERATING REV	144,071	85,047			1,413,354	1,236,072		
TOTAL ELECTRIC REVENUE	$ 12,276,258	$ 10,875,234			$ 135,709,426	$ 118,980,177		

1067 233

S. C. PUBLIC SERVICE AUTHORITY
ELECTRIC REVENUE
PERIOD ENDING 06-30-79

EXHIBIT 3
SHEET 5 OF 6

POOR ORIGINAL

	CURRENT MONTH THIS YEAR	CURRENT MONTH LAST YEAR	FISCAL YEAR TO DATE THIS YEAR	FISCAL YEAR TO DATE LAST YEAR
SALES OF ELECTRICITY IN KWH				
RETAIL SALES				
RESIDENTIAL	38,318,308	28,703,938	443,186,277	446,246,883
COMMERCIAL	53,542,641	41,528,511	506,243,190	489,436,739
PUBLIC STREET LIGHTING	642,001	476,836	5,817,594	5,679,070
OTHER	1,247,034	1,241,508	11,148,387	10,991,184
TOTAL RETAIL SALES	93,749,584	71,9[illegible]	966,395,448	952,353,876
INDUSTRIAL SALES				
AVX CERAMICS CORP	2,647,082	2,389,553	28,694,709	22,689,464
AIRCO, INC	32,000,000	40,481,000	499,510,000	402,894,000
ALBANY FELT COMPANY	1,061,416	1,022,878	11,344,351	10,888,799
ALUMAX, INC.	48,600	0	166,975	0
AMOCO CHEMICAL CORP	26,293,774	2,653,599	209,261,880	5,961,449
ANDREWS WIRE CORP	1,329,550	1,105,787	14,347,468	14,620,285
DAVCL, INC.	861,019	0	1,632,327	0
GEORGETOWN STEEL CORP	4[illegible],696,000	40,449,000	504,063,000	479,278,000
GEORGIA-PACIFIC CORP	5,864,045	5,087,871	66,960,491	63,360,373
GIANT PORTLAND CEMENT CO	7,596,237	6,581,436	84,005,547	79,582,448
GROVE MANUFACTURING CO	569,432	499,347	6,331,918	5,916,521
UNIROYAL, INC-WM HELLER PLT	701,750	592,097	6,692,041	7,111,448
INTERNATIONAL PAPER CO	7,879,729	7,425,325	89,851,481	85,598,936
LORIS MFG CO - PLANT 2	686,000	683,114	7,084,679	6,660,836
MACANDREWS & FORBES CO	36,000	101,107	838,915	15,415,759
MOBIL CHEMICAL COMPANY	1,911,233	1,933,185	23,689,865	20,785,153
SANTEE PORTLAND CEMENT CO	9,329,371	10,488,125	122,172,722	113,840,116
SANTEE RIVER WOOL COMBING CO	1,511,478	1,312,053	13,878,421	13,645,857
UNITED MERCHANTS	2,387,961	2,484,985	25,720,101	24,772,060
WACCAMAW CLAY PRODUCTS CO	326,400	304,816	3,728,383	3,892,201
WACCAMAW LUMBER & SUPPLY CO	908,270	702,957	9,900,099	8,760,332
WELLMAN INDUSTRIES, INC	5,056,123	5,073,799	58,211,574	55,429,306
TOTAL INDUSTRIAL SALES	150,701,470	131,372,034	1,788,086,947	1,441,493,343
SALES TO MILITARY BASES				
CHARLESTON AIR FORCE BASE	6,415,623	7,268,314	67,320,723	66,692,936
CHARLESTON NAVAL SHIPYARD	18,510,831	20,275,333	206,767,848	211,708,699
MYRTLE BEACH AIR FORCE BASE	3,753,013	4,005,301	42,447,693	45,361,679
TOTAL MILITARY SALES	28,679,467	31,548,948	316,536,264	323,763,314

10

1067 234

POOR ORIGINAL

S. C. PUBLIC SERVICE AUTHORITY
ELECTRIC REVENUE
PERIOD ENDING 06-30-79

EXHIBIT 3
SHEET 6 OF 6

	CURRENT MONTH THIS YEAR	CURRENT MONTH LAST YEAR	FISCAL YEAR TO DATE THIS YEAR	FISCAL YEAR TO DATE LAST YEAR
SALES OF ELECTRICITY IN KWH - CON'T				
SALES FOR RESALE				
TOWN OF BAMBERG	2,603,708	2,701,170	30,379,781	30,693,979
CITY OF GEORGETOWN	6,064,388	6,509,464	72,608,386	73,551,128
CENTRAL ELECTRIC POWER COOP	213,468,938	237,883,302	2,778,783,058	2,739,704,099
TOTAL SALES FOR RESALE	222,137,034	247,093,936	2,881,771,225	2,843,949,206
TOTAL GENERAL BUSINESS	495,267,955	481,965,711	5,952,789,884	5,561,555,739
SALES TO OTHER ELEC UTILITIES				
S C ELECTRIC & GAS COMPANY	1,142	428	10,222	6,036
CAROLINA POWER & LIGHT CO.	0	0	0	0
TOTAL SALES TO OTHER ELECTRIC UTILITIES	1,142	428	10,222	6,036
TOTAL SALES OF ELECTRICITY-KWH	495,2[illegible],097	481,966,139	5,952,800,106	5,561,565,775
RETAIL SALES-NO. OF CUSTOMERS				
AVERAGE NUMBER OF CUSTOMERS				
RESIDENTIAL	38,058	35,5[illegible]	36,636	33,874
COMMERCIAL	8,859	8,[illegible]	8,568	8,256
PUBLIC STREET LIGHTING	51	46	49	44
OTHER	156	151	154	147
TOTAL	47,124	44,253	45,407	42,321
RESIDENTIAL - AVG KWH SALES	1,007	807	12,097	13,174

1067 235

11

POOR ORIGINAL

ELECTRIC ENERGY ACCOUNT
MONTH OF JUNE 1979

	Current Month		Fiscal Year to Date	
	This Year	Last Year	This Year	Last Year
GENERATION IN KWH:				
Steam Plant Generation				
Jefferies Units 1 & 2	2,796,000	2,537,000	9,526,000	101,444,000
Jefferies Units 3 & 4	100,257,000	153,649,000	1,[illegible]6,584,000	1,288,710,000
Grainger	56,602,000	54,420,000	792,583,000	604,185,000
Winyah #1	140,304,000	140,801,000	1,656,794,000	1,586,117,000
Winyah #2	146,263,000	131,211,000	1,558,126,000	1,658,067,000
Hydro Generation				
Jefferies Plant	71,185,000	45,252,000	668,809,000	690,535,000
Spillway Plant	836,000	918,000	10,837,000	11,186,000
Gas Turbine Plant Generation				
Myrtle Beach Plant	405,000	(9,000)	1,449,000	24,364,000
Hilton Head Plant	1,308,000	396,000	4,742,000	13,648,000
PURCHASES:				
SEPA (Storage)	-	-	-	3,455,000
CP&L (Interchange)	-	653,000	4,702,000	13,046,000
Southeastern Power Admin.	45,665,000	27,010,000	397,626,000	372,655,000
SCE&G (Regular)	4,083,264	5,346,738	48,592,800	57,518,820
SCE&G (Storage)				
SCE&G (Interchange)	-	-	19,313,000	5,869,000
Inadvertent Interchange	172,000	26,000	415,000	485,000
CP&L (Bulk)	-	-	12,648,000	715,000
SCE&G (Bulk Purchases)	1,738,000	-	11,198,000	5,032,000
SEPA (Interchange)	192,000	27,000	3,421,000	627,000
Total Generation and Purchases	571,806,264	562,237,738	6,527,365,800	6,437,658,820
LOSSES AND USES:				
Line Conversion - Losses	34,794,747	28,092,458	278,386,831	280,320,101
CP&L (Interchange)	-	-	100,000	17,648,000
SEPA - Wheeling (Minus Losses)	16,[illegible]62,880	16,262,880	197,865,040	197,865,040
SCE&G (Interchange)	-	50,000	15,205,000	19,634,000
SEPA (Storage)				
Inadvertent Interchange	-	-	387,000	456,000
CP&L Bulk	28,795,000	3,751,000	50,104,000	311,908,000
SEPA (Interchange)	-	-	-	8,041,000
SCE&G (Bulk)	-	407,000	3,253,000	6,865,000
Total Losses and Uses	79,852,627	48,563,338	545,300,87[illegible]	842,737,141
SYSTEM REQUIREMENTS	491,953,637	513,674,400	5,982,064,929	5,594,921,679
Less Distribution Losses and Cycle Billing Adjustment	(3,315,460)	31,708,261	29,264,823	33,355,904
NET CUSTOMER SALES	495,269,097	481,966,139	5,952,800,106	5,561,565,775
System Peak Load (60 Min. MW)	1,093	1,231	1,241	1,231
System Load Factor %	68.48%	62.36%	58.96%	54.25%

EXHIBIT 5

Sheet 1 of 3

COMPARATIVE STATEMENT OF GENERATING PLANTS FUEL COST
MONTH OF JUNE 1979
AND FISCAL YEAR TO DATE

	MONTH OF JUNE 1979	MONTH OF JUNE 1978	FISCAL YEAR TO DATE 1979	FISCAL YEAR TO DATE 1978
JEFFERIES STEAM PLANT: UNITS 1 AND 2:				
Net Generation KWH	2,796,000	2,537,000	9,526,000	101,444,000
Fuel Cost - Oil	$ 77,294.63	$ 73,776.46	$ 385,877.76	$ 2,822,926.61
Fuel Handling Cost	710.30	264.35	5,215.76	4,378.19
Total Fuel Cost	$ 78,004.93	$ 74,040.81	$ 391,093.52	$ 2,827,304.80
Fuel Cost per KWH (Mills)	27.8988	29.1844	41.0554	27.8706
Fuel Cost per Million BTU (Cents)	206.496	203.349	204.027	202.306
JEFFERIES STEAM PLANT: UNITS 3 AND 4:				
Net Generation KWH	100,257,000	153,649,000	1,326,584,000	1,288,710,000
Fuel Cost - Coal	$1,585,092.21	$2,408,393.89	$22,117,875.42	$18,491,108.56
Fuel Handling Cost	15,110.49	21,220.28	142,642.24	137,587.[illegible]6
Total Fuel Cost	$1,600,202.70	$2,429,614.17	$22,260,517.66	$18,628,696.52
Fuel Cost per KWH (Mills)	15.9610	15.8128	16.7803	14.4553
Fuel Cost per Million BTU (Cents)	153.363	146.869	157.397	134.408
GRAINGER STEAM PLANT:				
Net Generation KWH	56,602,000	54,420,000	[illegible]2,583,000	604,185,000
Fuel Cost - Coal	$ 869,080.49	$ 799,371.46	$11,343,202.42	$ 8,822,070.16
Fuel Handling Cost	27,806.58	28,240.24	202,280.93	168,604.90
Total Fuel Cost	$ 896,887.07	$ 827,611.70	$11,545,483.35	$ 8,990,675.06
Fuel Cost per KWH (Mills)	15.8455	15.2079	14.5669	14.8807
Fuel Cost per Million BTU (Cents)	149.439	147.363	143.641	139.697

1067 237

EXHIBIT 5

Sheet 2 of 3

	MONTH OF JUNE 1979	MONTH OF JUNE 1978	FISCAL YEAR TO DATE 1979	FISCAL YEAR TO DATE 1978
MYRTLE BEACH COMBUSTION TURBINE PLANT:				
Net Generation KWH	405,000	(9,000)	1,449,000	24,364,000
Fuel Cost - Oil	$ 25,151.62	$ 1,893.56	$ 94,252.36	$ 1,024,500.81
Fuel Handling Cost	2.52	-	25.51	684.94
Total Fuel Cost	$ 25,154.14	$ 1,893.56	$ 94,277.87	$ 1,025,185.75
Fuel Cost Per KWH (Mills)	62.109	-	65.0641	42.0779
Fuel Cost per Million BTU (Cents)	274.859	267.143	270.467	257.672
HILTON HEAD COMBUSTION TURBINE PLANT:				
Net Generation KWH	1,308,000	396,000	4,742,000	13,648,000
Fuel Cost - Oil	$ 66,489.38	$ 23,854.45	$ 266,227.80	$ 558,164.56
Fuel Handling Cost	2,647.00	-	5,900.82	833.68
Total Fuel Cost	$ 69,136.38	$ 23,854.45	$ 272,128.62	$ 558,998.24
Fuel Cost per KWH (Mills)	52.8566	60.2385	57.3869	40.9583
Fuel Cost per Million BTU (Cents)	355.576	271.143	291.752	266.[illegible]62
WINYAH STEAM PLANT #1:				
Net Generation KWH	140,304,000	140,801,000	1,656,794,000	1,586,117,000
Fuel Cost - Coal	$2,012,125.57	$1,980,903.59	$23,349,275.35	$21,016,596.94
Fuel Handling Cost	15,123.10	12,910.26	135,102.00	97,263.56
Total Fuel Cost	$2,027,248.67	$1,993,813.85	$23,484,377.35	$21,113,860.50
Fuel Cost per KWH (Mills)	14.449	14.1605	14.1746	13.3117
Fuel Cost per Million BTU (Cents)	146.071	145.755	147.727	134.61[illegible]

1067 238

	MONTH OF JUNE		FISCAL YEAR TO DATE	
	1979	1978	1979	1978
WINYAH STEAM PLANT #2:				
Net Generation KWH	146,263,000	131,211,000	1,558,126,000	1,658,067,000
Fuel Cost - Coal	$2,151,776.87	$2,025,722.39	$22,836,614.43	$22,942,604.11
Fuel Handling Cost	15,904.30	13,367.24	137,803.32	81,187.52
Total Fuel Cost	$2,167,681.17	$2,039,089.63	$22,974,417.75	$23,023,791.63
Fuel Cost per KWH (Mills)	14.8204	15.5405	14.7449	13.8859
Fuel Cost per Million BTU (Cents)	146.071	145.755	147.727	134.619

SUMMARY

Type of Generation	Fuel Cost Per KWH (Mills) June 1979	Fuel Cost Per KWH (Mills) FYTD
Coal Burning Plants	15.0916	15.0475
Oil Burning Plants	27.8988	41.0554
Combustion Turbine Plant	55.0441	59.1837
Total Generation	15.3244	15.1449

1067 239

S. C. PUBLIC SERVICE AUTHORITY
SUMMARY OF FUNDS
AS OF JUNE 30, 1979

EXHIBIT 6
SHEET 1 OF 3

SPECIAL FUNDS		
FUNDED INTEREST		
1973 CONSTRUCTION INTEREST ACCOUNT	$ .00	
1977 REFUNDING CONSTRUCTION INTEREST ACCOUNT	8,110,069.36	
1977 CONSTRUCTION INTEREST ACCOUNT	15,328,977.10	
1978 CONSTRUCTION INTEREST ACCOUNT	15,204,505.09	
		$ 38,643,551.55
DEBT SERVICE RESERVE FUNDS		
INDENTURE BONDS	8,714,907.92	
EXPANSION BONDS	50,500,512.77	
		59,215,420.69
BOND FUNDS		
INDENTURE BONDS-PRINCIPAL	1,243,409.80	
INTEREST	1,428,625.00	
EXPANSION BONDS-PRINCIPAL	1,623,148.59	
INTEREST	45,369,622.63	
		49,664,806.02
JUNIOR OBLIGATIONS		
BANKERS TRUST NOTE-PRINCIPAL	24,997.34	
INTEREST	20,001.62	
		44,998.96
CAPITAL IMPROVEMENT FUND		
CONSTRUCTION PURPOSES	11,755,135.87	
F [illegible]CAN RESERVE-HYDRO GENERATION	8,843,503.21	
		20,598,639.08
LEASE FUND-CENTRAL SYSTEM		1,022,680.21
SPECIAL RESERVE FUND		999,704.98
CONTINGENCY FUND		1,152,136.78
TOTAL SPECIAL FUNDS		$ 171,341,938.27

POOR ORIGINAL

1067 240

S. C. PUBLIC SERVICE AUTHORITY
SUMMARY OF FUNDS
AS OF JUNE 30, 1979

EXHIBIT 6
SHEET 2 OF 3

OPERATING FUNDS		
REVENUE FUND		$ 4,886,578.84
OPERATING FUND		565,192.70
TOTAL OPERATING FUNDS		5,451,771.54
MISCELLANEOUS FUNDS		
CUSTOMERS SECURITY DEPOSIT ACCOUNT		1,773,721.70
SUNDRY ACCOUNTS		35,255.72
TOTAL MISCELLANEOUS FUNDS		1,808,977.42
UNEXPENDED FUNDS FROM THE SALE OF BONDS		
CONSTRUCTION FUNDS		
1971 BONDS (WINYAH #1)	$ 548,489.73	
1973, 1977 REFUNDING AND 1977 BONDS (SUMMER)	18,135,830.47	
1974 BONDS (WINYAH #2)	4,781,614.45	
1978 BONDS (WINYAH #3)	85,500,215.14	
1979 BONDS (WINYAH #4)	57,592,516.75	
		166,558,666.54
GENERAL IMPROVEMENT FUNDS		
1973 BONDS	.00	
1974 BONDS	39,455,515.47	
		39,455,515.47
TOTAL UNEXPENDED FUNDS		206,014,182.01
TOTAL ALL FUNDS		$ 384,616,869.24

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1067 241

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
STATEMENT OF RECEIPTS AND DISBURSEMENTS
REVENUE, OPERATING, AND CAPITAL IMPROVEMENT FUNDS
FOR THE PERIOD ENDING JUNE 30, 1979

	July 1, 1978 to May 31, 1979	Month of June	Fiscal Year to Date
BALANCE BEGINNING OF PERIOD	$ 28,810,680.29	$32,188,520.65	$ 28,810,680.29
RECEIPTS:			
Sales of Electricity - Wholesale	$ 93,440,987.68	$ 8,195,369.96	$101,636,357.64
Sales of Electricity - Retail	32,710,857.49	2,309,583.53	35,020,441.02
Rental of Lots, Etc.	456,441.18	41,012.18	497,453.36
Insurance Claims and Refunds	789.78	-	789.78
Refunds for Work Performed and Other	1,209,054.36	33,537.44	1,242,591.80
Interest on Invested Funds	4,586,196.19	451,925.67	5,038,121.86
Reimbursement from Various Funds for Operating Fund Disbursements	66,208,986.31	-	66,208,986.31
Special Reserve to Revenue Fund	1,332,839.08	(1,000,000.00)	332,839.08
Various Funds to Revenue Fund	8,760,653.85	10,882,527.85	19,643,181.70
74 Gen. Imp. to Capital Imp.	10,391,103.62	-	10,391,103.62
Total Receipts	$219,097,909.54	$20,913,956.63	$240,011,866.17
Total Receipts and Balance	$247,908,589.83	$53,102,477.28	$268,822,546.46
DISBURSEMENTS:			
Purchased Power	$ 2,520,600.63	$ 227,449.73	$ 2,748,050.36
Fuel and Freight	75,856,308.02	7,849,643.17	83,705,951.19
Salaries and Wages	10,899,510.26	1,297,814.96	12,197,325.22
Travel Expenses	245,578.94	33,205.02	278,783.96
Materials, Supplies, Equipment, Etc.	19,146,590.84	3,870,825.53	23,017,416.37
Insurance Premiums	1,953,527.01	56,161.11	2,009,688.12
Taxes and Sums in Lieu of Taxes	2,627,892.47	129,557.01	2,757,449.48
S. C. State Retirement Tax	848,933.79	-	848,933.79
F.I.C.A. Tax (Social Security)	159,643.36	-	159,643.36
Rental of Central System	4,042,933.62	367,53[illegible].42	4,410,473.04
Interest on Bonds	14,858,053.70	1,398,798.40	16,256,852.10
Bond Retirement and Payment on Contract Obligation	2,774,584.67	252,234.97	3,026,819.64
Special Reserve Fund	1,200,379.63	-	1,200,379.63
Payment to State of South Carolina	1,200,379.63	-	1,200,379.63
Construction Contracts	76,709,211.79	11,517,184.82	88,226,396.61
Customer Deposit Refunds Reimbursed	591,120.70	43,941.60	635,062.30
Short-Term Debt Service	84,820.12	7,710.92	92,531.04
Total Disbursements	$215,720,069.18	$27,052,066.66	$242,772,135.84
BALANCE END OF PERIOD	$ 32,188,520.65	$26,050,410.62	$ 26,050,410.62

POOR ORIGINAL

[illegible] ARCLINA PUBLIC SERVICE AUTHORITY
BUDGETED REINVESTED EARNINGS STATEMENT - ACCRUAL BASIS (IN THOUSANDS)
FOR THE PERIOD ENDING JUNE 30, 1979

	ANNUAL BUDGET	CURRENT MONTH ACTUAL	CURRENT MONTH BUDGET	CURRENT MONTH VARIANCE	CURRENT MONTH % VAR.	FISCAL YEAR TO DATE ACTUAL	FISCAL YEAR TO DATE BUDGET	FISCAL YEAR TO DATE VARIANCE	FISCAL YEAR TO DATE % VAR.
LECTRIC OPERATING REVENUE	$146,.34	$12,276	$14,534	($2,258)	-	$135,709	$146,234	($10,525)	-
LECTRIC OPERATING EXPENSES									
RODUCTION									
PURCHASED POWER	$ 2,584	($ 354)	$ 215	($ 569)	-	$ 2,110	$ 2,584	($ 474)	-
FUEL EXPENSES	91,838	6,786	9,139	(2,353)	-	80,393	91,838	(11,445)	-
CENTRAL LEASE AGREEMENTS	0	0	0	0	-	0	0	0	-
OTHER OPERATING EXPENSES	4,052	471	337	134	39.8	4,111	4,052	59	1.5
MAINTENANCE EXPENSES	7,690	1,722	641	1,081	168.6	8,'16	7,690	426	5.5
TAL PRODUCTION	$106,164	$ 8,625	$10,332	($1,707)	-	$ 94,7_	$106,164	($11,434)	-
RANSMISSION									
CENTRAL LEASE AGREEMENTS	$ 0	$ 0	$ 0	$ 0	-	$ 0	$ 0	$ 0	-
OTHER OPERATING EXPENSES	1,252	130	104	26	25.0	1,235	1,252	(17)	-
MAINTENANCE EXPENSES	1,137	249	95	154	162.1	1,343	1,137	206	18.1
TAL TRANSMISSION	$ 2,389	$ 379	$ 199	$ 180	90.5	$ 2,578	$ 2,389	$ 189	7.9
ISTRIBUTION									
OPERATING EXPENSES	598	$ 90	$ 49	$ 41	83.7	$ 725	$ 598	$ 127	21.2
MAINTENANCE EXPENSES	438	54	37	17	45.9	382	438	(56)	-
TAL DISTRIBUTION	$ 1,036	$ 144	$ 86	$ 58	67.4	$ 1,107	$ 1,036	$ 71	6.9
STOMER ACCOUNTI[illegible]	1,114	135	93	42	45.2	1,269	1,114	155	13.9
STOMER SVC & INF.	0	(1)	0	(1)	-	3	0	3	-
ALES PROMOTION	299	24	25	(1)	-	214	299	(85)	-
ENERAL & ADMINISTRATIVE									
OPERATING EXPENSES	$ 3,245	$ 397	$ 270	$ 127	47.0	$ 3,632	$ 3,245	$ 387	11.9
MAINTENANCE EXPENSES	349	37	29	8	27.6	292	349	(57)	-
TAL GENERAL & ADMINISTRATIVE	$ 3,594	$ 434	$ 299	$ 135	45.2	$ 3,924	$ 3,594	$ 330	9.2
TAL OPR & MNT EXPENSES	$114,596	$ 9,740	$11,034	($1,294)	-	$103,825	$114,596	($10,771)	-
EPRECIATION	12,677	907	1,274	(367)	-	11,642	12,677	(1,035)	-
AXES & SUMS IN LIEU OF TAXES	800	3	67	(64)	-	726	800	(74)	-
TAL ELECTRIC OPERATING EXPENSE	$128,073	$10,650	$12,375	($1,725)	-	$116,193	$128,073	($11,880)	-
ET OPERATING INCOME	$ 18,161	$ 1,626	$ 2,159	($ 533)	-	$ 19,516	$ 18,161	$ 1,355	7.5

EXHIBIT 7
Sheet 1 of 2

1067 243

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
BUDGETED REINVESTED EARNINGS STATEMENT - ACCRUAL BASIS (IN THOUSANDS)
FOR THE PERIOD ENDING JUNE 30, 1979

		CURRENT MONTH				FISCAL YEAR TO DATE			
	ANNUAL BUDGET	ACTUAL	BUDGET	VARIANCE	% VAR.	ACTUAL	BUDGET	VARIANCE	% VAR.
OTHER INCOME									
INTEREST INCOME	$ 3,304	$ 548	$ 275	$ 273	99.3	$ 4,728	$ 3,304	$ 1,424	43.1
INTEREST INCOME-BORROWED FUNDS	20,208	2,386	3,100	(714)	-	21,954	20,208	1,746	8.6
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	21	136	2	134	6700.0	1,085	21	1,064	5066.7
MISCELLANEOUS INCOME	62	(2)	5	(7)	-	132	62	70	112.9
TOTAL OTHER INCOME	$ 23,595	$ 3,068	$ 3,382	($ 314)	-	$ 27,899	$ 23,595	$ 4,304	18.2
INTEREST EXPENSES									
INTEREST ON LONG-TERM DEBT	$ 51,803	$ 4,703	$ 5,825	($1,122)	-	$ 49,390	$ 51,803	($ 2,413)	-
ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION	(11,227)	(1,518)	(936)	(582)	-	(14,804)	(11,227)	(3,577)	-
INTEREST ON CUSTOMER DEPOSITS	40	9	3	6	200.0	97	40	57	142.5
AMORTIZATION OF									
DEBT DISCOUNT & EXPENSE	577	47	48	(1)	-	548	577	(29)	-
REACQUIRED DEBT-NET	76	6	6	(0)	-	77	76	1	1.3
TOTAL INTEREST CHARGES	$ 41,269	$ 3,247	$ 4,946	($1.699)	-	$ 35,308	$ 41,269	($ 5,961)	-
REINVESTED EARNINGS	$ 487	$ 1,447	$ 595	$ 852	143.2	$ 12,107	$ 487	$11,620	2386.0
FUNDS REQUIRED IN "F" CONTRACT RESERVE FOR ABOVE NORMAL HYDRO		$ 346				$ 765			
FUEL PURCHASED	$ 95,350	$ 3,774	$ 8,322	($4,548)		$ 82,104	$ 95,350	($13,246)	

POOR ORIGINAL

Exhibit I
Sheet 2 of 2

20

1067 244

6.b. Describe the nature and amount of the most recent and pending rate relief action(s) and its anticipated effect of net margins.

RESPONSE

See following page.

ATTACHMENT FOR ITEM NO. 6.b.

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
RECENT AND PENDING RATE RELIEF ACTIONS

Customer Class	May 1979 Amount	%	May 1981 Amount	%
Industrial	$ 4,990,000	10.5%	$ 8,926,000	8.3%
Residential	1,814,000	9.6	5,424,000	21.3
Commercial	2,533,000	11.8	6,549,000	21.9
Other	472,000	13.2	478,000	12.9
Total (Increase in Margin)	$ 9,809,000	10.7%	$ 21,377,000	12.6%

Notes:

Rates to Central Electric Cooperative were increased 1.8% effective January, 1979. Estimated additional annual revenue for 1979 is $1,093,000.

The Authority's rate schedules include a fuel adjustment clause which provides for increases or decreases to the basic rate schedules to cover increases or decreases in the cost of fuel to the extent such costs vary from a predetermined base cost.

6.c. Provide the most recent official statement on bond offerings.

RESPONSE

See following document.

NEW ISSUE

$110,000,000
South Carolina Public Service Authority
(Santee Cooper)
Electric System Expansion Revenue Bonds, 1979 Series A

Dated: April 1, 1979 **Due: July 1, as shown below**

Principal and interest, January 1 and July 1, beginning July 1, 1979 (three months), payable at the principal office of First National Bank of South Carolina, in the City of Columbia, South Carolina, or, at the option of the holder, at the principal office of Morgan Guaranty Trust Company of New York, in the City and State of New York. Coupon Bonds in the denomination of $5,000, registrable as to principal only, or fully registered Bonds in the denomination of $5,000, or any integral multiple thereof. Coupon and registered Bonds interchangeable.

The 1979A Bonds will be subject to redemption prior to maturity, on or after July 1, 1989, as set forth herein.

Interest exempt, in the opinion of Bond Counsel, from present Federal income taxes under existing laws and regulations. Exempt, in the opinion of Bond Counsel, from present South Carolina property and income taxes. Eligible, in the opinion of the Chief Insurance Commissioner of the State of South Carolina, as investments of insurance companies doing business in South Carolina by reason of which said companies may obtain the reduction of the premium taxes permitted by law.

$30,160,000 Serial Bonds

Due July 1	Amount Due	Interest Rate	Due July 1	Amount Due	Interest Rate
1980	$ 65,000	5.40%	1992	$1,300,000	5.90%
1981	70,000	5.40	1993	1,360,000	5.95
1982	70,000	5.40	1994	1,425,000	6.00
1983	575,000	5.40	1995	1,490,000	6.05
1984	955,000	5.45	1996	1,565,000	6.10
1985	985,000	5.50	1997	1,645,000	6.20
1986	1,025,000	5.50	1998	1,725,000	6.30
1987	1,065,000	5.55	1999	1,815,000	6.35
1988	1,105,000	5.60	2000	1,915,000	6.40
1989	1,150,000	5.70	2001	2,025,000	6.45
1990	1,195,000	5.75	2002	2,135,000	6.50
1991	1,240,000	5.85	2003	2,260,000	6.50

$16,660,000 6¾% Term Bonds Due July 1, 2009
$63,180,000 6⅞% Term Bonds Due July 1, 2019

Price of All Bonds 100%

(Plus accrued interest)

The 1979A Bonds are offered when, as and if issued and accepted by the Underwriters subject to the approval of legality by Bond Counsel, Wood & Dawson, New York, New York, and McNair Glenn Konduros Corley Singletary Porter & Dibble, Columbia, South Carolina. Certain legal matters will be passed upon on behalf of the Underwriters by Simpson Thacher & Bartlett, New York, New York. It is expected that delivery of the 1979A Bonds to the Underwriters will be made in New York on or about May 3, 1979.

BLYTH EASTMAN DILLON & CO.
Incorporated

LEHMAN BROTHERS KUHN LOEB
Incorporated

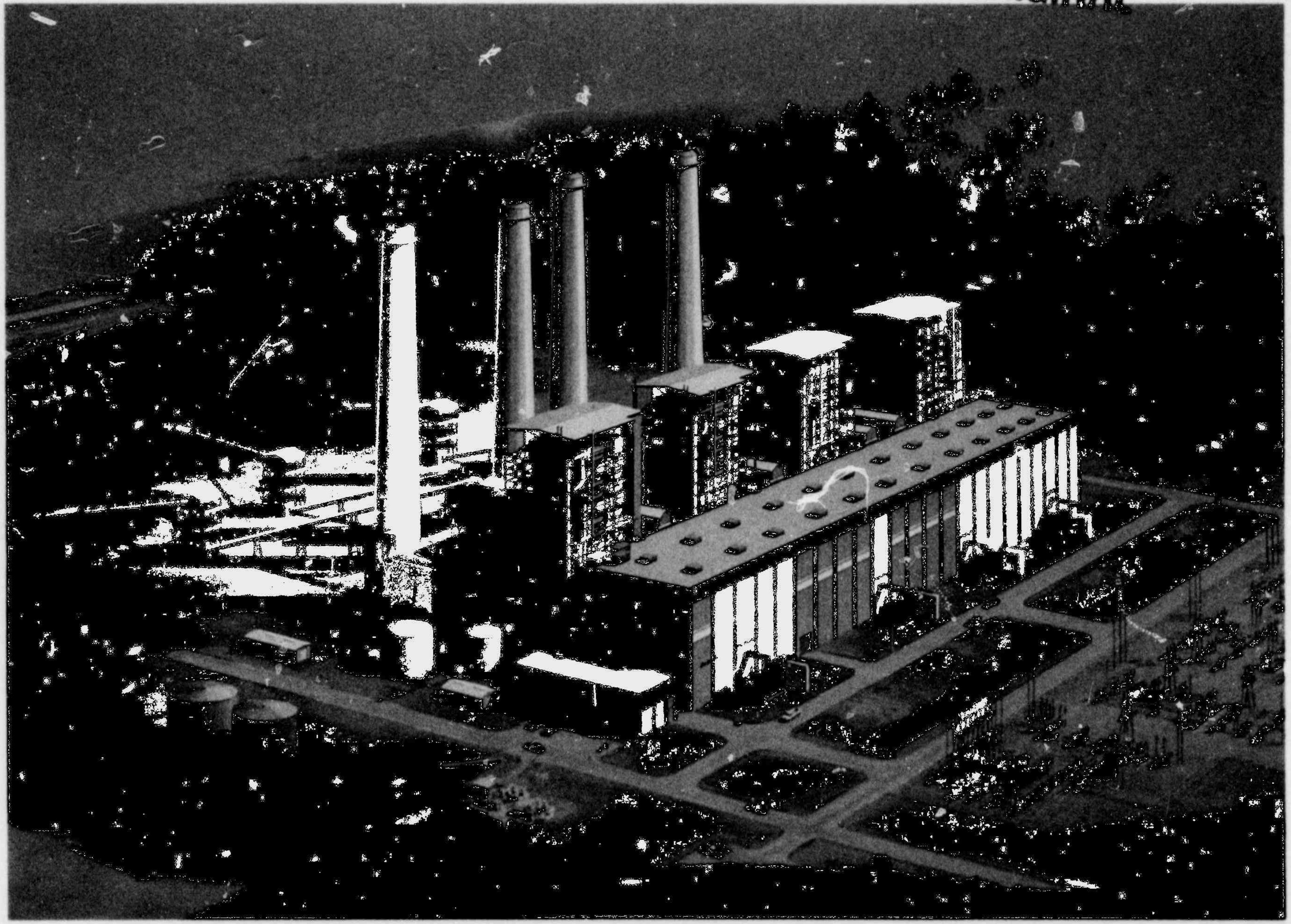
MERRILL LYNCH WHITE WELD CAPITAL MARKETS GROUP
Merrill Lynch, Pierce, Fenner & Smith Incorporated

DREXEL BURNHAM LAMBERT
Incorporated

THE ROBINSON-HUMPHREY COMPANY, INC.

April 19, 1979

1067 248



Artist's rendering of Winyah Generating Station Units No. 1, No. 2, No. 3 and No. 4.

1067 249

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

223 North Live Oak Drive
Moncks Corner, South Carolina 29461
(803) 899-2121

1067 250

No dealer, broker, salesman or other person has been authorized by the South Carolina Public Service Authority or the Underwriters to give any information or to make any representations with respect to the 1979A Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations may not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 1979A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the South Carolina Public Service Authority and other sources which are believed to be reliable but such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the South Carolina Public Service Authority since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 1979A BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AND OTHER OBLIGATIONS OF THE AUTHORITY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement.

The Authority

The Authority is a body corporate and politic of the State of South Carolina. Its management is vested in a Board of Directors consisting of eleven members appointed by the Governor of the State of South Carolina with the advice and consent of the South Carolina State Senate.

The Authority operates an integrated electric utility system, including facilities for generation, transmission and distribution of electric power and energy at retail and wholesale. The Authority serves, either directly or indirectly, approximately 250,000 customers in the State of South Carolina.

Purpose of Issue

The proceeds of the sale of the 1979A Bonds will be used to pay part of the estimated costs of construction of Unit 4 of the Winyah Generating Station and part of the costs of the Authority's program of general improvements.

Security for the 1979A Bonds

So long as any Priority Obligations are outstanding ($73,688,000 principal amount were outstanding on December 31, 1978), the 1979A Bonds will be payable from and secured by a pledge of the revenues of the Authority's System on a parity with the presently outstanding $736,455,000 Expansion Bonds and any additional Expansion Bonds issued pursuant to the Resolution, after the deduction only of (1) operation and maintenance expenses (exclusive of certain lease payments) and (2) amounts sufficient to pay the debt service on the Priority Obligations and to maintain a reserve therefor. The 1979A Bonds are also payable from other funds of the Authority available for such purpose.

After all Priority Obligations are no longer outstanding, the 1979A Bonds and all other Expansion Bonds will be, subject to the provisions of the Resolution, payable from, and secured by a first lien upon and pledge of, the gross revenues of the Authority's System.

As further security for the Expansion Bonds, there is established by the Resolution a Reserve Account, the requirement of which, with respect to each series of Expansion Bonds, is a sum equal to the maximum amount required to be paid into the Interest Account in the Expansion Bond Fund to pay interest on such Bonds in any fiscal year.

The 1979A Bonds are not debts of the State of South Carolina political subdivision thereof and are not payable from any funds other than those of the Authority.

Rate Covenant

The Authority covenants in the Resolution to establish rates and charges adequate to provide revenues sufficient, among other things, to pay debt service when due on the Priority Obligations and Expansion Bonds, to make required payments when due into the Lease Fund and the Capital Improvement Fund, and to pay the costs of operation and maintenance of the Authority's System and all necessary repairs, replacements and renewals thereof.

There is no agency, other than the Authority, which has jurisdiction over the rates of the Authority. See captions "The Authority—Rates" and "Regulatory Matters—Federal Energy Regulatory Commission and Department of Energy".

Capital Improvement Requirement

The Authority is now required to pay annually into its Capital Improvement Fund an amount which, together with the amounts deposited therein in the two preceding fiscal years, is at least equal to 8% of the

Authority's gross revenues in the three preceding fiscal years. After certain Expansion Bonds are no longer outstanding, the amount required to be paid into the Capital Improvement Fund will be changed. See caption "Security for Expansion Bonds—Capital Improvement Requirement".

Financial Information

The following table shows selected historical financial data for the fiscal years ended June 30, 1976 through 1978 and selected projected financial data for the fiscal years ending June 30, 1979 through 1981 for the Authority as estimated by the Consulting Engineer:

	Fiscal Year Ended June 30					
	Historical			Projected		
	1976	'77	1978	1979	1980	1981
	(Dollars in Thousands)					
Total revenues	$85,058	$97,641	$130,192	$149,626	$184,945	$205,728
Revenues available for debt service	29,799	28,091	33,796	34,839	47,963	63,095
Debt service*	12,149	11,427	17,081	19,359	21,435	35,259
Revenues after debt service	17,650	16,664	16,715	15,480	26,528	27,836
Debt service coverage*	2.45	2.46	1.98	1.80	2.24	1.79

* Priority Obligations and Expansion Bonds only; does not include funded interest and subordinated lease payments and notes payable to banks.

Power Supply

The Authority's total generating capability is 1,400 MW. Of this amount, 1,050 MW is generated by coal-fueled units; 130 MW, by the Authority's hydroelectric stations; and 220 MW, by oil-fueled units generally used for peaking purposes. In addition, the Authority presently receives a firm supply of 105 MW of hydroelectric power from the Southeastern Power Administration. The Authority has direct interconnections with four other entities with power supply facilities.

Capital Improvement Program—1979-1984

The Authority's capital improvement program includes completion of the Summer Nuclear Station, a 900 MW nuclear generating unit scheduled for commercial operation in December 1980 in which the Authority has a one-third interest (300 MW), and completion of Winyah Unit 3, a 280 MW coal-fueled generating unit scheduled for commercial operation in May 1980. The Authority is constructing Winyah Unit 4, a similar 280 MW unit scheduled for commercial operation in May 1982, which is being financed in part from the proceeds of the 1979A Bonds. The Authority is also installing a 56 MW combustion turbine for commercial operation in May 1979. The Authority [illegible]al capability from units now under construction is expected to be 916 MW.

The Authority has also selected the site for its next major generating facility, the Cross site, and is engaged in advance planning and initial design work for the first unit to be constructed on this site. This unit is a 450 MW coal-fueled generating unit scheduled for commercial operation in May 1983. The Authority plans additional units at this site, the first of which is currently scheduled for commercial operation in 1985.

The Authority's capital improvement program also includes major improvements to its transmission and distribution systems and general plant.

The estimated total expenditures for the Authority's capital improvement program for the fiscal years 1979-1980, excluding funded interest, reserves and financing costs, are projected at $394,100,000. Such expenditures planned for the fiscal years 1981-1984 period are estimated at $584,200,000. The Authority presently plans to finance such expenditures from the proceeds of Expansion Bonds previously issued, the 1979A Bonds, Expansion Bonds to be subsequently issued and revenues.

Additional Bonds

Under the Resolution, the Authority may issue additional parity Expansion Bonds if, among other things, the Consulting Engineer certifies that Net Revenues in each succeeding fiscal year after the date on which such Additional Bonds are sold to and including the later of (a) the third succeeding full fiscal year after such date or (b) the first full fiscal year after the estimated date of commercial operation of any Power Plant to pay the cost of construction of which additional Expansion Bonds have been, are being or are then authorized to be issued, shall be at least equal to the sum of the amounts required in such fiscal year for (i) debt service on the Priority Obligations and the Expansion Bonds then outstanding, being issued, or authorized but not yet issued; (ii) payments into the Lease Fund; and (iii) payments into the Capital Improvement Fund.

$110,000,000

South Carolina Public Service Authority

(Santee Cooper)

Electric System Expansion Revenue Bonds, 1979 Series A

The purpose of this Official Statement, which includes the cover page, summary statement and appendices hereto, is to set forth information concerning the South Carolina Public Service Authority (the "Authority") and the Authority's $110,000,000 Electric System Expansion Revenue Bonds, 1979 Series A (the "1979A Bonds"), offered hereby.

The Authority is a body corporate and politic, created by Act No. 887 of the Acts of South Carolina for 1934 (Code of Laws of South Carolina, 1976—Sections 58-31-10 through 58 31-390), and acts supplemental thereto and amendatory thereof (the "Act"), which, among other things, authorizes the Authority to produce, distribute and sell electric power. The Authority began electric power operations in 1942.

PURPOSE OF THE 1979A BONDS

The 1979A Bonds will be issued for the purpose of providing funds to pay (1) part of the estimated costs of construction of Unit 4 of the Authority's Winyah Generating Station ("Winyah Unit 4"), a 280 MW coal-fueled generating unit presently scheduled for commercial operation in May 1982, and (2) part of the costs of other additions, improvements and betterments to the Authority's generation, transmission and distribution properties and general plant ("General Improvements").

The estimated disposition of the 1979A Bonds proceeds is as follows:

	Winyah Unit 4	General Improvements	Total
		(Thousands of Dollars)	
Construction Costs(1)	$ 68,063	$ 9,184	$ 77,247
Bond Reserves	6,631	663	7,294
Funded Interest(2)	23,777	—	23,777
Bond Discount	1,529	153	1,682
Principal Amount of 1979A Bonds	$100,000	$10,000	$110,000

(1) Includes issuance expense (other than bond discount).

(2) Interest on the 1979A Bonds allocable to Winyah Unit 4 funded to November 1, 1982. No interest funded with respect to 1979A Bonds allocable to General Improvements.

AUTHORIZATION OF BONDS, FUNDS AND ACCOUNTS

Pursuant to the Act, the Authority has in the past incurred obligations under an indenture of trust between the Authority and The South Carolina National Bank of Charleston, to which the South Carolina National Bank is successor (the "Indenture Trustee"), dated as of July 1, 1949, as amended and supplemented (the "Indenture"). Such obligations are herein referred to as "Priority Obligations". See caption "Outstanding Obligations and Equity".

By amendment to the Indenture, consented to by the holders of more than 75% in principal amount of outstanding Priority Obligations, which became effective on April 29, 1971, the incurring of additional Priority in the Capital Improvement Fund in the two immediately preceding fiscal years. will be at least equal to 12% of the Authority's gross revenues derived from the ownership and operation of the Authority's System in the three immediately preceding fiscal years, after deducting therefrom "fuel" expense (including "nuclear fuel

1067 255

Obligations for other than refunding purposes is prohibited. However, by such amendment, provisions are made with respect to bonds which are secured by a lien upon and pledge of revenues junior to the lien and pledge provided by the Indenture for the Priority Obligations.

Pursuant to the Act and in accordance with the Indenture, the Authority, on August 31, 1971, adopted a resolution providing for the issuance of Electric System Expansion Revenue Bonds ("Expansion Bonds") secured by such a junior lien upon and pledge of revenues of the Authority. Copies of such resolution and amendatory supplemental resolutions adopted September 27, 1971, November 8, 1973, February 16, 1977 and August 31, 1977 (collectively, the "Resolution") may be obtained from the Authority or the Underwriters.

Under the Resolution, the Authority created the Expansion Bond Fund and within such Fund the Interest Account, the Principal Account, the Bond Retirement Account and the Reserve Account and appointed The Citizens and Southern National Bank of South Carolina, in Columbia, South Carolina, as the Expansion Bond Fund trustee (the "Bond Fund Trustee") to hold such Fund and Accounts.

Under the Eighth Supplemental Bond Resolution adopted by the Authority on the date of this Official Statement, the Authority created the 1979 Construction Fund (the "Construction Fund") into which the proceeds of Expansion Bonds allocable to Winyah Unit 4 will be deposited. The Construction Fund is held by the Authority. Under the Second Supplemental Bond Resolution adopted by the Authority on May 23, 1974, the Authority created the 1974 General Improvement Account (the "General Improvement Account") which is held by the Authority and to which proceeds of the 1979A Bonds allocable to General Improvements will be credited. The Authority may use moneys in the General Improvement Account for any corporate purpose including making transfers to the Construction Fund or any other fund or account.

Certain terms of the 1979A Bonds were established by the Eighth Supplemental Bond Resolution, copies of which may be obtained from the Authority or the Underwriters.

SECURITY FOR EXPANSION BONDS

Pledge of Revenues

So long as any Priority Obligations are outstanding, the principal of and premium, if any, and interest on Expansion Bonds, including the 1979A Bonds, are payable from and secured by a lien upon and pledge of the revenues derived by the Authority from the ownership and operation of the Authority's System, as defined in the Resolution, after the deduction only of: (1) expenses of operation and maintenance of the System (exclusive of certain lease payments) and (2) amounts required for the payment and security of the Priority Obligations, sufficient to pay such principal, premium, if any, and interest thereon and to maintain a reserve therefor, all in the order of priority, in the manner and to the extent provided in the Indenture and the Resolution. See caption "Certain Provisions of the Indenture and Resolution—Funds and Accounts". The Expansion Bonds are also payable from Expansion Bond proceeds and other available funds to the extent provided in the Resolution.

After all Priority Obligations have been retired or provision has been made therefor (the date of their final maturity is July 1, 2006), the principal of and premium, if any, and interest on the Expansion Bonds will be payable, subject to the provisions of the Resolution, from and secured by a first lien upon and pledge of the gross revenues derived by the Authority from the ownership and operation of the Authority's System.

The Priority Obligations and the Expansion Bonds are not debts of the State of South Carolina, nor of any political subdivision thereof, and neither said State nor any of its political subdivisions shall be liable thereon, nor shall they be payable from any funds other than those of the Authority.

Declaratory Judgment Regarding Defeasance of Priority Obligations

In June 1978, the Authority then determined that it was in its best interest to defease the Priority Obligations and release the lien on the revenues of the Authority created by the Indenture, which is superior to the lien created by the Resolution for the benefit of the holders of the Expansion Bonds. In August 1978, the Authority instituted a declaratory judgment action seeking a determination of its right to require the Indenture Trustee to execute a proposed amendment to the Indenture that would permit the Authority to defease the Priority Obligations by depositing with the Indenture Trustee obligations of the United States Government in

amounts sufficient to pay principal and interest on the Priority Obligations as they become due and payable. On March 26, 1979, an order was entered in that action affirming the position of the Authority and holding that the proposed amendment must be executed by the Indenture Trustee upon receipt by it of the consent of the Authority and the written consents of the holders of not less than 75% in principal amount of the Priority Obligations at the time outstanding. The time for appeal of that order has expired. If the required consents to the proposed amendment are obtained, the Authority intends, subject to market conditions and other factors, to defease the Priority Obligations through an advanced refunding transaction involving the issuance of Expansion Bonds. If this defeasance is effected, the lien of the Indenture on the revenues of the Authority would be released and the Expansion Bonds would be secured, subject to the provisions of the Resolution, by a first lien upon and a pledge of the revenues of the Authority.

Reserve Account Requirement

The Resolution provides that at the time of issuance of a series of Expansion Bonds there shall be deposited in the Reserve Account in the Expansion Bond Fund, from the proceeds of such Bonds or other sources, an amount such that the total then to be in the Reserve Account shall be, with respect to each series of Expansion Bonds, an amount equal to the maximum amount required to be paid into the Interest Account in the Expansion Bond Fund to pay interest on such Bonds in any fiscal year (twelve months ending June 30) from the date of the Expansion Bonds to the final maturity date thereof (the "Reserve Account Requirement").

Securities held as investments in the Reserve Account shall be valued at cost, but, in the event of any loss upon the sale of such securities and in the event of any withdrawal from the Reserve Account, the amount of any deficiency in the Reserve Account then resulting, unless restored from the proceeds of additional Expansion Bonds, shall be restored by payments from revenues, which payments shall, in each month, after the occurrence of such deficiency and until the amount of the deficiency has been restored, be not less than $\frac{1}{60}$th of the amount of the deficiency. As of December 31, 1978, an amount sufficient to meet the Reserve Account Requirement of $43,070,063.75 for the outstanding Expansion Bonds was on deposit in the Reserve Account in the Expansion Bond Fund. For the Reserve Account Requirement for the 1979A Bonds, see caption "Purpose of the 1979A Bonds".

Rate Covenant

The Resolution provides that the Authority shall establish, maintain and collect rates and charges for electric power and energy which shall be adequate to provide the Authority with revenues sufficient to pay the principal of and interest on the Priority Obligations and Expansion Bonds when due, to make when due all payments which the Authority is obligated to make into the Expansion Bond Fund, the Lease Fund, the Capital Improvement Fund and the special funds created under the Indenture for the payment of principal of and interest on the Priority Obligations, to pay all costs and expenses of operation and maintenance of the System, and to make all necessary repairs, replacements and renewals thereof, and to pay all taxes, assessments or other governmental charges lawfully imposed on the Authority or the revenues thereof, or payments in lieu thereof, and to pay any and all amounts which the Authority may now and hereafter become obligated to pay from the revenues of the System by law or contract.

There is no agency, other than the Authority, having jurisdiction over the rates of the Authority. See captions "The Authority—Rates" and "Regulatory Matters—Federal Energy Regulatory Commission and Department of Energy".

Capital Improvement Requirement

The Resolution provides that the Authority shall pay into its Capital Improvement Fund, as an annual Minimum Capital Improvement Requirement, an amount which, together with the amount deposited therein in the two preceding fiscal years, is at least equal to 8% of the Authority's gross revenues in the three preceding fiscal years.

A supplemental resolution adopted February 16, 1977, provides that, after the 1973 and 1974 Series of Expansion Bonds are no longer outstanding, the Authority shall pay into its Capital Improvement Fund, as an annual Minimum Capital Improvement Requirement, an amount which, together with the amounts deposited

expense") and the energy related component of "purchased power" expense, determined in accordance with the Uniform System of Accounts prescribed for Public Utilities and Licensees of the Federal Energy Regulatory Commission in effect on January 1, 1977.

DESCRIPTION OF 1979A BONDS

The 1979A Bonds will be dated April 1, 1979 and will bear interest at the rates per annum and mature at times and in amounts as shown on the cover page hereof. Interest will be payable on January 1 and July 1, commencing July 1, 1979 (three months). Principal and interest will be payable at the principal office of First National Bank of South Carolina in Columbia, South Carolina, or of Morgan Guaranty Trust Company of New York in New York, New York. The 1979A Bonds will be issuable as coupon Bonds in the denomination of $5,000, registrable as to principal only, or as fully registered Bonds in the denomination of $5,000 or any integral multiple thereof. Coupon and registered Bonds will be interchangeable. As a condition of any exchange the Authority may require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge that may be imposed thereon.

Redemption Provisions

The 1979A Bonds due in 1990 and thereafter shall be subject to redemption prior to maturity at the option of the Authority, on or after July 1, 1989, upon not less than 30 days' notice, as a whole at any time, or in part in the inverse order of maturity on any interest payment date (and in the event that less than all of such Bonds of any maturity are called for redemption the particular Bonds of such maturity to be redeemed shall be selected by lot), at the redemption prices expressed in percentages of principal amount set forth below, plus in each case, accrued interest to the date fixed for redemption.

Period During Which Redeemed (Both Dates Inclusive)	Redemption Prices
July 1, 1989 to June 30, 1990	103 %
July 1, 1990 to June 30, 1991	102½
July 1, 1991 to June 30, 1992	102
July 1, 1992 to June 30, 1993	101½
July 1, 1993 to June 30, 1994	101
July 1, 1994 to June 30, 1995	100½
July 1, 1995 and thereafter	100

The 1979A Bonds due 2009 and 2019 shall also be subject to redemption prior to maturity, upon not less than 30 days' notice, on interest payment dates on and after January 1, 2004 and January 1, 2010, respectively, from sinking fund installments at 100% of principal amount plus accrued interest to the date fixed for redemption in the years and principal amounts as set forth below under the subcaption "Sinking Fund Installments".

Sinking Fund Installments

The 1979A Bonds due 2009 and 2019 shall be retired by sinking fund installments which shall be paid into the Bond Retirement Account in the Expansion Bond Fund in amounts sufficient to redeem by July 1 of each year the principal amount of 1979A Bonds due 2009 or 2019 specified for each of the years shown in the table below:

Principal Amount 1979A Bonds Due 2009

Year	Amount
2004	$ 2,390,000
2005	2,540,000
2006	2,695,000
2007	2,865,000
2008	3,010,000
2009	3,160,000

Principal Amount 1979A Bonds Due 2019

Year	Amount
2010	$ 3,335,000
2011	3,525,000
2012	3,720,000
2013	3,925,000
2014	4,140,000
2015	4,370,000
2016	4,610,000
2017	4,870,000
2018	5,135,000
2019	25,550,000

OUTSTANDING OBLIGATIONS AND EQUITY

The following table sets forth the outstanding obligations and equity of the Authority as of December 31, 1978 adjusted to reflect the issuance of the 1979A Bonds:

Long-Term Obligations(1)	
Priority Obligations	
Electric Revenue Bonds, Series of 1950, bearing interest at 2.70% and due 1979 to 1993	$ 11,120,000
Electric Revenue Bonds, Series of 1967, bearing interest at 4% and 4.10% and due 1979 to 1981 and 2006	50,865,000
Electric Revenue Bonds, Refunding Series of 1973, bearing interest from 5% to 5½% and due 1979 to 1989	9,250,000
Contract Obligation, payable 1979 to 1985(2)	2,453,000
Total Priority Obligations	$ 73,688,000
Expansion Bonds	
Expansion Bonds, 1973 Series, bearing interest from 5% to 5¾% and due 1980 to 1993 and 2013	$ 100,000,000
Expansion Bonds, 1974 Series, bearing interest from 6% to 6¾% and due 1980 to 1999 and 2014	109,000,000
Expansion Bonds, 1977 Refunding Series, bearing interest from 3.40% to 6% and due 1979 to 1997 and 2002 and 2016	212,455,000
Expansion Bonds, 1977 Series, bearing interest from 4% to 5¾% and due 1982 to 2002 and 2017	115,000,000
Expansion Bonds, 1978 Series, bearing interest from 4.20% to 5⅞% and due 1981 to 1998 and 2008 and 2018	200,000,000
Expansion Bonds, 1979 Series A, bearing interest from 5.40% to 6⅞% and due 1980 to 2003 and 2009 and 2019	110,000,000
Total Expansion Bonds	$ 846,455,000
Subordinated Lease Contracts, payable 1979 to approximately 2013(3)	
Bank Loan, bearing interest at 4.25% and due 1979 to 1984(4)	$ 450,000
Total Long-Term Obligations	$ 920,593,000
Equity	
Accumulated Net Revenues	$ 87,311,000
Capital Contributions—U. S. Government Grants	$ 34,438,000
Total Equity	$ 121,749,000
Total Long-Term Obligations and Equity	$1,042,342,000

(1) Includes $3,060,444 at December 31, 1978 of long-term debt due within one year.

(2) Originally dated January 1, 1950, and subsequently amended, requiring payments as indicated to Central Electric Cooperative, Inc. ("Central") equal to interest on (at 2% per annum) and principal of certain mortgage notes (the "A-B Loan") of Central held by the United States of America through the Administrator of the Rural Electrification Administration (the "REA"), to which the payments by the Authority have been assigned.

(3) The Authority has entered into lease contracts with Central (known as the C, D, E, F, G, H, K and L Lease Contracts) for the purpose of providing for the leasing and operating by the Authority of certain transmission lines and related facilities, the Grainger Generating Station at Conway, South Carolina and a combustion turbine at Hilton Head, South Carolina. These facilities are financed by loans from REA to Central, or from REA to other cooperatives which loans were later assumed by Central, all of which are or will be evidenced by Central's mortgage notes. Under the lease contracts the Authority is required to make payments equal to interest (the C, D, E and F lease contracts at 2%, the G, H, K and L lease contracts at 5%) and principal of Central's mortgage notes. The principal amount outstanding on such notes on December 31, 1978 was $77,662,902. Payments assigned by Central to REA under such lease contracts with Central are subordinated to payments on the Priority Obligations and on the Expansion Bonds. The lease contracts provide for an additional $15,969,000 to be advanced in the future by REA to Central.

(4) Payable from the revenues derived from the ownership and operation of the Authority's System, subordinate to the payments required to be made to the Operating Fund, the Interest Fund, the Bond Fund and the Debt Service Reserve Fund created by the Indenture and to the payments required to be made to the Expansion Bond Fund (and the accounts therein) and the Lease Fund created by the Resolution, but prior to the payments required to be made to the Contingency Fund, Capital Improvement Fund and Special Reserve Fund created by the Indenture.

1067 259

DEBT SERVICE SCHEDULE

(Thousands of Dollars)

Fiscal Year Ending June 30	Debt Service Charges on Priority Obligations	Debt Service Charges on Outstanding Expansion Bonds	Annual Debt Service on 1979A Bonds: Serial Bonds on following July 1	Sinking Fund on following July 1	Interest	Total Debt Service on 1979A Bonds	Total Debt Service
1979	$4,319	$14,859(1)	—	—	$ 165(1)	$ 165(1)	$19,343(1)
1980	4,322	16,320(1)	$ 65	—	659(1)	724(1)	21,366(1)
1981	4,319	37,850(1)	70	—	655(1)	725(1)	42,894(1)
1982	4,322	47,591	70	—	651(1)	721(1)	52,634(1)
1983	4,319	48,288	575	—	5,071(1)	5,646(1)	58,253(1)
1984	4,473	48,148	955	—	7,252	8,207	60,828
1985	4,337	48,305	985	—	7,200	8,185	60,827
1986	4,340	48,319	1,025	—	7,146	8,171	60,830
1987	4,339	48,335	1,065	—	7,089	8,154	60,828
1988	4,340	48,353	1,105	—	7,030	8,135	60,828
1989	4,328	48,380	1,150	—	6,968	8,118	60,826
1990	4,442	48,283	1,195	—	6,903	8,098	60,823
1991	4,444	48,299	1,290	—	6,834	8,074	60,817
1992	4,443	48,314	1,300	—	6,762	8,062	60,819
1993	4,448	48,325	1,360	—	6,685	8,045	60,818
1994	4,438	48,350	1,425	—	6,604	8,029	60,817
1995	4,446	48,357	1,490	—	6,519	8,009	60,812
1996	4,460	48,360	1,565	—	6,428	7,993	60,813
1997	4,473	48,364	1,645	—	6,333	7,978	60,815
1998	4,481	48,375	1,725	—	6,231	7,956	60,812
1999	4,494	48,379	1,815	—	6,122	7,937	60,810
2000	4,511	48,374	1,915	—	6,007	7,922	60,807
2001	4,521	48,378	2,025	—	5,884	7,909	60,808
2002	4,536	48,376	2,135	—	5,754	7,889	60,801
2003	4,549	48,377	2,260	—	5,615	7,875	60,801
2004	4,565	48,377	—	$ 2,390	5,468	7,858	60,800
2005	4,585	48,373	—	2,540	5,307	7,847	60,805
2006	4,601	48,371	—	2,695	5,135	7,830	60,802
2007	—	52,990	—	2,865	4,953	7,818	60,808
2008	—	53,041	—	3,010	4,760	7,770	60,811
2009	—	53,094	—	3,160	4,557	7,717	60,811
2010	—	53,136	—	3,335	4,344	7,679	60,815
2011	—	53,176	—	3,525	4,114	7,639	60,815
2012	—	53,226	—	3,720	3,872	7,592	60,818
2013	—	53,274	—	3,925	3,616	7,541	60,815
2014	—	53,327	—	4,140	3,346	7,486	60,813
2015	—	53,386	—	4,370	3,062	7,432	60,818
2016	—	53,446	—	4,610	2,761	7,371	60,817
2017	—	53,506	—	4,870	2,444	7,314	60,820
2018	—	53,573	—	5,135	2,110	7,245	60,818
2019	—	—	—	25,550	1,757	27,307	27,307

(1) Excludes portion of interest which is funded from Expansion Bond proceeds.

1067 260

THE AUTHORITY

Organization and Management

The Authority's Board of Directors consists of eleven members appointed by the Governor with the advice and consent of the Senate as follows: one from each of the six congressional districts of the State, one from each of the counties of Berkeley, Georgetown and Horry; and two from the State at large, one of whom shall be Chairman and the other shall have had experience with the operations of rural electric cooperatives. Appointments are for seven years.

Present directors are:

Name	Business	Residence	Term Expires
Robert S. Davis, Chairman	Business Executive	Columbia, SC	1983
Vernon E. Sumwalt, First Vice Chairman	Attorney	Rock Hill, SC	1981
J. Thomas Grier, Second Vice Chairman	Insurance	Spartanburg, SC	1979
E. Jarvis Morris	Real Estate and Insurance	Pinopolis, SC	1979
B. A. Jordan, Jr.	Construction	Eastover, SC	1980
Marvin M. Thomas	Business Executive	Georgetown, SC	1980
Mark C. Garner	Newspaper Executive	Myrtle Beach, SC	1981
C. B. Boyne	Retired Business Executive	Eastover, SC	1984
Walter T. Cox	University Executive	Clemson, SC	1984
Harold M. Robertson	Wholesale-Retail Executive	Walterboro, SC	1985
B. G. Alderman, Jr.	Real Estate and Insurance	Manning, SC	1985

The President and Chief Executive Officer of the Authority is William C. Mescher. He assumed his duties with the Authority in March 1976, after having been with the Commonwealth Edison Company of Chicago, Illinois, for 23 years.

Other Authority staff executives are:

	Position	Electric Utility Experience
Henry [illegible]. Cyrus	Senior Vice President, Engineering	33 years
Clarence S. Gramling	Senior Vice President, System Operations	29 years
Kenneth R. Ford	Vice President, Finance and Treasurer	19 years
[illegible] C. Norman	Vice President, Commercial Operations	7 years
Lucas C. Padgett	Vice President, Government Affairs & Industrial Development	22 years
Robert V. Tanner	Vice President, Production	19 years
William A. Williams, Jr.	Vice President	6 years
Wallace S. Murphy	General Counsel	9 years
L. P. Dorman	Secretary	29 years
Larry R. Bellavita	Controller	5 years

The Authority has approximately 830 employees. Authority employees are members of a contributory state pension plan administered by the South Carolina State Retirement System.

The Act establishes an Advisory Board composed of the following officials of the State of South Carolina: the Governor, the Attorney General, the State Treasurer, the Comptroller General and the Secretary of State.

The Authority has engaged R. W. Beck and Associates as Consulting Engineer. R. W. Beck and Associates has prepared a report on the Authority's financing and capital improvement program (the "Beck Report"), a copy of which is attached hereto as Appendix I.

The Authority's Advisory Board for many years has designated J. W. Hunt and Company, Certified Public Accountants, to prepare reports on audit. They have prepared a report on audit for the fiscal year ended June 30, 1978, copies of which may be obtained from the Authority. The balance sheet, the statement of revenues and expenses, certain exhibits and the notes to the financial statements contained in such report on audit, together with a letter of J. W. Hunt and Company with respect thereto, are attached hereto as Appendix II.

The Authority has engaged Burns and Roe, Inc. to provide engineering, design and construction management services for Unit 3 at the Winyah Generating Station ("Winyah Unit 3"), Winyah Unit 4 and Unit 2 at a site near Cross, South Carolina ("Cross Unit 2"). Burns and Roe, Inc. has prepared a letter describing Winyah Unit 4 and estimating the cost of its construction (the "Burns and Roe Letter"), which is attached hereto as Appendix III.

The Authority has engaged, as Bond Counsel, Wood & Dawson, New York, New York, and McNair Glenn Konduros Corley Singletary Porter & Dibble, Columbia, South Carolina. The form of their proposed legal opinions with respect to the validity of the 1979A Bonds is attached hereto as Appendix IV.

Service Area

The Authority's service area consists of substantially all of the counties of Berkeley, Georgetown and Horry. This service area is shared with rural electric cooperatives but not with investor-owned utilities. The only municipal electric system in this service area is the City of Georgetown. The Authority also serves certain other customers, including Central, outside its service area and may supply the future load growth of such customers. Central is an association of 15 electric distribution cooperatives located in 35 of the 46 counties of South Carolina serving primarily residential, commercial and small industrial customers. In addition, the Authority may compete for and, at the request of the customer, serve any customer with a load of 750 kW or higher so long as the customer is located in an area assigned to a member of Central by the South Carolina Public Service Commission.

The total number of customers served by the Authority, either directly or indirectly, is approximately 250,000. The Authority sells electric power and energy at wholesale to Central, the City of Georgetown and the Town of Bamberg and sells electric power and energy directly to three military establishments, 21 large industrial accounts and approximately 45,000 residential, commercial and small industrial retail customers in the counties of Berkeley, Georgetown and Horry.

Historical Operating Results

A summary, condensed from the Beck Report, showing revenues available for debt service, lease payments and other purposes for the fiscal years ended June 30, 1974 through 1978 and the 12 months ended December 31, 1978 follows:

	Fiscal Year Ended June 30(1)					12 Months Ended December 31, 1978
	1974	1975	1976	1977	1978	
	(Dollars in Thousands)					(Unaudited)
Operating Revenues	$46,754	$77,806	$82,239	$94,727	$126,575	$132,647
Other Income	1,542	1,993	2,819	2,914	3,618	4,391
Total	$48,296	$79,799	$85,058	$97,641	$130,193	$137,038
Operating Expense (except depreciation and lease accruals)	34,691	59,817	55,259	69,550	$ 96,397	$103 556
Revenue Available for Debt Service, Lease Payments and Other Purposes	$13,605	$19,982	$29,799	$28,091	$ 33,796	$ 33,482
Debt Service:						
Priority Obligations	$ 4,315	$ 4,318	$ 4,324	$ 4,317	$ 4,319	$ 4,297
Expansion Bonds	737	3,460	7,825	7,110	12,762	14,824
Total Debt Service	$ 5,052	$ 7,778	$12,149	$11,427	$ 17,081	$ 19,121
Lease Payments(2)	1,937	2,105	2,413	2,984	3,355	3,582
Other Obligations(3)	—	147	1,690	1,364	1,402	1,388
Balance after Debt Service, Lease Payments and Other Obligations	$ 6,616	$ 9,952	$13,547	$12,316	$ 11,958	$ 9,391
Payments to State of South Carolina	1,093	764	844	1,797	1,201	1,200
Payments into Contingency Fund	97	—	3	—	—	—
Balance Available for Capital Improvements and Other Purposes	$ 5,426	$ 9,188	$12,700	$10,519	$ 10,757	$ 8,191
Coverage:						
Priority Obligations	3.15	4.63	6.89	6.51	7.82	7.79
Debt Service	2.69	2.57	2.45	2.46	1.98	1.75
Debt Service, Lease Payments, Other Obligations and Contingency Fund Payments	1.92	1.99	1.83	1.78	1.55	1.39

(1) See footnotes in Exhibit B to the Beck Report, Appendix I.

(2) Cash basis. In its income statements the Authority includes lease payment accruals as an operating expense in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The Authority intends to continue this accounting and reporting practice, although such payments are, under the Indenture and Resolution, subordinated to payments on the Priority Obligations and the Expansion Bonds. See caption "Certain Provisions of the Indenture and Resolution—Funds and Accounts".

(3) Includes bank loans.

Historical Demand, Sales and Revenues

The following table sets forth the peak demand on the Authority's system for the calendar years 1969-1978:

Calendar Year	Peak Demand(1) MW	Increase %
1969	504	—
1970	600	19.0%
1971	622	3.7
1972	736	18.3
1973	829	12.6
1974	911	9.9
1975	943	3.5
1976	1,065	12.9
1977	1,161	9.0
1978	1,231	6.0

(1) A new system peak demand, 1241 MW, occurred in February 1979. Annual peak demand normally occurs in August of each calendar year.

The following table sets forth the sales and revenues of the Authority, excluding sales to and revenues derived from South Carolina Electric & Gas Company ("SCE&G") and Carolina Power & Light Co. ("CP&L"), for the fiscal years 1969-1978 and for the twelve months ended December 31, 1978. Comparable information presented in Exhibit B to the Beck Report, Appendix I, includes such sales and revenues.

	Sales		Revenue From Sales		
Period	GWH(1)	Annual Increase %	Amount	Annual Increase %	Mills Per KWH
Fiscal Year Ended June 30:					
1969	2,489	—	$ 19,372,065	—	7.8
1970	2,809	12.9%	22,358,271	15.4%	8.0
1971	3,097	10.3	27,783,776	24.3	9.0
1972	3,189	3.0	30,966,273	11.5	9.7
1973	3,624	13.6	34,923,846	12.8	9.6
1974	3,968	9.5	41,525,532	18.9	10.5
1975	4,259	7.4	75,806,187	82.6	17.8
1976	4,485	5.3	80,564,225	6.3	18.0
1977	5,104	13.8	92,533,091	14.9	18.1
1978	5,562	9.0	117,743,954	27.2	21.2
12 months ended December 31, 1978 (Unaudited)	5,773	8.1(2)	126,626,763	19[illegible](2)	21.9

(1) Million kWh.

(2) Increase over 12 months ended December 31, 1977.

1067 264

Sales and revenues by customer class, excluding sales to and revenues from SCE&G and CP&L, for the fiscal years 1974 through 1978 and the twelve months ended December 31, 1978 are set forth below:

Sales (GWH)

Class of Customers	1974	1974 % of Total	1975	1975 % of Total	1976	1976 % of Total	1977	1977 % of Total	1978	1978 % of Total	12 Months Ended December 31, 1978	12 Months % of Total
Wholesale(1)	1,796	45.3	2,018	47.4	2,220	49.5	2,577	50.5	2,845	51.2	2,891	50.1
Military	285	7.1	292	6.9	301	6.7	303	5.9	324	5.8	320	5.5
Large Industrial	1,256	31.7	1,241	29.1	1,202	26.8	1,356	26.6	1,441	25.9	1,595	27.6
Residential	287	7.2	320	7.5	343	7.6	403	7.9	446	8.0	450	7.8
Commercial, Small Industrial and Other	344	8.7	388	9.1	419	9.4	465	9.1	506	9.1	517	9.0
Total	3,968	100.0	4,259	100.0	4,485	100.0	5,104	100.0	5,562	100.0	5,773	100.0

(1) Includes Central. See subcaption "Central Contracts".

Revenues

(Dollars in Thousands)

Class of Customers	1974	1974 % of Total	1975	1975 % of Total	1976	1976 % of Total	1977	1977 % of Total	1978	1978 % of Total	12 Months Ended December 31, 1978	12 Months % of Total
Wholesale(1)	$16,512	39.8	$32,033	42.3	$36,216	45.0	$42,265	45.7	$ 54,101	45.9	$ 57,484	45.4
Military	2,834	6.8	4,564	6.0	4,754	5.9	5,049	5.4	6,329	5.4	6,467	5.1
Large Industrial(2)	11,349	27.3	20,931	27.6	19,357	24.0	21,557	23.3	26,672	22.7	30,750	24.3
Residential	4,911	11.8	8,354	11.0	9,107	11.3	10,802	11.7	14,585	12.4	15,040	11.9
Commercial, Small Industrial and Other	5,920	14.3	9,919	13.1	11,130	13.8	12,860	13.9	16,057	13.6	16,886	13.3
Total	$41,526	100.0	$75,806	100.0	0,564	100.0	$92,533	100.0	$117,744	100.0	$126,627	100.0

(1) Includes Central. See subcaption "Central Contracts".
(2) See subcaption "Municipal, Military and Large Industrial Contracts".

Central Contracts

Existing power contracts entered into between the Authority and Central, the most recent such contract having become effective on April 29, 1971 (the "F Power Contract"), require the Authority to furnish, and Central to purchase, until October 22, 1987, Central's total power and energy requirements, less amounts which Central purchases directly from the Southeastern Power Administration ("SEPA"). In the twelve months ended December 31, 1978, sales to Central amounted to approximately 2,788 GWh. After October 22, 1987, and for the remainder of the term of the F Power Contract (June 2005), the Authority is obligated to sell and deliver to Central, and Central is obligated to purchase and receive annually from the Authority, 600 million kWh.

The F Power Contract prescribes the rate schedule applicable to the power and energy sold to Central. It also provides for an adjustment in the energy rate related to the cost of fossil fuel burned by the Authority and includes a provision for adjustment of the energy rate related to increases or decreases in the taxes or sums in lieu of taxes paid by the Authority. The F Power Contract also includes provisions for rate reviews and rate changes related t[illegible]s according to a certain formula.

Pursuant to the provisions of the F Power Contract, a rate review was conducted in the Fall of 1978. As a result, effective January 1, 1979, the monthly rates applicable at each delivery point for power and energy under the F Power Contract are: (1) for demand charges $1.875 per kW of billing demand, and (2) for the energy charge 5.65 mills per kWh for the first 100,000 kWh of billing energy and 4.33 mills per kWh for all

1047 265

additional kWh of billing energy. The next review will take place in the Fall of 1980 to become effective January 1, 1981.

R. W. Beck and Associates states in the Beck Report (Appendix I) that it has projected the Authority's revenues to be derived from Central on the basis of the present contract terms. The Authority has advised Central of its intent to reconsider the fuel clause and rate provisions of the F Power Contract and to negotiate changes which would be equitable to both parties when nuclear power becomes available.

Revenues from sales to Central during the twelve months ended December 31, 1978, amounted to $55,381,615, representing approximately 43.7% of revenues from firm sales, and averaged 19.87 mills per kWh.

Central has indicated a desire to own a portion of its future power supply resources. The Authority and Central have entered into discussions concerning a new power contract and possible joint ownership of future power supply resources and related matters. It is not possible at this time to determine the outcome of such discussions. For information concerning Central's intervention in SCE&G's and the Authority's licensing proceeding with respect to the Summer Nuclear Station, see subcaption "Regulatory Matters—Nuclear Matters".

Residential, Commercial and Small Industrial Sales

Sales to residential, commercial and small industrial customers are made pursuant to rate schedules established from time to time by the Authority. All of such rate schedules include a fuel adjustment clause. Revenues from residential, commercial and small industrial sales during the twelve months ended December 31, 1978 represented approximately 25.2% of revenues from firm sales, and averaged 33.02 mills per kWh.

Municipal, Military and Large Industrial Contracts

Sales to municipal, military and large industrial customers are made pursuant to contracts. For large industrial customers which use in excess of 350,000 kWh per month, the Authority has a large power rate schedule and requires that such customers enter into contracts for periods of not less than five years. All contracts contain rate provisions of the demand and energy type, and include fuel adjustment clauses and other provisions generally used in large industrial power rate schedules. The average cost per kWh varies depending upon the customer's consumption and load factor.

Revenues from municipal, military and large industrial sales during the twelve months ended December 31, 1978 represented approximately 31.1% of revenues from firm sales and averaged 19.48 mills per kWh.

The Authority's municipal customers are the City of Georgetown and the Town of Bamberg.

The Authority's five largest industrial customers for the 12 months ended December 31, 1978 and their contribution to revenues from firm sales of the Authority were as follows: Airco, Inc.—$8,891,485 (7.0%), Georgetown Steel Corporation—$8,725,515 (6.9%), Santee Portland Cement Company—$2,413,050 (1.9%), International Paper Company—$1,859,358 (1.5%), and Giant Portland and Masonry Cement Company—$1,645,265 (1.3%).

Power Contract With Alumax Inc. The Authority has entered into a power contract with Alumax Inc. ("Alumax"), an integrated aluminum company, for the sale by the Authority of up to 246 MW of firm power on a long-term basis. The power is to be used for a primary reduction plant which Alumax is constructing in the Authority's service area.

Under the contract between the Authority and Alumax, as amended, service to Alumax for the first potline (building up to 166 MW) is expected to begin in April 1980, and service for the first half of the second potline (building up to 80 MW) is expected to begin in November 1980. The contract provides that Alumax will pay for power and energy according to the Authority's large industrial rate schedule, which is determined on a cost of service basis, except that the minimum billing provisions of the schedule will not be applicable during a build-up period of 12 months for the first potline and 8 months for the first half of the second potline. R. W. Beck and Associates have not included any revenues from Alumax in their projections of revenues during these build-up periods.

In February 1978, Alumax received permits for the construction of two aluminum reduction potlines from the South Carolina Department of Health and Environmental Control. Clearing and grading of the plant site are complete. Alumax has informed the Authority that as of February 1, 1979, the plant was approximately 6% complete and is slightly ahead of schedule. The Authority's construction program to provide service to Alumax is on schedule. See caption "Capital Improvement Program—1979-1984".

The contract also grants certain options to Alumax, subject to specified periods of notification, for the purchase of up to an additional 400 MW of power for the second half of the second potline, a third or a third and a fourth potline. Alumax has publicly announced that it intends to construct the second half of the second potline, which would require an additional 80 MW of power; however, it has not yet exercised its option to purchase this additional power. The Authority is not obligated to deliver more than 270 MW to Alumax prior to November 1, 1981.

For additional information concerning the Alumax contract, see the Beck Report, Appendix I.

Rates

The Authority's Board of Directors is empowered and required to set rates as necessary to provide for expenses, including debt service, of the Authority.

The rates presently in effect were adopted on February 5, 1977, and became effective with May 1977 billings. Such rates are applicable to all residential, commercial, municipal pumping, street lighting and industrial customers, except for two industrial customers still served under fixed rate contracts which will expire later in 1979. The rates reflect an overall increase of approximately 3.0% over the rates previously in effect.

On January 29, 1979, the Authority adopted new rates applicable to municipal, residential, commercial, municipal pumping, street lighting and industrial customers. The new rates will become effective with May 1979 billings, except for the two industrial customers mentioned above. These rates, based on projections for the fiscal year ending June 30, 1980, are estimated to produce an increase in revenues of $9,809,000, or an increase in overall revenues of 10.7% from customers other than Central. The average percentage increase on the basic rate schedules to major customer classes is estimated to be 10.5% for industrial customers; 14.8% for municipal customers; 11.8% for commercial customers; and 9.6% for residential customers.

On March 26, 1979, the Authority adopted new rate schedules applicable to municipal, residential, commercial, municipal pumping, street lighting and industrial customers to become effective with May 1981 billings. These rates, based on projections for the fiscal year ending June 30, 1982, are estimated to produce an increase in revenues of $21,377,000, or an increase in overall revenues of 12.6% from customers other than Central. The average percentage increase on the basic rate schedules to major customer classes is estimated to be 8.3% and 12.4% for large and small industrial customers, respectively; 6.6% for municipal customers; 23.9% for commercial customers; and 21.3% for residential customers.

On March 26, 1979, the Authority adopted a program providing for a rate increase applicable to municipal, residential, commercial, municipal pumping, street lighting and industrial customers to become effective with May 1982 billings. These rates, based on projections for the fiscal year ending June 30, 1983, are estimated to produce an increase in revenues of approximately $21,828,000, or an increase in overall revenues of 10.3% from customers other than Central.

The Authority's rate schedules include a fuel adjustment clause which provides for increases or decreases to the basic rate schedules to cover increases or decreases in the cost of fuel to the extent such costs vary from a predetermined base cost.

The Authority's rates compare favorably with those of other utilities in South Carolina. A comparison of the Authority's rates with those of three other utilities as of December 31, 1978 is set forth below.

		Residential Electric Service			
		300 kWh	**500 kWh**	**700 kWh**	**1,000 kWh**
Authority					
Existing(1)	Summer	$13.82	$20.18	$26.20	$35.24
	Winter	13.36	19.04	24.16	31.85
Effective May 1979(2)	Summer	14.83	22.04	28.89	39.17
	Winter	14.08	20.49	26.24	34.87
Duke Power Company(3)		14.26	23.24	32.99	47.63
Carolina Power & Light Company(4)	Summer	15.97	23.02	30.06	40.63
	Winter	15.97	23.02	30.06	38.71
South Carolina Electric & Gas Company(5)		16.36	24.27	32.18	44.04

		Commercial Service (300 Hours of kW Demand)		
		3,000 kWh	**5,000 kWh**	**7,500 kWh**
Authority				
Existing(1)	Summer	$122.00	$185.84	$265.64
	Winter	88.16	137.00	198.05
Effective May 1979(2)	Summer	199.91	195.45	289.88
	Winter	101.71	165.25	244.68
Duke Power Company(3)		147.12	236.12	333.31
Carolina Power & Light Company(4)		111.41	182.36	257.30
South Carolina Electric & Gas Company(5)		153.85	237.75	328.55

	Industrial Service			
	1,000 kW 500,000 kWh	**2,000 kW 1,000,000 kWh**	**9,000 kW 5,000,000 kWh**	**40,000 kW 25,000 000 kWh**
Authority				
Existing(6)	$10,685.00	$20,270.00	$ 95,000.00	$460,850.00
Effective May 1979(7)	12,188.00	22,708.00	103,818.00	497,168.00
Duke Power Company(3)	13,659.01	25,711.51	119,894.01	576,856.51
Carolina Power & Light Company(4)	12,495.00	24,765.00	118,075.00	565,225.00
South Carolina Electric & Gas(5)	13,650.00	26,800.00	127,200.00	610,000.00

(1) Includes fuel adjustment adder of $.00202/kWh.
(2) Includes fuel adjustment credit of $.00423/kWh.
(3) Includes fuel adjustment adder of $.00179/kWh.
(4) Includes fuel adjustment adder of $.00059/kWh, fuel adjustment applies to November 1978 billing.
(5) Includes fuel adjustment adder of $.00095/kWh.
(6) Includes fuel adjustment adder of $.00177/kWh.
(7) Includes fuel adjustment credit of $.00406/kWh.

Residential customers of the Authority paid an average of 3.34 cents per kWh during the twelve months ended November 30, 1978. This compares with the national residential average of 4.01 cents per kWh as reported by the Edison Electric Institute for the same period. The Authority's average annual use per residential customer was 12,891 kWh for the twelve months ended November 30, 1978, 45.8% more than the national average of 8,844 kWh as reported by the Edison Electric Institute for the same period.

1067 268

Power Supply

The Authority's existing generating facilities consist of:

Facility	Location	Date Placed in Service	Aggregate Capability	Energy Source
Jefferies Hydroelectric Generating Station	Moncks Corner	1942	128 MW(1)	Hydro
Wilson Dam Generating Station	Lake Marion	1950	2	Hydro
Jefferies Generating Station	Moncks Corner			
Units 1 and 2		1954	92	Oil
Units 3 and 4		1970	320	Coal
Grainger Generating Station(2)	Conway	1966	170	Coal
Combustion Turbines	Myrtle Beach	1962	20(3)	Oil
Combustion Turbines	Myrtle Beach	1972	40(3)	Oil
Combustion Turbine(2)	Hilton Head Island	1973	20(3)	Oil
Combustion Turbine	Hilton Head Island	1974	20(3)	Oil
Combustion Turbine	Myrtle Beach	1976	28(3)	Oil
Winyah Generating Station	Georgetown			
Unit 1		1975	280	Coal
Unit 2		1977	280	Coal
Total Capability			1,400 MW	

(1) A project authorized by the U. S. Congress will require the diversion into the Santee River of a substantial part of the flows which are presently utilized by the Authority at its Jefferies Hydroelectric Generating Station and the construction and operation by the U. S. Army Corps of Engineers ("Corps") of an 84 MW hydroelectric project in the vicinity of St. Stephen, South Carolina (the "St. Stephen Plant"). The project, proposed for completion in December 1984, will result in a reduction in the amount of energy which can be produced at the Station and will limit the output of the Station to approximatey 44 MW for operations as carried on at present, i.e. approximately the same capacity factor as exists today. The Corps and the Authority have executed a contract containing provisions which in effect, will compensate the Authority for the net loss in energy because of the lower head at the St. Stephen Plant and the limitations on the operations at the Station resulting from the project. The output of the St. Stephen Plant (84 MW), which will be made available to the Authority, plus the limited output of Jefferies (44 MW) will equal the present total output of the Station for approximately the same capacity factor that exists today. There will remain at the Station 84 MW of capacity available to the Authority which can be used at lower capacity factor conditions when combined with the 44 MW. The Authority will compensate the Corps for any capacity above 128 MW used from the combined operations.

(2) The Authority has entered into certain of the lease contracts referred to in footnote (3) of the table under "Outstanding Obligations and Equity" for the purpose of providing for the leasing from Central and the operating by the Authority of such facilities and certain transmission facilities. The Authority has an option under each such lease contract to purchase the respective facilities at any time during the term of such lease contract for a sum equal to Central's indebtedness in respect of such facilities remaining outstanding at the time of the exercise of such option. If the option is not exercised before or at the time of the expiration of such lease, control of such facilities will return to Central. The Authority plans to exercise each and every option to acquire ownership of such facilities prior to expiration of the leases.

(3) Summer rating.

In addition, the Authority receives a firm power supply from SEPA of 105 MW, bringing its total power supply resources to 1,505 MW. In June 1977, SEPA advised the Authority that its power supply contract with the Authority will terminate effective June 30, 1981. SEPA has advised the Authority, however, that prior to the effective date of termination it intends to review its existing supply contracts with utilities, including the Authority, and that power reallocations may or may not result.

In the table below the capability in MW of the Authority's existing power supply resources is classified by energy source. For information as to the projected additional capability planned to be placed in commercial operation through the fiscal year ending June 30, 1984, see the caption "Capital Improvement Program —1979-1984—General".

Sources of Power Supply	Capability	% of Total
Hydro Generation	130 MW	8.6%
SEPA (Hydro)	105	7.0
Coal	1,050	69.8
Oil	220	14.6
Total	1,505 MW	100.0%

Transmission

The Authority's transmission system (including facilities leased from Central) consists of approximately 2,462 miles of transmission lines of 44 kV and above and 89 substations.

Interconnections

The Authority's transmission system is interconnected with other major electric utilities in the region. It is directly interconnected with SCE&G at four locations with two additional interconnections under construction in connection with the Virgil C. Summer Nuclear Station Unit No. 1 ("Summer Nuclear Station"); with CP&L at five locations; and with SCE&G, Duke Power Company ("Duke"), Georgia Power Company and SEPA through a five-way interconnection at the SEPA Clark Hill hydroelectric plant on the Savannah River. Through the foregoing interconnections the Authority's system is interconnected with the regional transmission system serving the southeastern area of the nation.

Reliability Agreement

The Authority is a party to the Virginia-Carolinas Reliability Agreement ("VACAR") which exists for the purpose of safeguarding the reliability of electric service of the parties thereto. Other parties to the VACAR agreement are SCE&G, CP&L, Duke, SEPA, Yadkin, Inc. and Virginia Electric and Power Company.

Distribution

The Authority owns distribution facilities in three districts: the Moncks Corner District serving St. Stephen, Moncks Corner and Pinopolis; the Conway District serving the City of Conway, the Town of Loris and part of the adjacent rural area; and the Myrtle Beach District serving an area along the Atlantic coast from the North Carolina border to Georgetown.

CAPITAL IMPROVEMENT PROGRAM—1979-1984

General

The Authority's capital improvement program for the fiscal years 1979-1984 consists of major power supply facilities to be added to the Authority's system and general improvements, including improvements to present power supply facilities, extensions of and improvements to transmission facilities, improvements to the Authority's distribution system and a new office and service complex at Moncks Corner.

The capital improvement program includes five new major power supply facilities estimated to be placed in commercial operation through the fiscal year ending June 30, 1984: the Authority's one-third share in the Summer Nuclear Station, Winyah Units 3 and 4 and a third combustion turbine at Hilton Head, South Carolina, all of which are now under construction, and Cross Unit 2 for which detailed site investigations are underway and for which certain contracts have been awarded. Present forecasts of capability and load demand indicate that the Authority's existing power supply resources and reserves (assuming extension of the SEPA contract), plus the planned capability of such units available to the Authority, will be adequate to serve the Authority's needs, including those created by Alumax, through 1984. See subcaption "Estimated Power Supply Resources and Requirements".

The following table sets forth certain information with respect to the Authority's power supply resources estimated to be placed in commercial operation through the fiscal year ending June 30, 1984. Construction costs do not include the cost of related transmission facilities and coal fuel stockpiles, funded interest, reserves or financing costs.

Power Supply Resource and Location	Description	Estimated Commercial Operation Date	Estimated Construction Cost Per kW	Estimated Construction Costs
Combustion Turbine (Hilton Head, South Carolina)	56 MW, oil-fueled combustion unit	May 1979	$179	$ 10,000,000
Winyah Unit 3 (Georgetown, South Carolina)	280 MW, coal-fueled steam electric unit	May 1980	$508	$142,230,000
Summer Nuclear Station (near Columbia, South Carolina)	900 MW, nuclear-fueled steam-electric unit (Authority's share is one-third or 300 MW)	December 1980	$797	$239,163,000(1)
Winyah Unit 4 (Georgetown, South Carolina)	280 MW, coal-fueled steam-electric unit	May 1982	$522	$146,175,000
Cross Unit 2 (near Cross, South Carolina)(2)	450 MW, coal-fueled steam-electric unit	May 1983	$793	$356,800,000

(1) Authority's one-third share of Summer Nuclear Station costs, including nuclear fuel and other capitalized costs. See Beck Report, Appendix I.

(2) Unit 2 is being constructed prior to any other unit at the Cross site so that better construction access is available when other units at the site are constructed.

The following table sets forth the Authority's projected capability as of June 30, 1984 by energy source:

Sources of Power Supply	Capability Available	Projected Additional Capability To Become Available Through 1984	Total	% of Total
Hydro Generation	130 MW	—	130 MW	4.5%
SEPA (Hydro)	105	—	105	3.7
Coal	1,050	1,010 MW(1)	2,060	71.8
Nuclear	—	300(2)	300	10.4
Oil	220	56(3)	276	9.6
Total	1,505 MW	1,366 MW	2,871 MW	100.0%

(1) Includes Winyah Units 3 and 4 (280 MW each) and the 450 MW Cross Unit 2.

(2) Authority's one-third share of Summer Nuclear Station.

(3) Additional combustion turbine at Hilton Head, South Carolina.

Summer Nuclear Station

The Summer Nuclear Station, now under construction, is located approximately 26 miles northwest of Columbia, South Carolina, on the east bank of the Broad River and adjacent to SCE&G's Fairfield Pumped Storage Project, which will provide the cooling water requirements for the Summer Nuclear Station. The Station will contain a Westinghouse Electric Corporation ("Westinghouse") pressurized water reactor of the light water type as its nuclear steam supply system. Steam will be supplied to a turbine generator having a net output of approximately 900 MW under expected conditions of operation.

The Authority and SCE&G have entered into a joint ownership agreement dated October 18, 1973 (the "Summer Agreement"), providing that the Authority and SCE&G shall own the Summer Nuclear Station as tenants in common with undivided interests of 33⅓% (300 MW) for the Authority and 66⅔% (600 MW) for SCE&G. SCE&G, as agent for itself and the Authority, is solely responsible for the design, construction, operation and maintenance of the Summer Nuclear Station and the Authority is obligated to pay its ownership share of all costs relating thereto. The award of contracts for construction in excess of $600,000 and any change which would increase a contract price by an amount in excess of $200,000 are subject to the approval of the Authority. The Authority also has the right of approving operating and construction budgets.

SCE&G is proceeding with construction of the Summer Nuclear Station with commercial operation presently scheduled for December 1980. The December 1980 date represents a delay of seven months from the previously scheduled date for commercial operation of May 1980. The delays have resulted principally because of problems in the delivery of materials and construction modifications primarily due to changing regulatory requirements. SCE&G's ability to meet the revised date for commercial operation will, in the opinion of R. W. Beck and Associates, require a major emphasis on all future construction efforts and close coordination with testing and start-up operations to avoid further slippages in the schedule. SCE&G reports that as of December 31, 1978 the engineering of the Summer Nuclear Station was approximately 89% complete and construction was approximately 80% complete.

Various permits, licenses and authorizations are required for the construction and operation of the Summer Nuclear Station. The Authority believes that such permits, licenses and authorizations will be granted. However, there is no assurance that all requisite permits, licenses and authorizations will be obtained on a timely basis. See caption "Regulatory Matters—Nuclear Matters".

The Authority's ownership share of the total capital costs of the Summer Nuclear Station, exclusive of funded interest, reserves and financing costs, is estimated to be $239,163,000. Of this amount, $214,765,000 is expected to be provided from the proceeds of Expansion Bonds previously issued and investment earnings therefrom and an additional $24,398,000 will be obtained from future financings.

In late March and early April 1979, events at the Three Mile Island Nuclear Unit No. 2 in Pennsylvania resulted in reported damage to the plant and release of radioactivity to the surrounding environment. SCE&G has reported that it cannot predict what impact, if any, these events will have upon the cost of, the scheduled completion date for, the issuance of an operating license for, or the operation of, the Summer Nuclear Station, but that it is possible that there may be delays in the issuance of the operating license or that changes in the design of the Station might be required, either of which would probably increase the total cost of the Station, and that additional safety requirements could significantly increase the operating cost of the Station.

SCE&G has not completed its financing arrangements for its share of the Summer Nuclear Station. SCE&G is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission. The Annual Report on Form 10-K for the fiscal year ended December 31, 1978 (the "Form 10-K") of SCE&G has been filed by SCE&G with the Securities and Exchange Commission. The Form 10-K may assist the reader in assessing SCE&G's ability to finance its construction program, including its ownership share of the Summer Nuclear Station and the fuel cores therefor.

The Form 10-K and other annual and quarterly reports of SCE&G (including financial information) may be inspected and copied at the public reference facilities maintained by the Commission at Room 6101, 1100 L Street N.W., Washington, D. C. and at the Commission's regional offices at 219 South Dearborn Street, Chicago, Ill.; 26 Federal Plaza, New York, N. Y.; and 10960 Wilshire Boulevard, Los Angeles, Calif., and copies of such material can be obtained from the Public Reference Section of the Commission, 500 North Capitol Street, Washington, D. C. 20549 at prescribed rates. SCE&G's Common Stock is listed on the New York Stock Exchange, where reports and other information concerning SCE&G may also be inspected. SCE&G will furnish without charge to each person to whom this Official Statement is delivered, upon written request, a copy of the Form 10-K, excluding exhibits. Requests should be addressed to: Mr. Thomas M. Groetzinger, Vice President and Controller, South Carolina Electric & Gas Company, 328 Main Street, Columbia, SC 29218.

Neither the Authority nor the Underwriters make any representation as to the accuracy or completeness of such information, nor do they represent that there has been no material change in the information presented since the respective dates as of which it is given.

For information concerning the fuel supply for the Summer Nuclear Station, see caption "Fuel Supply".

Winyah Generating Station—Unit 3

Winyah Unit 3, now under construction by the Authority, will consist of a coal-fueled steam-electric unit of approximately 280 MW and associated transmission facilities. Winyah Unit 3 will be located at and become an integral part of the Winyah Generating Station, which is located approximately three miles southwest of the City of Georgetown, South Carolina. The Authority has retained Burns and Roe, Inc. as design and construction engineers for Winyah Unit 3 to prepare plans and specifications, to perform related services and to manage construction of the project.

Winyah Unit 3 will be essentially a duplicate of Winyah Unit 2, with the exception of changes in the cooling water and flue gas treatment systems. The Unit will include a single steam-turbine generating unit having a net capability of approximately 280 MW; boiler; condenser; coal pulverizing, handling and storage equipment and facilities; related electrical and mechanical equipment and a limestone scrubber.

The construction permit for Winyah Unit 3 has been received from the South Carolina Department of Health and Environmental Control. For information as to compliance of Winyah Unit 3 with environmental laws and regulations and other permits and authorizations required for construction and operation of Winyah Unit 3, see caption "Regulatory Matters—Environmental Matters".

Site work for Winyah Unit 3 was initiated in September 1977. As of December 31, 1978, the engineering of Winyah Unit 3 was approximately 64% complete and construction was approximately 25% complete. Initial operation of Winyah Unit 3 is scheduled for March 1980, and commercial operation is scheduled for May 1980.

The total construction costs for Winyah Unit 3, exclusive of funded interest, reserves and financing costs, are estimated by Burns and Roe, Inc. to be $142,230,000. These estimated total construction costs include the costs of pollution control equipment considered adequate in the opinion of Burns and Roe, Inc., to meet existing pollution codes and regulations. As of December 31, 1978, the Authority had entered into 64 contracts totaling approximately $89,400,000, which represents approximately 63% of the total estimated construction costs of the project.

In addition to the construction costs for Winyah Unit 3, the capital costs of Winyah Unit 3 include approximately $9,000,000 to finance transmission facilities necessary to deliver output from the Winyah Generating Station to the Authority's existing transmission system and $4,000,000 to increase the coal stockpile at the Station. The Authority and Burns and Roe, Inc. estimate the total capital costs of Winyah Unit 3 to be $155,230,000, which is being provided from the proceeds of Expansion Bonds previously issued and the investment earnings therefrom.

Winyah Generating Station—Unit 4

Winyah Unit 4, now under construction by the Authority, will consist of a coal-fueled steam-electric unit of approximately 280 MW and associated transmission facilities. Winyah Unit 4 will be located at and become an integral part of the Winyah Generating Station. The Authority has retained Burns and Roe, Inc. as design and construction engineers for Winyah Unit 4 to prepare plans and specifications, to perform related services and to manage construction of the project. The Burns and Roe Letter, describing Winyah Unit 4 in more detail, is attached to this Official Statement as Appendix III.

Winyah Unit 4 will be essentially a duplicate of Winyah Unit 3. The unit will include a single steam-turbine generating unit having a net capability of approximately 280 MW; boiler; condenser; coal pulverizing, handling and storage equipment and facilities; related electrical and mechanical equipment and a limestone scrubber.

The construction permit for Winyah Unit 4 has been received from the South Carolina Department of Health and Environmental Control. For information as to compliance of Winyah Unit 4 with environmental laws and regulations and other permits and authorizations required for construction and operation of Winyah Unit 4, see caption "Regulatory Matters—Environmental Matters".

Site work for Winyah Unit 4 was initiated in September 1978. As of December 31, 1978, the engineering of Winyah Unit 4 was approximately 32% complete and construction was approximately 1.5% complete. Initial operation of Winyah Unit 4 is scheduled for December 1981, and commercial operation is scheduled for May 1982.

The total construction costs for Winyah Unit 4, exclusive of funded interest, reserves and financing costs, are estimated by Burns and Roe, Inc. to be $146,175,000. These estimated total construction costs include the cost of pollution control equipment considered adequate, in the opinion of Burns and Roe, Inc., to meet existing pollution codes and regulations. As of December 31, 1978, the Authority had entered into 32 contracts totaling approximately $50,000,000, which represents approximately 34% of the total estimated construction costs of the project.

In addition to the construction costs for Winyah Unit 4, the capital costs of Winyah Unit 4 include approximately $9,000,000 to finance transmission facilities necessary to deliver output from the Winyah Generating Station to the Authority's existing transmission system and $5,000,000 to increase the coal stockpile at the Station. The Authority and Burns and Roe, Inc. estimate the total capital costs of Winyah Unit 4 to be $160,175,000. The Authority has authorized the issuance of $200,000,000 of Expansion Bonds to finance the capital costs of Winyah Unit 4, funded interest and reserves, of which $100,000,000 are part of the 1979A Bonds.

Cross Site—Unit 2

The Authority has begun detailed site investigations and awarded certain long-lead time contracts for Cross Unit 2 which will be located on the north side of the Authority's diversion canal as it enters Lake Moultrie in Berkeley County, South Carolina. The site of Cross Unit 2 as presently envisioned will ultimately be expanded to include four units with a net station capacity of approximately 1800 MW, subject to federal and state regulatory approvals and the receipt of necessary licenses and permits. The first unit to be built at the Cross site will be designated as Unit 2 so that better construction access is available when the other units are constructed. The Authority has retained Burns and Roe, Inc. as design and construction engineers for Cross Unit 2 to prepare plans and specifications, to perform related services and to manage construction of the project. Commercial operation is scheduled for May 1983, subject to timely receipt of the necessary licenses and permits and execution of an accelerated construction schedule.

The coal-fired unit will include a boiler; turbine-generator; condenser; coal pulverizing, handling and storage equipment and facilities; an eleven mile rail spur; and related electrical and mechanical equipment and a limestone scrubber. The circulating water system will be a closed loop utilizing a mechanical draft cooling tower.

In July 1978, the Authority filed an application with the South Carolina Department of Health and Environmental Control for a construction permit for Cross Unit 2. The Authority has been informed that the application will be noticed for public comment in the near future. For information as to compliance of Cross Unit 2 with environmental laws and regulations and other permits and authorizations required for construction and operation of Cross Unit 2, see caption "Regulatory Matters—Federal Energy Regulatory Commission and Environmental Matters".

The total construction costs for Cross Unit 2, exclusive of funded interest, reserves and financing costs, are estimated by Burns and Roe, Inc. to be $356,800,000. These estimated construction costs include the cost of pollution control equipment considered adequate, in the opinion of Burns and Roe, Inc., to meet existing pollution codes and regulations. As of February 28, 1979, the Authority had entered into five contracts totaling approximately $61,281,000, which represents approximately 17% of the total estimated construction costs of the project. The cancellation charges on such contracts could total approximately $3,855,000 by July 1, 1979 and increase thereafter.

In addition to the construction costs for Cross Unit 2, the capital costs of Cross Unit 2 include approximately $30,000,000 to finance transmission facilities necessary to deliver output from the Unit to the Authority's existing transmission system and $10,000,000 for the initial coal stockpile. The Authority and Burns and Roe, Inc. estimate the total capital costs of Unit 2 to be $396,800,000, which will be obtained from future financings.

General Improvements

The Authority's general improvement program for fiscal years 1979-1984 discussed below consists of the addition of a combustion turbine at Hilton Head, South Carolina, extensions and improvements to the Authority's existing generating facilities, extensions and improvements to the Authority's transmission and distribution systems and general plant planned for construction during the 1979-1981 period and major additions to the transmission system planned for construction during the 1982-1984 period. The Authority estimates the total capital costs of these improvements, exclusive of funded interest, reserves and financing costs, to be approximately $196,948,000. These improvements are described below.

The Authority is installing a 56 MW oil-fueled unit at its combustion turbine site in Hilton Head, South Carolina, to provide additional power supply and strengthen the transmission of power and energy to the Hilton Head area. The Authority has retained General Electric Company to engineer and install the unit. The construction permit for the combustion turbine has been received from the South Carolina Department of Health and Environmental Control. Initial operation of the unit is scheduled for April 1979, and commercial operation is scheduled for May 1979. The total capital costs of the combustion turbine are estimated by the Authority to be approximately $10,000,000.

The Authority plans to make extensions and improvements to its transmission system, in addition to transmission facilities included in the capital costs of new generating units under construction or planned, estimated to cost approximately $133,221,000. Included in this amount are the costs of two 230 kV lines to transmit the Authority's share of the power from the Summer Nuclear Station to the Authority's system, one 230 kV line between the Authority's Winyah and Jefferies Generating Stations, two 230 kV lines between the Jefferies Generating Station and the Authority's Carnes Crossroad Substation from which service to Alumax will be provided and certain transmission facilities to upgrade the transmission system and interconnect the Cross site with the Authority's present and future power supply resources.

The balance of the Authority's general improvement program consists of improvements to existing generating facilities estimated to cost $6,161,000; extensions and improvements to the Authority's distribution system to serve existing and new customers, estimated to cost approximately $24,268,000; improvements to the Authority's general plant, estimated to cost approximately $14,124,000; the acquisition of 154 coal cars which have been purchased at a cost of $5,174,000; and future generating station site studies and acquisitions estimated to cost approximately $4,000,000. See subcaption "Future Power Supply Program". Included in improvements to general plant is a new office and service complex, including a seven story general office building, central warehouse complex, central garage and general maintenance building, to be built on a 75-acre tract in Moncks Corner.

The Authority plans to finance the cost of its general improvement program through the proceeds of Expansion Bonds previously issued, part of the proceeds of the 1979A Bonds, future financings and revenues from the Authority's system.

Future Power Supply Program

The Authority's long range power supply program contemplates the development of three additional generating units of 450 MW each adjacent to Cross Unit 2. The Authority is also evaluating additional locations for selection as sites for future generating stations.

Estimated Financing Requirements for Capital Improvement Program

The following table sets forth estimated financing requirements for the Authority's capital improvement program during fiscal years 1979-1984 after giving effect to the issuance of the 1979A Bonds. Only projects scheduled for commercial operation by the end of fiscal year 1984 are included. As stated elsewhere in this Official Statement, the Authority has begun initial planning for generating units with commercial operation dates subsequent to fiscal year 1984, and it is expected that a portion of the costs of these additional projects will be expended during the periods shown and will be financed with the proceeds of additional Expansion Bonds.

	Scheduled Commercial Operation Date	Capital Costs Incurred Through Fiscal Year 1978	Capital Costs To Be Incurred in Fiscal Year 1979	1980	1981-1984	Reserve Requirement	Net Funded Interest and Issuance Expenses	Total	Expansion Bonds Issued	Internally Generated Funds	Estimated Additional Financing Required
			(Dollars in Millions)								
Summer Nuclear Station	12/80	$157.9	$ 37.8	$ 30.8	$ 12.7	$20.0	$ 64.8	$ 324.0	$284.6	$ —	$ 39.4
Winyah Unit 3	5/80	12.1	107.6	35.5	—	10.7	20.1	186.0	186.0	—	—
Winyah Unit 4	5/82	—	7.7	29.2	123.3	13.4	26.4	200.0	100.0	—	100.0
Cross Unit 2	5/83	—	8.7	39.2	348.9	34.3	76.9	508.0	—	—	508.0
General Improvements	—	—	44.8	52.8	99.3	4.1	2.4	203.4	24.0	118.4	61.0
		$170.0	$206.6	$187.5	$584.2	$82.5	$190.6	$1,421.4	$594.6	$118.4	$708.4

With respect to the financing needs described above, it has been the Authority's policy to pursue an orderly process of entry into the bond market and, consequently, the amount of additional Expansion Bonds which will be issued during each subsequent fiscal year may not correspond to the budgeted capital requirements for such year. In addition, the Authority is pursuing various short and medium term financing arrangements to increase its flexibility with respect to entry into the long-term bond market.

Estimated Power Supply Resources and Requirements

The following table sets forth the Authority's projected energy requirements, excluding sales to SCE&G and CP&L, for the fiscal years 1979-1984.

	Fiscal Year Ending June 30 1979	1980	1981	1982	1983	1984
Energy Sales						
Wholesale(1)	3,092GWh	3,401GWh	3,728GWh	4,209GWh	4,696GWh	5,239GWh
Military and Large Industrial	1,888	1,971	2,065	4,260	4,366	4,478
Residential, Commercial, Small Industrial and Other	1,005	1,092	1,182	1,316	1,448	1,595
Total Sales	5,985	6,464	6,975	9,785	10,510	11,312
Losses and Wheeled for SEPA	530	585	600	703	747	791
Total Energy Requirements	6,515GWh	7,049GWh	7,575GWh	10,488GWh	11,257GWh	12,103GWh

(1) Includes Central.

The following table prepared by R. W. Beck and Associates sets forth the Authority's projected power supply resources and requirements for the calendar years 1979–1984:

	Projected Resources and Requirements—1979-1984 (MW)					
	1979	1980	1981	1982	1983	1984
Resources:						
Generating Capability						
Existing(1)	1,400	1,400	1,400	1,400	1,400	1,400
Under Construction(2)	56(3)	336(4)	636(5)	916(6)	916	916
Planned(2)	—	—	—	—	450(7)	450
Total Generating Capacity	1,456	1,736	2,036	2,316	2,766	2,766
Firm Purchases—SEPA(8)	105	105	105(8)	105(8)	105(8)	105(8)
Total Resources(9)	1,561	1,841	2,141	2,421	2,871	2,871(10)
Maximum Annual Demand (August)	1,364	1,474(11)	1,861(11)	2,013(11)	2,177(11)	2,361(11)
Resources Available for Reserves	197	367	280	408	694	510
Purchased Reserves	50	50	50	50	50	50
Total Purchased Reserves and Resources Available for Reserves	247	417	330	458	744	560
Percent of Maximum Annual Demand	18%	28%	18%	23%	34%	24%
Planned Reserves at 20% (12)	252	274	351	382	414	451
Surplus (Deficiency) to Meet Planned Reserves	(5)	143	(21)	76	330	109

(1) See caption "The Authority—Power Supply".

(2) Unit capabilities are shown in the first calendar year during which units under construction or planned will be available to meet the summer peak demand, which normally occurs in August.

(3) Represents additional turbine at Hilton Head.

(4) Increase represents Winyah Unit 3.

(5) Increase represents Authority's one-third share of Summer Nuclear Station. Summer Nuclear Station is presently scheduled for commercial operation in December 1980; however, the first calendar year during which its capability will be available at the time of the Authority's annual system peak demand will be 1981.

(6) Increase represents Winyah Unit 4.

(7) Represents Cross Unit 2.

(8) Assumes SEPA power equal to that provided under the present contract will continue to be available after June 30, 1981. See caption "The Authority—Power Supply".

(9) Amounts shown assume all units will be available for service at the designated capability during the time of the annual system peak demand.

(10) Does not include capability from the St. Stephen Hydroelectric Plant which is scheduled for completion in December 1984, which is after the Authority's 1984 annual peak demand.

(11) Pursuant to the terms of the Alumax contract, as amended, prior to November 1, 1981, the Authority is not obligated to provide to Alumax capacity in excess of 270 MW which will supply approximately one and one-half potlines. Projected maximum annual demands shown in 1981 and thereafter include approximately 250 MW of demand associated with Alumax. See caption "The Authority—Municipal, Military and Large Industrial Contracts".

(12) For planning purposes, the Authority utilizes the criteria of reserves equal to 20% of annual system peak demand less firm purchases.

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PROJECTED OPERATING RESULTS

R. W. Beck and Associates have made a projection of the operations of the Authority for the fiscal years, ending June 30, 1979 through 1984 based upon analyses of historical operations and trends and the Authority's adopted budget, and taking into account factors known to them and factors which can, in their opinion, reasonably be expected to occur. A summary of these projected operating results is shown in the Beck Report Appendix I, and in condensed form herein.

The major considerations and assumptions utilized by R. W. Beck and Associates in preparing their estimate of the projected revenues and expenses are summarized as follows:

1. Projected revenues from customers, other than Central, have been based: (i) for power deliveries through April 1979, on rates presently in effect; (ii) for power deliveries during the period May 1979 through April 1981, on rates adopted by the Authority to become effective May 1979; (iii) for power deliveries during the period May 1981 through April 1982, on rates adopted by the Authority to become effective May 1981; and (iv) for the period commencing with power deliveries in May 1982 and continuing thereafter through the term of projections, on rates to be hereafter adopted to implement the rate program adopted by the Authority to become effective May 1982, including in each case the fuel adjustment provisions of such rates. Revenues from sales to commercial and large customers, other than Central, reflect the terms of the Authority's contracts with such customers.

2. Revenues to be derived from Central have been projected on the basis of the present contract terms including adjustments computed in accordance with the contract and, during the period to January 1, 1979, an interim agreement which provided for a 1.8 mill per kilowatt-hour surcharge. Upon completion of Summer Nuclear Station, a substantial amount of energy produced by the Authority will be from nuclear fuel, the cost of which is projected to be less than the cost of fossil (coal and oil) fuel. The Authority has previously advised Central that it intends to reconsider the fuel adjustment clause in its contract with Central when nuclear power generation is commenced by the Authority and that concurrent therewith, changes will be negotiated in the rate and fuel clause provisions of the contract which will be fair and equitable to both parties. It is not possible to predict at this time what changes may be made in the Central contract when Summer Nuclear Station is completed in December 1980. The projections of revenues and expenses assume that Central will continue to purchase its power supply requirements from the Authority as provided under the present contract.

3. Projections of revenues and power supply expenses assume that Alumax will require and utilize power supply from the Authority of approximately 246 MW beginning in July 1981 for the first potline and the first half of a second potline with a build-up of loads commencing in April 1981. These dates are based on the approximate maximum allowable delay for that portion of the load for which initial notice had been received as of the date of the Beck Report. If Alumax gives notice to proceed with additional potlines or portions thereof as provided in the Alumax contract or if the operation dates of any or all potlines change from those stated above, the projected revenue and expenses for the fiscal years beginning as early as 1982 and thereafter could change significantly.

4. Generation by the Jefferies Hydroelectric Generating Station and the Wilson Dam Generating Station has been projected at 619 million kWh annually through fiscal year 1984.

5. Purchases and wheeling of power from SEPA have been projected on the basis of the existing SEPA contract and reflect the average energy available for wheeling and direct use of the Authority's system of approximately 300 million kWh annually of which approximately 198 million kWh are wheeled for Central and municipal customers.

6. The cost of fossil fuels has been projected using as the base the Authority's budget estimate for fiscal years ending June 30, 1979, 1980 and 1981 and escalated at the rate of seven-tenths of one percent per month throughout the remaining portion of the projection.

7. Upon advice of the Authority, they have assumed that no sales of surplus energy would be made to SCE&G or CP&L.

8. Power costs are predicated in part on the availability of the following generation resources to be owned and operated in their entirety by the Authority: (i) 56 MW-additional turbine at Hilton Head in May 1979; (ii) 280 MW-Winyah Unit 3 in May 1980; (iii) 300 MW-Summer Nuclear Station in December 1980; (iv) 280 MW-Winyah Unit 4 in May 1982; and (v) 450 MW-Cross Unit 2 in May 1983.

9. The Authority has or will obtain all licenses and permits required for all generation and transmission facilities on a schedule commensurate with construction needs.

10. SCE&G will obtain all licenses and permits necessary for and Summer Nuclear Station will commence commercial operation in December 1980 as presently scheduled by SCE&G. Summer Nuclear Station is projected to operate at an average monthly plant factor of 60% during the first two years of operation and an 80% monthly plant factor for subsequent years with two-month refueling periods. (An 80% monthly plant factor, with annual refueling period of two months, is equivalent to approximately a 67% annual plant factor.)

11. Nuclear fuel costs for Summer Nuclear Station are estimated on the basis that the 82% of the initial fuel core uranium already delivered will be at costs provided in the Westinghouse contract. All reload fuel uranium will be purchased on the open market at costs based on current price levels of approximately $44 per pound escalated at 5% per year.

12. The total amount of Expansion Bonds required to be issued to pay the costs of Summer Nuclear Station was estimated based upon the Authority purchasing its ownership share of the initial nuclear fuel under the terms and at the costs set forth in the Westinghouse contract, with the exception of the approximately 18% of the initial core uranium concentrates purchased by SCE&G on the spot market.

13. Their projection of power supply assumes that the Authority and SEPA will execute a new contract containing terms and conditions, including the power allocated to the Authority, which will be substantially the same as the present contract as to which SEPA has served notice of termination effective June 30, 1981. Based upon such assumption, the existing power supply resources, the additional combustion turbine at Hilton Head, Winyah Unit 3, Summer Nuclear Station, Winyah Unit 4 and the planned Cross Unit 2 should be adequate for the period shown to meet the Authority's projected power requirements, including the provisions for reserves. The existing power supply resources and those under construction and planned may not be adequate in the 1981 peak load period if SEPA does not enter into a new contract with the Authority.

14. Operation and maintenance expenses, exclusive of fuel, have been based on the Authority's fiscal year ending June 30, 1979 budget and increased each year thereafter to reflect increased expenses required for projected growth and escalation based on inflation rates and other conditions prevailing in the present economy.

15. Debt service on the 1979A Bonds is based on an interest rate of 7¼% per annum with interest funded to November 1, 1982 with respect to amounts allocable to Winyah Unit 4.

16. Based on an assumed interest rate of 7¼% per annum with interest funded to November 1, 1982, the Consulting Engineer estimated that $104,000,000 of Expansion Bonds would be required to finance Winyah Unit 4. (Based on actual interest rates on the 1979A Bonds, such financing requirements are calculated to be $100,000,000.) Debt service on the $39,400,000 of Expansion Bonds authorized but unissued for Summer Nuclear Station has been assumed at an interest rate of 7¼% with interest funded to June 1, 1981 on such Bonds and the Expansion Bonds previously issued for the Summer Nuclear Station; debt service on $30,000,000 and $31,000,000 of Expansion Bonds not yet authorized for the Authority's general improvement program has been assumed at an interest rate of 6¾% with interest funded to July 1, 1980 and January 1, 1982, respectively; and debt service on the $508,000,000 of Expansion Bonds not yet authorized for Cross Unit 2 has been assumed at an interest rate of 6¾% with interest funded to November 1, 1983.

In the table below, figures from Exhibit C, captioned "Projected Operating Results", contained in the Beck Report have been summarized.

	Fiscal Year Ending June 30(1)					
	1979	1980	1981	1982	1983	1984
	(Dollars in Thousands)					
Operating Revenues	$146,205	$181,456	$200,298	$309,092	$373,278	$428,257
Other Income	3,421	3,489	5,430	6,717	7,745	10,077
Total	$149,626	$184,945	$205,728	$315,809	$381,023	$438,334
Operating Expense (except for depreciation and lease accruals)	114,787	136,982	142,633	210,073	245,395	286,332
Revenues Available for Debt Service, Lease Payments and Other Purposes	$ 34,839	$ 47,963	$ 63,095	$105,736	$135,628	$152,002
Debt Service:						
Priority Obligations	$ 4,319	$ 4,322	$ 4,319	$ 4,322	$ 4,319	$ 4,473
Expansion Bonds — Authorized(2)	15,040	17,113	28,915	51,510	62,766	68,255
Expansion Bonds—(Unauthorized)(3)	—	—	2,025	3,301	4,583	29,383
Total Debt Service	$ 19,359	$ 21,435	$ 35,259	$ 59,133	$ 71,668	$102,111
Lease Payments	4,410	5,235	5,523	5,549	5,549	5,546
Other Obligations	92	89	86	83	80	77
Total Debt Service, Lease Payments and Other Obligations	$ 23,861	$ 26,759	$ 40,868	$ 64 765	$ 77,297	$107,734
Coverage:						
Priority Obligations	8.07	11.10	14.61	24.46	31.40	33.98
Total Debt Service	1.80	2.24	1.79	1.79	1.89	1.49
Debt Service, Lease Payments, and Other Obligations	1.46	1.79	1.54	1.63	1.75	1.41

(1) See footnotes in Exhibit C to the Beck Report, Appendix I.

(2) Includes estimated debt service, at an assumed interest rate of 7¼%, on the 1979A Bonds and $143,400,000 of additional Expansion Bonds assumed to be issued for Summer Nuclear Station and Winyah No. 4 and excludes portion of interest which has been or is to be funded.

(3) Includes estimated debt service, at an assumed annual interest rate of 6¾%, on additional Expansion Bonds expected to be authorized and issued: $61,000,000 for general improvements and $508,000,000 for the planned Cross Unit 2. Excludes portion of interest which is to be funded.

FUEL SUPPLY

The availability of fossil fuels (coal and oil) used by the Authority and the prices at which such fuels can be purchased by the Authority are subject to various factors which affect the availability and the price of fuels in the domestic and world markets and to actions by governmental authorities with respect to fuels, including mandatory federal allocation programs for oil and regulations with respect to mining.

During the 12 months ended December 31, 1978, the Authority's energy supply was derived approximately 83.3% from coal-fueled generation, 0.6% from oil-fueled generation, 9.6% from the Authority's hydro facilities and 6.5% from purchases from SEPA, SCE&G and CP&L.

The following table indicates the percentages of energy to be produced by the various fossil fuels and non-fossil sources expected to be available to the Authority through the fiscal year ending June 30, 1984:

1067 200

Fiscal Year Ending June 30	Fossil Oil	Fossil Coal	Nuclear	Hydro	Other(1)
1979	1.7%	83.4%	—	9.5%	5.4%
1980	2.0	84.1	—	8.8	5.1
1981	—	74.5	12.5%	8.2	4.8
1982	1.1	74.9	14.6	5.9	3.5
1983	.2	78.6	12.4	5.5	3.3
1984	—	79.1	12.6	5.1	3.2

(1) SEPA hydro, assuming power equal to that provided under present contract will continue to be available in fiscal year 1982 and thereafter, and purchases from SCE&G. For information concerning a potential reduction in supply of energy from SEPA in such year, see caption "The Authority—Power Supply".

Coal

The Authority receives bituminous coal for its Grainger, Jefferies and Winyah Generating Stations under long-term contracts with four mining companies. One contract, expiring December 31, 1979, provides for deliveries of 1,200,000 tons per year; a second contract, expiring December 31, 1983, 350,000 tons per year; and a third contract, expiring December 31, 1987, 500,000 tons per year. These three contracts provide for the delivery of coal in unit train shipments. A fourth contract, expiring upon the earlier of September 30, 1998, or the exhaustion of reserves of the coal properties leased by the supplier (which is estimated to occur after 1998), provides for deliveries of 420,000 tons per year and contains provisions to increase tonnage in order to supply Winyah Unit 3. The Authority will receive bids later this year on a new contract to replace the tonnage received under the contract expiring December 31, 1979. The Authority expects that a supply of coal for Winyah Unit No. 4 will be available from present suppliers under options for additional tonnage pursuant to one or more of its existing contracts or from other suppliers which have offered to supply coal to the Authority on a long-term basis. The Authority expects to execute a contract prior to the commercial operation date of Winyah Unit 4.

All contract coal is mined in Eastern Kentucky from surface and underground mining operations. Prices under the various coal contracts are subject to up or down adjustments based on production costs and prevailing market conditions.

As of February 28, 1979, the Authority had on hand coal sufficient to satisfy its requirements for approximately 53 days of projected operation.

The actual coal tonnages required during the fiscal years ended June 30, 1977 and 1978 and the estimated amounts required for fiscal years ending June 30, 1979 through 1984 and amounts under contract, are as follows:

Fiscal Year Ended June 30	Tons Required	Tons Under Contract(1)
1977	1,801,500	—
1978	2,363,788	—
1979	2,441,456	2,470,000
1980	2,659,126	1,870,000
1981	2,465,313	1,270,000
1982	3,459,756	1,270,000
1983	3,895,832	1,270,000
1984	4,406,476	1,095,000

(1) Does not include additional tonnage available under contract expansion options.

Air quality requirements for emissions from the Authority's generating units limit the maximum sulfur content of coal used by the Authority. Such requirements range from a limit of 1.1% in the case of Unit 2 at the Winyah Generating Station to 2.1% in the case of Units 3 and 4 at the Jefferies Generating Station and the Grainger Generating Station. The sulfur content of coal received under existing contracts ranges from approxi-

mately 1% to 1.9%. The Authority does not anticipate difficulty in obtaining an adequate coal supply with sulfur content within acceptable ranges to meet foreseeable needs.

Should the need arise, the Authority has the flexibility to transfer unit train deliveries between the Jefferies and Winyah Generating Stations, as well as receiving less than unit train deliveries at either of these two stations. The Authority has purchased 154 coal cars to insure their availability.

The average cost of coal purchased by the Authority during the four fiscal years ended June 30, 1978 and during the 12 months ended December 31, 1978, including the cost of rail freight, was as follows:

Period	Average Cost per Ton	Average Cost per Million Btu
Fiscal year ended June 30:		
1975	$31.41	$1.349
1976	25.85	1.102
1977	25.99	1.124
1978	31.80	1.384
12 months ended December 31, 1978	34.55	1.481

The Federal Surface Mining Control and Reclamation Act of 1977 contains, among other things, provisions relating to permits, reclamation and elimination of adverse environmental effects of coal mining by surface methods. The Authority believes that as a result of the Act and the rules promulgated thereunder, which also affect underground mining, there will be increases in the cost of coal to the Authority which will be recovered through its fuel adjustment clause.

Nuclear

Under the Summer Agreement SCE&G acts for itself and as agent for the Authority in the construction and operation of the Summer Nuclear Station including the acquisition and management of nuclear fuel.

In order to fuel and operate a nuclear generating station, six distinct stages of the fuel cycle are involved: (1) the mining and milling of uranium ore to yield uranium concentrates, (2) the conversion of uranium concentrates to uranium hexafluoride, (3) the enrichment of the uranium hexafluoride, (4) the conversion of the uranium hexafluoride to uranium dioxide and the fabrication of fuel assemblies into which the uranium dioxide is incorporated, (5) the utilization of the nuclear fuel in the generating station reactor and (6) the reprocessing of the spent fuel including the appropriate disposition of radioactive wastes, or, alternatively, the extended storage of the spent fuel.

At the present time, SCE&G has under contract with Westinghouse the requirements for uranium concentrates, conversion services and fabrication services to meet the Summer Nuclear Station requirements for the initial core loading (three regions) and the eight reload regions, of which one reload region is required approximately every year. Under anticipated operating conditions such contract is sufficient to cover a period of approximately ten years. It will be necessary for SCE&G to enter into future contracts to cover the difference between its total requirements and those covered by its present contract. SCE&G has also contracted with the United States Department of Energy ("DOE"), formerly the Energy Research and Development Administration, for supplying the necessary enrichment services through the year 2002, which is adequate for operation through the year 2004. SCE&G currently has no commitments for reprocessing nuclear fuel as there are no reprocessing facilities presently operating commercially or planned in the United States. The presently known alternative to reprocessing is extended storage of the spent fuel. Facilities are being incorporated in Summer Nuclear Station for on-site storage of 13 reload regions of fuel which is expected to be adequate for approximately ten years of operation. In addition, there will be sufficient on-site storage capacity to permit storage of the entire reactor core in the event complete unloading should become desirable for any reason. SCE&G presently has no arrangements for off-site storage of spent nuclear fuel.

The following table summarizes the SCE&G's contract commitments for the stages of nuclear fuel assemblies:

Commitment	Contractor	Regions	Operating Years Estimated
Uranium Concentrate	Westinghouse	1–11	1980–1989
Conversion	Westinghouse	1–11	1980–1989
Enrichment	DOE	*	Through 2002
Fabrication	Westinghouse	1–11	1980–1989
Reprocessing	None	None	None

* Requirements contract.

In September 1975, Westinghouse notified SCE&G that "Under present and anticipated market conditions, Westinghouse finds itself unable to obtain sufficient uranium to meet . . . customer needs except at such onerous prices that performance on Westinghouse's part would be commercially impracticable". In October 1975, SCE&G commenced an action against Westinghouse in the U. S. District Court for the District of South Carolina seeking specific performance of the uranium supply provisions of the contract and damages for its breach. Such action was consolidated with other similar actions by other utility companies against Westinghouse and transferred to the U. S. District Court for the Eastern District of Virginia. In October 1978, the United States District Court for the Eastern District of Virginia ruled that Westinghouse had breached its contract to supply uranium for the Summer Nuclear Station and recommended that SCE&G and other utilities with similar contracts attempt to negotiate a settlement of the damages with Westinghouse. The trial on damages, if necessary, is scheduled to commence in late May 1979.

In February 1976, without prejudice to the position of any of the parties as to their ultimate obligations, Westinghouse consented to an order of the U. S. District Court for the Eastern District of Virginia requiring it to deliver quantities of uranium concentrates at the contract price equal to its inventories of uranium concentrates then on hand and on order to the extent received. Under the consent order, SCE&G has received for the Summer Nuclear Station approximately 731,000 pounds of uranium concentrates from Westinghouse, which is approximately 18% of the original Westinghouse commitment to SCE&G (estimated at approximately 4,100,000 pounds) and approximately 82% of the first core fuel requirements. The 731,000 pounds of uranium concentrate acquired from Westinghouse pursuant to the order was obtained at a contract price of approximately $13.60 per pound, including conversion. Sufficient quantities of uranium concentrates to meet the remaining requirements of the initial core were purchased on the open market with prices averaging approximately $40 per pound. The fabrication of the 157 fuel assemblies comprising the initial fuel core has been completed, and all of such assemblies are presently in storage at the Summer Nuclear Station.

It is not possible at this time to estimate the amount of damages occasioned by Westinghouse's actions because the contract calls for performance by Westinghouse over a period of years. SCE&G is continuing discussions with Westinghouse and also with other suppliers for the purpose of obtaining an adequate supply of uranium and minimizing any damages or costs resulting from the actions of Westinghouse.

REGULATORY MATTERS

Federal Energy Regulatory Commission

The Department of Energy Organization Act created the DOE within the Executive Branch to coordinate and administer national energy policies and programs. The Act, among other things, established within the DOE the Federal Energy Regulatory Commission ("FERC"), to which were transferred, effective October 1, 1977, certain of the functions of the Federal Power Commission ("FPC").

The Authority operates its Jefferies Hydroelectric Generating Station and certain other property under License No. 199 S.C. of the FPC granted pursuant to the Federal Power Act. This license expired on April 1, 1976.

The Authority made application to the FPC for a new license for its Jefferies Hydroelectric Generating Station in accordance with FPC regulations. Pursuant to Section 15 of the Federal Power Act, the Authority is entitled to continue operating the Station under the terms of its existing license until such time as the FERC issues a new license. Petitions to intervene in the relicensing proceeding have been filed by several environmental groups and individuals who have asked that any new license be issued with certain restrictive conditions relating to dredging activities in the project reservoirs and with respect to the recreational leasing practices of the Authority. All of those interventions have been granted. The Authority has submitted settlement proposals to the FERC which would resolve all substantive issues in the proceeding, except for the issues raised by Airco, Inc. ("Airco") described below. The FERC has stated that it will not act on the proposal until safety questions involving dams and dikes on Lakes Marion and Moultrie are resolved.

In May 1972, Airco, an industrial customer of the Authority, entered into a negotiated power contract specifying the terms and conditions of the rate and a fuel adjustment clause applicable to its electrical usage through December 31, 1976. In May 1975, Airco filed a petition with the FPC seeking permission to intervene in the relicensing proceeding. In its petition, Airco alleged that the Authority's rates are unreasonable, discriminatory and unjust because they contain a fuel clause which makes no adjustment for the portion of the power purchased from the Authority which is generated by water power, and asked that any new license issued to the Authority be conditioned upon restitution to Airco of all fuel costs wrongly charged, with a further condition that the Authority shall not apply to sales of hydro generated electric energy charges reflecting the cost of fossil fuel generation.

In February 1976, an order was issued by the FPC permitting Airco to intervene in the pending proceeding. The FPC found that the questions raised by the petition of whether South Carolina law provides the regulation and control by a state agency contemplated by Section 19 of the Federal Power Act, and whether municipal licensees are exempt from any rate and service jurisdiction of the FPC, present substantial factual and legal issues which warrant fuller consideration and which may appropriately be considered at hearings on the Authority's application for relicense. The FPC specifically indicated that it was expressing no opinion at this time on the merits of these questions. In June 1978, Airco withdrew from the proceeding, but the FERC has not yet approved such withdrawal.

Section 19 of the Federal Power Act provides, in pertinent part, that the FERC may exercise jurisdiction over the rates of a licensee where a state has not empowered an agency within the state to regulate such rates. Section 20 of the Federal Power Act provides that the rates of licensees for the sale of power in interstate commerce shall be just and reasonable and that the FERC may exercise jurisdiction over the rates and/or the security issuances of a licensee where the state has not empowered an agency within the state to exercise such jurisdiction.

The Authority contends that it is exempt from the jurisdiction of the FERC with regard to its rates and securities issuances. Debevoise & Liberman, Washington, D.C., legal advisors to the Authority in the relicensing proceeding, and the Authority's general counsel, are of the opinion that the Authority's legal position is correct, but they are unable to predict what the FERC's decision might be or when that decision will be forthcoming. In their opinion, should the FERC ultimately be found to have jurisdiction over the rates of the Authority, the rates allowed by the FERC would have to be consistent with the standards of the Federal Power Act relating to just and reasonable rates and with applicable court decisions. It is also their opinion that the jurisdiction of the FERC would terminate as soon as the State of South Carolina provides an agency having regulation and control over the Authority's rates.

The Authority is required to obtain the approval of the FERC for the construction of its planned generating station near Cross, South Carolina since such station will be located on properties included within License No. 199 and since it will be necessary to draw make-up water from project waters. The FERC is preparing an environmental impact statement which is a condition of such approval.

Environmental Matters

Both federal and state authorities have imposed various environmental control requirements relating primarily to airborne pollution and the discharge of pollutants, including heat, into waters in the vicinity of the

1067 284

Authority's generating stations. Standards related to environmental suitability are subject to change, and litigation by environmental groups and others may affect the construction of facilities or their operation. The Authority endeavors to insure that its facilities comply with applicable environmental regulations and standards; however, no assurance can be given that necessary authorizations and permits will be received, or that standards as to environmental suitability will not be changed in a manner to affect adversely the Authority or its operations. The Authority cannot now estimate the precise effect of existing and potential regulations and legislation upon any of its existing and proposed facilities and operations, nor the impact of additional costs which may be incurred in effecting compliance with potential regulations and legislation.

Air Quality. Pursuant to the Federal Clean Air Act of 1970, as amended (the "Air Act"), the Environmental Protection Agency ("EPA") promulgated primary and secondary ambient air quality standards with respect to certain air pollutants including particulates, sulfur oxides and nitrogen oxides. In keeping with these regulations, the South Carolina Department of Health and Environmental Control ("DHEC") adopted state implementation plans generally designed to achieve the primary and secondary ambient air quality standards, which plans have been approved by EPA.

Permits have been received and are in effect for the Grainger Generating Station Units 1 and 2, Jefferies Generating Station Units 1, 2 and 3 and Winyah Unit 1. DHEC has notified the Authority that Unit 4 of the Jefferies Generating Station must be brought into compliance with particulate emission standards by July 1, 1979. The Authority is presently modifying its electrostatic precipitators at Unit 4 in order to comply with such standards, and such modifications are presently scheduled to be completed in June 1979.

Winyah Unit 2 is being operated in compliance with standards for particulate emissions. Tests for compliance with sulfur dioxide and nitrogen oxide emissions are now being conducted. Emission control equipment has been designed and is expected to be adequate to meet applicable standards when utilized with coal supplies of the type presently under contract.

The EPA has also issued regulations, effective January 1, 1975, under authority of Section 301(a) of the Air Act providing regulatory mechanisms for the prevention of significant deterioration of air quality ("PSD"). DHEC has adopted regulations to incorporate the EPA's maximum allowable increases in ambient ground level concentrations with respect to PSD. As amended, these rules and regulations provide that no construction permit will be issued for certain new or modified sources, including fossil fuel steam-electric plants, if emissions of particulates or sulfur dioxide from such a source, or a combination of such sources, will cause the allowable increases in ambient ground level concentration to exceed certain limits. In order to allow the construction of new sources, the EPA in December 1976 issued an interpretive ruling which permits the construction of new sources equipped with the "best available control technology" in exchange for a reduction of emissions from existing sources.

In August 1977, the Clean Air Act Amendments of 1977 (the "1977 Air Act Amendments"), which are comprehensive in nature, were enacted. The 1977 Air Act Amendments, most of the provisions of which are applicable to plants on which construction commences after the promulgation of proposed standards, mandate the use of the "best technological system of continuous emission reduction" and preclude the use of untreated low sulfur coal as a sole means of compliance. The 1977 Air Act Amendments also affect the siting of new plants as well as the type of pollution controls which would be required for such new plants and provide for penalties for noncompliance after a certain date.

The EPA ruled that provisions of the 1977 Air Act Amendments, requiring application of the "best available control technology", would not be enforced until new regulations were proposed in March 1978. The Authority's PSD application to construct Winyah Units 3 and 4 was submitted to DHEC in June 1977 and received preliminary approval on August 3, 1977. In February 1978, the final construction permits for these units were issued, subject to certain conditions. In order to meet one of the conditions of the permit for Winyah Unit 3, the Authority is required to reduce the sulfur content of the coal for Unit 1 to 1.3%. To operate Unit 4, the Authority would be required to modify the flue gas desulfurization equipment presently installed on Unit 2. The cost of this modification is estimated by Burns and Roe, Inc., construction engineer for Unit 2, to be approximately $500,000. The Authority does not anticipate any difficulties in meeting the conditions of the permits.

In litigation to which the Authority is not a party, the suspension of certain requirements under the 1977 Air Act Amendments by the EPA has been challenged, as has the validity of construction permits issued during the suspension. If the Authority's construction permits for Winyah Units 3 and 4 were cancelled, the Authority would have to comply with regulations by the EPA, and the requirement that the Authority utilize the "best available control technology" at these units would be applicable. Compliance with the regulations and application of the "best available control technology" could increase the construction costs of the units, adversely affect their operating expenses and result in delays in the completion of construction.

PSD applications submitted after August 8, 1978, are required to include monitoring results collected at the source for one full year prior to the permit application so as to establish the required new baseline data. Under certain circumstances, the 1977 Air Act Amendments and regulations adopted thereunder could prevent construction of additional generating units in some areas. In July 1978, the Authority filed an application with DHEC for a construction permit for Cross Unit 2. The Authority has been informed that the application will be noticed for public comment in the near future.

The 1977 Air Act Amendments require the EPA to promulgate revised new source performance standards for sulfur dioxide, particulates and nitrogen oxides. The revised standards which would have a prospective effect must include not only an emission limitation but must also require the achievement of a percentage reduction from the emissions which would otherwise result from combustion of non-treated fuels. The EPA has proposed revised standards for comment.

Water Quality. The Federal Water Pollution Control Act, as amended (the "Water Act"), provides for the imposition of effluent limitations to regulate discharges of pollutants, including heat. The Water Act provides, with respect to existing plants, that there be achieved by July 1, 1977 effluent limitations which require application of the "best practicable control technology currently available." The Water Act provides for three categories of pollutants and staged pollution control for each category. For pollutants designated as "toxic pollutants" in the Water Act, effluent limitations at least as stringent as "best available technology economically achievable " must be promulgated by July 1, 1980 with provision for compliance no later than July 1, 1984 and, with respect to any pollutants subsequently added to such list by EPA, compliance no later than three years after effluent limitations for such pollutants are established. Should EPA itself promulgate effluent limitations for "toxic pollutants," compliance must be achieved within one year, unless technologically not feasible, in which case compliance must be achieved within three years of such promulgation. For pollutants designated as "conventional pollutants" in the Water Act, effluent limitations previously set for "best available control technology economically achievable" will be reviewed and compliance with "best conventional pollutant control technology" must be achieved by July 1, 1984. For all other pollutants, "best available control technology economically achievable" must be achieved by the later of July 1, 1984 or three years after the promulgation of the effluent limitations but in no event later than July 1, 1987 unless waivers meeting statutory criteria are obtained. For sources of pollutant discharges which are not under construction at the time regulations are proposed ("new sources"), the Water Act requires effluent limitations which require application of the "best available demonstrated control technology". The Water Act further provides for effluent limitations which require that the location, design and construction of cooling water intake structures, with respect to both existing and new sources, reflect the "best technology available for minimizing adverse environmental impact."

EPA has delegated to the State of South Carolina responsibility for processing applications and issuing National Pollutant Discharge Elimination System ("NPDES") permits under the Water Act. DHEC has issued permits, expiring in 1981, for all the Authority's existing generating stations. Terms and conditions of the permits require certain abbreviated environmental studies of the cooling water intakes and monitoring of specified discharges at various locations for each generating station. At one generating station, a thermal discharge model study was required, the results of which study have been approved by DHEC. Environmental studies of the cooling water intakes at each generating station have been completed and submitted to DHEC for review. No major changes are anticipated to be required under the present permits.

In November 1975, EPA promulgated regulations pursuant to the Water Act which would require, among other things, assessments and allocations of the discharge of pollutants, including thermal discharges, which

could affect permits issued under the Water Act. An appeal of the regulations is now pending. The Authority is unable to predict the effect of the regulations except that they could result in higher capital and operating costs and could restrict sites available for future expansion of the Authority's generating facilities.

NPDES permits and certain other water quality permits will be required for the operation of Winyah Units 3 and 4 and Cross Unit 2. The Authority has applied to DHEC for NPDES permits for Winyah Units 3 and 4, and intends to apply for a NPDES permit for Cross Unit 2 later in 1979. The Authority does not anticipate any difficulties in obtaining such permits.

Nuclear Matters

The Summer Nuclear Station is subject to regulation by the Nuclear Regulatory Commission ("NRC"), a successor to the Atomic Energy Commission ("AEC"). The construction permit for the Summer Nuclear Station was issued by the AEC in 1973. In December 1976, an application for an operating license for the Summer Nuclear Station was filed with the NRC. In February 1978, the NRC granted the petition of a party living near the site of the Summer Nuclear Station to intervene in the licensing proceeding.

In December 1978, Central petitioned the NRC to make a finding of significant change in the activities of the Authority and SCE&G, the licensees, and to refer the matter to the Attorney General of the United States for an antitrust review and his advice as to any conditions relating to the antitrust laws that should be placed in the operating license for the Summer Nuclear Station. The petition as amended alleges that the licensees agreed to restrict competition between themselves in the sale of electric power, that Central is almost entirely dependent upon the Authority for bulk power supply, and that the Authority's dual rates to Central unfairly restrict Central's constituent members from competing with the Authority for large power loads. The Authority and SCE&G have opposed such petition. While the ultimate relief sought by Central in its petition is not clear, the NRC has no direct jurisdiction over the Authority's rates, and Central's petition states that "Central notes that it is dependent on the Authority for almost all of its power supply and would suffer serious injury if there were to be any delay in granting an operating license for said Summer unit." The Authority and SCE&G do not believe, even if the petition were granted, that any such antitrust review would result in delay in issuance of the operating license. In March 1979 the staff of the NRC filed a response to Central's amended petition concluding that the NRC should deny such petition.

In July 1976, the United States Court of Appeals for the District of Columbia announced decisions in two cases, to which neither SCE&G nor the Authority was a party, concerning the scope of NRC environmental review of nuclear plants. In one decision the Court held that the NRC must give further consideration in all cases to the environmental impact of the reprocessing of spent fuel and the disposal of radioactive waste material. In October 1976, the NRC initiated rulemaking proceedings to evaluate further the environmental impact of reprocessing and waste disposal, and in March 1977 the NRC adopted an interim rule relating to the environmental impact of fuel reprocessing and waste disposal and stated that all operating licenses and construction permits previously issued would remain in effect. The NRC has continued to issue permits and licenses pending completion of the final rule and subject to the condition that any project licensed be in compliance with such final rule. In the other decision the Court held that the NRC must consider energy conservation as an alternate to the construction of nuclear plants in licensing proceedings where energy conservation (in addition to alternative means of generating power) is raised as an issue. The NRC has not initiated a rulemaking proceeding with respect to energy conservation matters. The United States Supreme Court has reversed and remanded both Court of Appeals decisions. No prediction can be made as to whether the reopened rule making proceeding will delay the issuance of an operating license for the Summer Nuclear Station, which is presently scheduled to load fuel in mid 1980.

SCE&G and the Authority are required to obtain liability insurance and a United States Government indemnity agreement for the Summer Nuclear Station prior to the time the NRC operating license is issued to insure against their maximum liability under the Price Anderson Act (currently $560,000,000) for any public claims arising from a nuclear incident. Commencing August 1, 1977, the United States Government's indemnity responsibilities began to be phased out and replaced by a mandatory industry-wide program of self-insurance, under which each licensee of a nuclear power plant became obligated, in the event of a nuclear incident involving any commercial nuclear facility in the country, to pay a deferred premium of up

to $5,000,000 per incident, up to a maximum of $10,000,000 per year in the event of more than one incident. The $560,000,000 limitation will increase as assessments available under the self-insurance program exceed that amount, due to an increase in the number of units subject to such assessments. After the Summer Nuclear Station becomes subject to the deferred premium system, the Authority will be liable for one-third of each deferred premium assessed with respect to the Station.

Department of Energy

The Public Utility Regulatory Policies Act of 1978 requires, among other things, that each electric utility having annual retail sales in excess of 500 million kWh, including the Authority, determine, after a public hearing held prior to November 9, 1981, whether adoption of various retail rate design standards (such as time of day, seasonal and interruptible rates, rates based on cost of service, the prohibition of certain declining block rates and various load management techniques) will conserve energy supplied by such utility, promote efficient use of such utility's resources and provide equitable rates to such utility's retail customers. The Act provides that the Secretary of the DOE, any affected electric utility, or any affected retail customer of such utility may intervene in any ratemaking or similar proceeding in order to initiate and participate in the consideration of such standards.

The Powerplant and Industrial Fuel Use Act of 1978, among other things, places restrictions on the use of petroleum and natural gas as a fuel in certain electric powerplants. With respect to certain existing powerplants, which are fueled by oil, including Units 1 and 2 of the Jefferies Generating Station and the Authority's existing combustion turbines, the Economic Regulatory Administration ("ERA") of the DOE may prohibit the use of oil as a primary energy source if the ERA finds that such powerplant has or had the technical capability to use coal or an alternate fuel as a primary energy source and could have such capability without substantial physical modification or substantial reduction in its rated capacity, and that it is financially feasible to use coal or an alternate fuel. With respect to certain new powerplants, which may include the Authority's additional combustion turbine being installed at Hilton Head, South Carolina, the Act prohibits the fueling of such plants with oil, and the construction of such plants without the capability to use coal, without an exemption from the ERA. The Act provides for the exemption of peakload powerplants and, if the additional combustion turbine at Hilton Head is determined to be a new powerplant, the Authority plans to request such an exemption from the ERA. Under normal conditions the Authority generates less than two percent of its power supply from oil.

CERTAIN PROVISIONS OF THE INDENTURE AND RESOLUTION

The following statements are summaries of certain provisions of the Indenture and Resolution and are subject to the detailed provisions thereof. See also caption "Security for Expansion Bonds—Pledge of Revenues, Reser Account Requirement and Rate Covenant". Terms used under this caption which are defined in the Indenture and Resolution are used herein as so defined.

Funds and Accounts

Revenue Fund: The Revenue Fund shall be held in trust and administered by the Indenture Trustee so long as any of the Priority Obligations are outstanding and thereafter shall be held in trust and administered by the Authority. The Authority covenants and agrees in the Indenture that it will pay into the Revenue Fund, as promptly as practicable after receipt thereof, all of the revenues of the System.

Order of Payments from Revenue Fund: Under the Indenture moneys shall be disbursed by the Indenture Trustee from the Revenue Fund to other funds and accounts of the Authority, created by the Indenture, or permitted by the Indenture and created by the Resolution, in the following order:

1. *Operating Fund:* To pay monthly to the Authority for its Operating Fund an amount sufficient to cover operating and maintenance costs for 30 days. However, no moneys shall be so paid for Lease Payments.

2. *Interest Fund:* To pay monthly to the Interest Fund a proportionate amount of the next due interest payment on the Priority Obligations.

1067 288

3. *Bond Fund:* To pay monthly to the Bond Fund a proportionate amount of the next due payment for the principal and sinking fund installments on the Priority Obligations.

4. *Debt Service Reserve Fund:* To pay to the Debt Service Reserve Fund for the Priority Obligations amounts sufficient to maintain that Fund at the required level equal to debt service on the Priority Obligations for the next 24 months.

5. *Expansion Bond Fund:* To pay monthly to the Expansion Bond Fund Trustee, proportionate amounts of the next due interest, principal and sinking fund installments on the Expansion Bonds, for deposit appropriately in the *Interest Account, Principal Account,* and *Bond Retirement Account.* In the event that a deficiency should occur in the *Reserve Account,* payments into such account to restore such deficiency over a period of 60 months would be required. See caption "Security for Expansion Bonds—Reserve Account Requirement".

6. *Lease Fund:* To pay monthly to the Authority for deposit in the Lease Fund a proportionate amount of the next due Lease Payments.

7. *Contingency Fund:* Whenever a deficiency occurs in the Contingency Fund, whereby there is in such fund less than the required amount of $1,152,000, payments into such fund are required to be made to restore such deficiency over a period of 60 months.

8. *Capital Improvement Fund:* To pay into the Capital Improvement Fund amounts approved by the Authority. Under the Indenture no minimum amount is required to be so paid. Under the Resolution an annual *Minimum Capital Improvement Requirement* is established. The requirement is an amount which, together with the amounts deposited in the Capital Improvement Fund in the two immediately preceding fiscal years, is at least equal to 8% of the gross revenues (Operating Revenues and Other Income) derived from the ownership and operation of the Authority's System in the three immediately preceding fiscal years; provided that, after the 1973 Bonds and 1974 Bonds are no longer outstanding, the requirement is an amount which, together with the amounts deposited in the Capital Improvement Fund in the two immediately preceding fiscal years, is at least equal to 12% of the gross revenues (Operating Revenues and Other Income) of the Authority after deducting therefrom "fuel" expense (including "nuclear fuel expense") and the energy related component of "purchased power" expense, determined in accordance with the Uniform System of Accounts prescribed for Public Utilities and Licensees of the Federal Power Commission in effect on January 1, 1977, derived from the ownership and operation of the Authority's System in the three immediately preceding fiscal years.

9. *Special Reserve Fund:* The Indenture provides that on January 15 and July 15 of each year, after meeting all the requirements of the funds and accounts previously mentioned, any moneys remaining in the Revenue Fund, accumulated prior to the preceding January 1 and July 1, shall be divided by the Indenture Trustee into two parts. One half shall be paid by the Indenture Trustee to the Treasurer of the State of South Carolina for the general funds of the State, and the remainder shall be paid into the Special Reserve Fund, and become available for any lawful purpose of the Authority, as the Authority may determine.

Effect of the Resolution

Under the Resolution, after all Priority Obligations have been retired, or provision has been made therefor, the Expansion Bonds will become gross revenue bonds. Moneys shall then be disbursed by the Authority from the Revenue Fund in the following order:

1. *Expansion Bond Fund:* To pay monthly to the Expansion Bond Fund Trustee, proportionate amounts of the next due interest, principal and sinking fund installments on the Expansion Bonds, for deposit appropriately in the *Interest Account, Principal Account* and *Bond Retirement Account.* In the event that a deficiency should occur in the *Reserve Account,* payments into such account to restore such deficiency over a period of 60 months would be required.

2. *Lease Fund:* To pay monthly to the Lease Fund a proportionate amount of the next due Lease Payments.

3. *Operating Expenses:* To pay expenses of operation and maintenance.

4. *Capital Improvement Fund:* To pay during each fiscal year into the Capital Improvement Fund amounts at least equal to the Minimum Capital Improvement Requirement.

Any moneys remaining in the Revenue Fund after making the foregoing payments would then be available for any lawful purpose of the Authority, including the making of payments to the State of South Carolina.

Investment of Funds

Funds established by the Indenture, other than the Operating Fund, the Interest Fund and the Bond Fund, may be invested, but only in securities constituting direct obligations of, or unconditionally guaranteed as to principal and interest by, the United States of America. Income received from the investment of such moneys is to be deposited by the Indenture Trustee in the Revenue Fund.

The Resolution defines "Government Obligations" as direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and "Investment Securities" as (1) Government Obligations, (2) obligations of any agency or corporation which is or may hereafter be created by an Act of the Congress of the United States as an agency or instrumentality thereof, (3) Public Housing Bonds or Project Notes fully secured by contracts with the United States of America and (4) obligations to the payment of the principal of and interest on which the full faith and credit of the State of South Carolina is pledged.

Moneys in the Construction Fund may be invested in Investment Securities and in certificates of deposit issued by any bank, trust company or national banking association in South Carolina which has capital stock and surplus of at least \$4,000,000 or in any other State which has capital stock and surplus of at least \$50,000,000.

Moneys in the Interest Account, Principal Account and Bond Retirement Account in the Expansion Bond Fund and in the Lease Fund may be invested in Government Obligations. Amounts in the Interest Account representing funded interest on the 1979A Bonds may be invested in Investment Securities. Moneys in the Reserve Account in the Expansion Bond Fund may be invested in Investment Securities.

After all Priority Obligations have been retired, or provision has been made therefor, moneys in the Revenue Fund and in the Capital Improvement Fund may be invested in Government Obligations and Investment Securities, respectively.

Investments of any fund or account shall mature at the times required to provide moneys to make the payments required to be made from said fund or account, except that investments of the Reserve Account in the Expansion Bond Fund must mature within seven years from the date of making the investment.

Additional Expansion Bonds

1. Additional Expansion Bonds may be issued under the Resolution and their terms shall be established by a Series Resolution.

2. If such additional Expansion Bonds are being issued to acquire or construct a Power Plant, the amount to be authorized shall be not less than the amount of the estimated cost of the Power Plant, including capitalized interest, Reserve Account provision and expenses of issuance after deducting estimated investment earnings and any amount being provided for by moneys other than bond proceeds. Such authorized amount may be issued at one time or from time to time.

3. However, in case of issuance from time to time, debt service computations (involved in determining compliance with the earnings test provision of the Resolution respecting additional Expansion Bonds) shall relate to the total authorized amount, with equal annual combined principal and interest payments, computed at the average interest rate on the Expansion Bonds then being issued, beginning the second July 1 following the then estimated date of commercial operation of the Power Plant and continuing until the final maturity date of such Expansion Bonds theretofore issued or then being issued. Also, in case of issuance from time to time, after the first of such authorized Expansion Bonds have been issued in compliance with the earnings test provision of the Resolution, second and subsequent installments of the authorized Expansion Bonds may be issued

provided that the Construction Engineer shall file with the Expansion Bond Fund Trustee a certificate that in his opinion the costs of construction of the Power Plant have not increased so as to require an increase in the amount of Expansion Bonds authorized for the Power Plant. If the costs of construction have increased, the Authority must increase the amount of the authorized issue accordingly and must again comply with the earnings test provision of the Resolution.

4. If the Authority proposes to issue Expansion Bonds for a second project while a Power Plant partially financed is still under construction, the Construction Engineer for such Power Plant shall certify that the costs of construction of such Power Plant have not increased. If such costs have increased, the amount of Expansion Bonds authorized for such Power Plant shall be increased accordingly unless the investment of the proceeds of the Expansion Bonds or Revenues of the Authority will be available to meet such deficiency, and the Authority must, in complying with the earnings test provision of the Resolution, reflect such increased amount of Expansion Bonds.

5. Additional Expansion Bonds may be issued provided that (a) there is no default in any of the provisions of the Indenture or Resolution; (b) the amount in the Reserve Account in the Expansion Bond Fund is, or will be upon issuance of such Expansion Bonds, equal to the Reserve Account Requirement; and (c) except in the case of the second or subsequent installments of authorized Expansion Bonds as set forth above, a certificate of the Consulting Engineer is filed with the Expansion Bond Fund Trustee evidencing compliance with the earnings test provision of the Resolution. Such earnings test provision is contained in Article II (Section 2.6) of the Resolution and is briefly summarized below.

6. Net Revenues (being the Operating Revenues and Other Income less expenses of operation and maintenance, except Lease Payments and depreciation) in each succeeding fiscal year to and including (a) the fiscal year which is the third succeeding fiscal year after the date of sale of the additional Expansion Bonds or (b) the fiscal year which is the first fiscal year after the date, or estimated date, of commercial operation of any Power Plant to pay the costs of construction of which additional Expansion Bonds have been or are then being issued or are then authorized to be issued, whichever is later, shall be at least equal to the sum of (i) the amount required in such fiscal year to provide for the payment of the principal of and interest on the Priority Obligations, the Expansion Bonds then outstanding, and the additional Expansion Bonds then being issued; (ii) the amount estimated to be required in such fiscal year to provide for the payment of the principal of and interest on additional Expansion Bonds which have been authorized but not yet issued; (iii) the amount required in such fiscal year for payment into the Lease Fund; and (iv) an amount equal to 8% of the gross revenues (Operating Revenue and Other Income) in such fiscal year. In computing interest requirements, amounts funded or authorized to be funded shall be omitted.

7. Net Revenues for each fiscal year covered by the earnings test shall be Net Revenues for the Base Period adjusted by the Consulting Engineer as provided in the Resolution and summarized below. The Base Period shall be twelve consecutive months out of the preceding eighteen months.

8. The Consulting Engineer shall adjust the Net Revenues for the Base Period by any or all of the following conditions and requirements as may be appropriate to the circumstances:

(a) Acquisition of operating electric utility properties;

(b) Changes in rates including any which are to go into effect not less than 12 months prior to (i) the estimated Date of Commercial Operation of the new Power Plant or (ii) the date to which interest on the additional Expansion Bonds then being issued is capitalized, whichever occurs earlier;

(c) New or amended power sales contracts with customers;

(d) Investment income on increased amounts to be held in the Reserve Account in the Expansion Bond Fund by reason of the issuance of additional Expansion Bonds;

(e) Increases or decreases in power production expenses in case water conditions during the Base Period resulted in output of the Authority's hydroelectric generating facilities being more or less than the average of the preceding twenty years;

(f) Estimated revisions of salary and wage rates and fuel, equipment and supply prices and rate escalation provisions of power sales contracts;

(g) Power sales contracts with other electric utilities for the sale by the Authority of surplus power and energy and power purchases from other electric utilities to supplement the Authority's generating capability; and

(h) Increases in sales to customers at rates of increase determined after a study of the rates of increase for the preceding ten fiscal years and other factors which the Consulting Engineer may deem pertinent and increases in cost associated with the increase in sales and the installation of additional facilities.

Amendments of the Resolution
Effected by Supplemental Resolutions

By a supplemental resolution, adopted February 16, 1977, the Authority has amended the foregoing provisions of the Resolution respecting additional Expansion Bonds, to take effect at such time as the 1973 Bonds and the 1974 Bonds are no longer outstanding, so that subclause (iv) of clause (b) of paragraph 6 shall read:

"(iv) an amount equal to 12% of the gross revenues (Operating Revenues and Other Income) after deducting therefrom 'fuel' expense (including 'nuclear fuel expense') and the energy related component of 'purchased power' expense determined in accordance with the Uniform System of Accounts prescribed for Public Utilities and Licensees of the Federal Power Commission in effect on January 1, 1977, in such fiscal years."

By a supplemental resolution, adopted August 31, 1977, the Authority has amended the foregoing provisions of the Resolution respecting additional Expansion Bonds, to take effect at such time as the 1973 Bonds, the 1974 Bonds and the 1977 Refunding Bonds are no longer outstanding, so that clause (b) of paragraph 8 shall read:

"(b) Changes in the rates of the Authority which have been adopted by the Authority and are then in effect or will be in effect in a fiscal year to which his certificate pertains."

Separate System

Under the Resolution, after the Priority Obligations have been retired, the Authority may create a separate utility system for the purpose of financing facilities for the generation of electric power and energy or for the transmission thereof at voltages of 230 kV or more, by the issuance of bonds or other evidences of indebtedness, other than Expansion Bonds, which shall be payable solely from the revenues or other income derived from the ownership and operation of such separate utility system. In the event that the Authority should purchase, for use in the System, power and energy produced or transmitted by such separate utility system, payments therefor would be payable only after required payments have been made to the Expansion Bond Fund and the Lease Fund.

Junior Lien Obligations

Nothing in the Resolution shall prevent the Authority from issuing bonds, notes, bond anticipation notes, warrants, certificates or other evidences of indebtedness the payment of which shall be made from the proceeds of Expansion Bonds or other indebtedness of the Authority or from revenues, and if payable from revenues shall be made junior and subordinate to the payment of the Expansion Bonds. The Authority may create special funds to provide for the payment of such obligations, payments to which shall be made after payments to the Expansion Bond Fund, and may, at the Authority's option, be made prior to or after payments into the Lease Fund.

Engineering Reports and Audits

The Indenture requires that, no less frequently than once in each period of three years, the Authority and the Indenture Trustee shall each appoint an Independent Engineer who together shall select a third

Independent Engineer, the three to constitute a "Board of Engineers", who shall review the books and records of the Authority, inspect the properties and report its findings and recommendations. Under the Resolution, after the Priority Obligations have been retired, the Consulting Engineer will perform such function.

The Resolution requires that, whenever the Authority has determined to issue additional Expansion Bonds in connection with the acquisition and construction of a Power Plant, it shall engage a Construction Engineer, with experience in the design and construction of power plants and estimating the cost thereof, to design and supervise construction and to prepare the cost estimates and quarterly progress reports required by the Resolution. For the Summer Nuclear Station, Gilbert Associates, Inc. is performing the design services, Daniel Construction Company is providing construction services and SCE&G is providing overall management and preparing the cost estimates. Burns & Roe, Inc. has been appointed Construction Engineer for Winyah Units 3 and 4 and Cross Unit 2. The Resolution also requires the Authority to employ a Consulting Engineer, with experience in analyzing the operation of electric utility systems, forecasting loads and revenues, preparing rate analyses and preparing feasibility reports respecting the financing of electric systems, to prepare any certificate which is required by the Resolution in connection with additional Expansion Bonds, sales of property or any other matters.

The Resolution requires quarterly financial reports and an annual full audit and report to be made by a certified or chartered Accountant. The Resolution also requires, during the period of construction of any Power Plant, a quarterly progress report. Any such report shall be furnished to any Bondholder who has furnished his name and address for such purpose.

Insurance

The Indenture and the Resolution require the Authority to insure such of its various properties as are usually insured by utilities owning like properties in similar amounts and coverages, with insurance companies, and to carry liability insurance in reasonable amounts.

Sale, Lease or Other Disposition of Properties

The Authority may sell, lease or otherwise dispose of the System if simultaneously therewith provision is made for the retirement of all outstanding Priority Obligations and Expansion Bonds. The Authority may sell, lease or otherwise dispose of any part of the System if the Consulting Engineer shall certify to the Authority that, after taking into consideration the use by the Authority of the proceeds of such sale, lease or other disposition, the estimated Revenues to be derived from the remaining properties of the System will be sufficient to enable the Authority to comply with all the covenants and conditions of the Resolution. The Authority may sell, lease or otherwise dispose of surplus lands, crops, timber, stumpage, buildings and any portion of the works, plant and facilities which shall become unserviceable, inadequate, obsolete, worn out or unfit to be used in the operation of the System or no longer necessary, material to or useful for such operation.

Events of Default and Remedies under the Resolution

So long as any Priority Obligations are outstanding, the rights and remedies upon an Event of Default provided by the Resolution may only be exercised by the holders of the Expansion Bonds and the Bond Fund Trustee to the extent that the exercise of such right or remedy will not impair the rights of the holders of the Priority Obligations. Events of Default under the Indenture and the remedies of the holders of the Priority Obligations and the Indenture Trustee are summarized below under the subcaption "Events of Default and Remedies under the Indenture". An Event of Default under the Resolution may occur which is not an Event of Default under the Indenture and *vice versa*.

Under the Resolution, the happening of one or more of the following events constitutes an Event of Default: (i) default in the performance of any obligation with respect to payments into the Revenue Fund; (ii) default in the payment of the principal of or default for 30 days in the payment of interest or sinking fund installments on any Expansion Bonds; (iii) default for 90 days in the observance and performance of any other of the covenants, conditions and agreements of the Authority in the Resolution; (iv) the sale or conveyance of any properties constituting part of the System except as permitted by the Resolution or the

failure to use its best efforts to maintain, the voluntary forfeiture or the lapsing or termination by neglect or default of, any license, franchise, permit or other privilege necessary or desirable in the operation of the System; and (v) certain events in connection with the bankruptcy, insolvency or reorganization of the Authority.

In case an Event of Default has occurred which has not been cured, the Bond Fund Trustee is required to exercise such of the rights and powers vested in it by the Resolution and use the same degree of care and skill in the exercise thereof as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

If an Event of Default has occurred, and shall not have been remedied, the Bond Fund Trustee or the holders of not less than 25% in principal amount of the Expansion Bonds then outstanding may declare the principal of all Expansion Bonds and the interest accrued thereon to be immediately due and payable, but such declaration may be rescinded under certain circumstances.

After the occurrence of an Event of Default and prior to the curing of such Event of Default, the Bond Fund Trustee may, to the extent permitted by law, but only if the Priority Obligations are no longer outstanding, take possession and control of the System and operate and maintain the same, prescribe rates for capability or power sold or supplied through the facilities of the System, collect the gross revenues resulting from such operation and perform all of the agreements and covenants contained in any contract which the Authority is then obligated to perform. Such gross revenues, subject to the rights of the holders of the Priority Obligations, shall be applied first to the payment of the reasonable expenses and liabilities of the Bond Fund Trustee and thereafter to the payment of operating expenses and principal of and interest on the Expansion Bonds. After all sums then due in respect of the Expansion Bonds have been paid, and after all Events of Default have been cured or secured, to the satisfaction of the Bond Fund Trustee, the Bond Fund Trustee is required to relinquish possession and control of the System to the Authority. At any such time the Bond Fund Trustee shall be entitled to the appointment of a receiver of the business and property of the System, of the moneys, securities and funds of the Authority pledged under the Resolution, and of the Revenues, and of the income therefrom, with all such powers as the court or courts making such appointment shall confer.

The Resolution empowers the Bond Fund Trustee to file proofs of claims for the benefit of the holders of the Expansion Bonds in bankruptcy, insolvency, or reorganization proceedings and to institute suit for the collection of sums due and unpaid in connection with the Expansion Bonds, to enforce specific performance of covenants contained in the Resolution or to obtain injunctive or other appropriate relief for the protection of the holders of the Expansion Bonds.

No holder of Expansion Bonds has any right to institute suit to enforce any provision of the Resolution or the execution of any trust thereunder (except to enforce the payment of principal or interest installments as they mature), unless the Bond Fund Trustee has been requested by the holders of not less than 25% in principal amount of the Expansion Bonds then outstanding to exercise the powers granted it by the Resolution or to institute such suit and unless the Bond Fund Trustee has refused or failed within 60 days after the receipt of such request and after having been offered adequate security and indemnity, to comply with such request. In the event the Bond Fund Trustee has failed or refused to comply with the aforesaid request, the Resolution provides for the creation of a "Bondholders' Committee".

The enforceability of rights under the Resolution may be subject to judicial discretion and to valid bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors.

Events of Default and Remedies Under the Indenture

Under the Indenture, the happening of one or more of the following events shall constitute an Event of Default: (i) default in the payment of the principal of any Priority Obligation when the amount shall become due and payable whether by the terms thereof, by call for redemption or by declaration; (ii) default in the payment of any installment of interest on any Priority Obligation when the same shall become due and payable, and such default shall continue for 30 days; (iii) default for 60 days in the payment or setting aside of any amounts required to be paid to or set aside in, or in the performance of any other obligation contained in the Indenture in respect of the Revenue Fund, the Interest Fund, the Bond Fund, the Debt Service Reserve Fund, the Contingency Fund, the Capital Improvement Fund or the Special Reserve Fund which is required

by the terms of the Indenture to be made; (iv) any improper payments by the Authority out of any of the funds mentioned in (iii) above, unless reimbursed or corrected within 30 days after written notice of such default from the Trustee, which notice shall be given upon the request of the holders of not less than 10% of the outstanding Priority Obligations; (v) the sale, transfer, assignment or conveyance of the System or any portion thereof, necessary or desirable in the use and operation thereof, otherwise than as permitted by the Indenture or the allowance of any of its franchises, easements, or other rights, necessary in the operation of such properties to lapse or to be forfeited; (vi) the lapse of forfeiture of any license, permit or franchise of the Authority necessary in the operation of such properties; (vii) certain events in connection with the bankruptcy, insolvency or reorganization of the Authority; and (viii) default by the Authority in the observance of any other covenant, condition or agreement of the Authority under the Indenture continuing for a period of 60 days after written notice of such default to the Authority from the Trustee, which notice shall be given upon request of the holders of not less than 5% of the Priority Obligations.

The remedies available to the Indenture Trustee and the holders of the Priority Obligations under the Indenture include remedies substantially identical to the remedies of the Bond Fund Trustee and the holders of the Expansion Bonds summarized herein under the subcaption "Events of Default and Remedies under the Resolution", except that the Indenture only provides for the appointment of a receiver and does not provide for the Indenture Trustee to take possession of the System.

Modifications of the Resolution

Modifications of the Resolution and of the rights and duties of the Authority and the holders of Expansion Bonds may be made with the consent of the Authority and written consent of the holders of not less than 66⅔% in principal amount of the Expansion Bonds at the time outstanding; provided that no modification shall be made which will (i) permit the creation of a lien on the Revenues pledged under the Resolution superior or prior to or on a parity with the lien of such Bonds (except to the extent provided in respect to the issuance of additional Expansion Bonds or Priority Obligations to refund outstanding Priority Obligations) or which will give any preference to any such Bonds over any other such Bonds or (ii) extend the fixed maturity date for the payment of any Expansion Bond, or reduce the principal amount of or interest rate on any such Bond or reduce any premium payable upon redemption or advance the date upon which any Expansion Bond may first be called for redemption; or (iii) reduce the percentage of Expansion Bonds the holders of which are required to consent to any amendment to the Resolution; or (iv) give any Expansion Bond or Bonds any preference over any other Expansion Bond or Bonds or reduce the payments required to be made to the Expansion Bond Fund, without the consent of the holders of all the Expansion Bonds affected thereby.

Defeasance

The obligations of the Authority under the Resolution shall be fully discharged and satisfied as to any Expansion Bond and such Expansion Bond shall no longer be deemed to be outstanding thereunder when payment of the principal of and the applicable redemption premium, if any, on such Bond plus interest to the due date thereof (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided by irrevocably depositing with the Bond Fund Trustee or the Paying Agents therefor in trust solely for such payment (i) moneys sufficient to make such payments or (ii) Permitted Investments (as hereinafter defined) maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, and, except for the purposes of such payment, such Expansion Bond shall no longer be secured by or entitled to the benefits of the Resolution; provided that, with respect to Expansion Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof but are not then redeemable, no deposit under (b) above shall constitute such discharge and satisfaction unless such Expansion Bond shall have been irrevocably called or designated for redemption on the first date such Expansion Bond may be redeemed in accordance with the provisions thereof and notice of such redemption shall have been given or irrevocable provision shall have been made for the giving of such notice. Permitted Investments are defined in the Resolution as (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, (ii) Public Housing Bonds or Project Notes fully secured by contracts with the United States of America and (iii) obligations to the payment of the principal of and interest on which the full faith and credit of the State of South Carolina is pledged.

PAYMENTS TO STATE AND LOCAL GOVERNMENTS

Payments in lieu of taxes to the State of South Carolina and local governments in each of the last five fiscal years have been:

1974	$1,219,962
1975	1,168,063
1976	1,394,477
1977	2,531,775
1978	1,853,982

See item 9 under caption "Certain Provisions of the Indenture and Resolution—Funds and Accounts".

PENDING LEGAL PROCEEDINGS

No litigation is now pending, or, to the knowledge of the Authority, threatened, questioning the corporate existence of the Authority or the right of its officers to their respective offices or the right of the Authority to fix rates and other charges for the sale of electric energy except for the Airco intervention described under the caption "Regulatory Matters—Federal Energy Regulatory Commission" or questioning the right of the Authority to issue the 1979A Bonds.

An action, captioned *Avinger* v. *South Carolina Public Service Authority,* is pending in the Supreme Court of the State of South Carolina in which the plaintiff has claimed that the statute under which his property was condemned provides, in substance, that if condemned land is not flooded within five years, the former owner has a right to buy the property back at the original price per acre paid by the Authority, and that such right may be extinguished at any time after six years from the condemnation date only upon 90 days' written notice by the Authority. The Authority has never given such notice to any landowner. The plaintiff seeks to buy his family's property back pursuant to the statute. The trial court granted summary judgment in favor of the Authority in October 1978. The case is now pending in the South Carolina Supreme Court.

For information concerning a declaratory judgment proceeding involving defeasance of the Priority Obligations and various administrative proceedings involving the Authority, see captions "Security for Expansion Bonds—Declaratory Judgment Regarding Defeasance of Priority Obligations" and "Regulatory Matters", respectively.

There are no other actions, suits or governmental proceedings pending, or to the knowledge of the Authority, threatened, before any court, administrative agency, arbitrator or governmental body which will, if determined adversely to the Authority, have a material adverse effect on its financial condition or its ability to transact its business.

TAX EXEMPTION

In the opinion of Bond Counsel, interest on the 1979A Bonds is exempt from present Federal income taxes under existing laws and regulations, and the 1979A Bonds and interest thereon are exempt from present South Carolina property and income taxes.

APPROVAL OF LEGAL PROCEEDINGS

Wood & Dawson, New York, New York, and McNair Glenn Konduros Corley Singletary Porter & Dibble, Columbia, South Carolina, Bond Counsel to the Authority, will render opinions with respect to the validity of the 1979A Bonds. A copy of such opinions will be printed on the 1979A Bonds and will be in substantially the form set forth in Appendix IV. Certain legal matters will be passed upon on behalf of the Underwriters by Simpson Thacher & Bartlett, New York, New York.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Corporation have given the 1979A Bonds ratings of "A1" and "A+", respectively. Such ratings reflect only the respective views of such organizations and an explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. There is no assurance that such ratings will obtain for any given period of time or that they will not be

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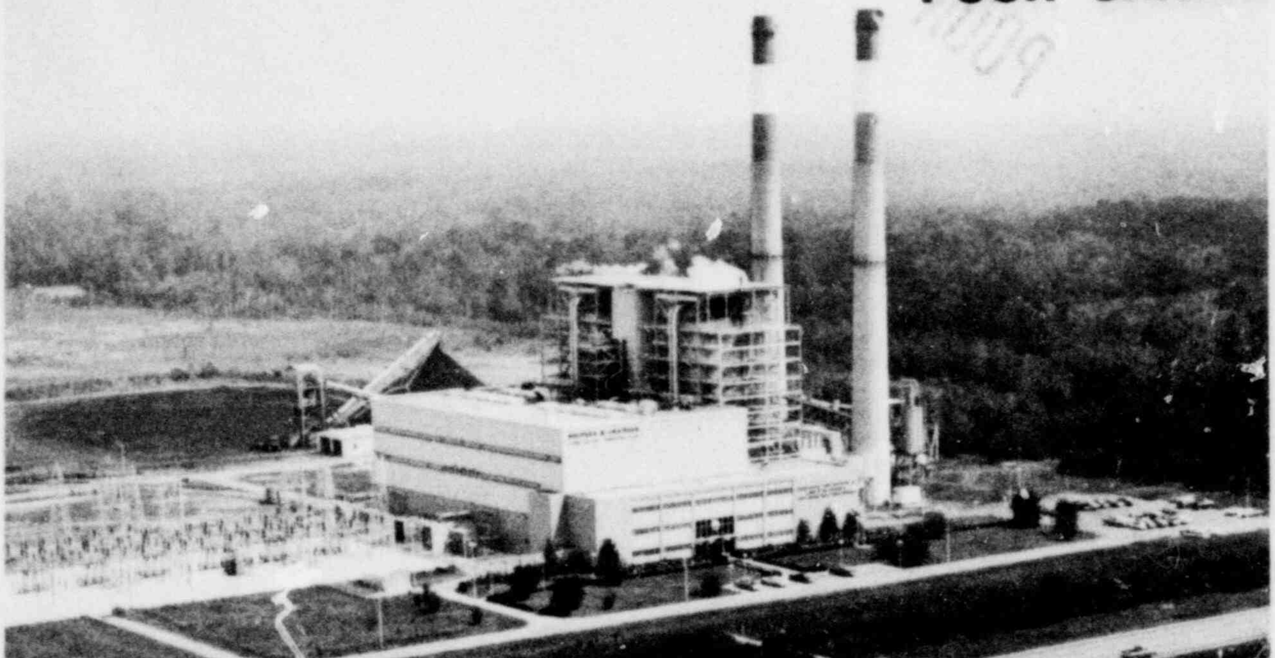
JEFFERIES HYDROELECTRIC PLANT AND JEFFERIES GENERATION STATION located near Moncks Corner, South Carolina, have a combined capacity of 543 MW.

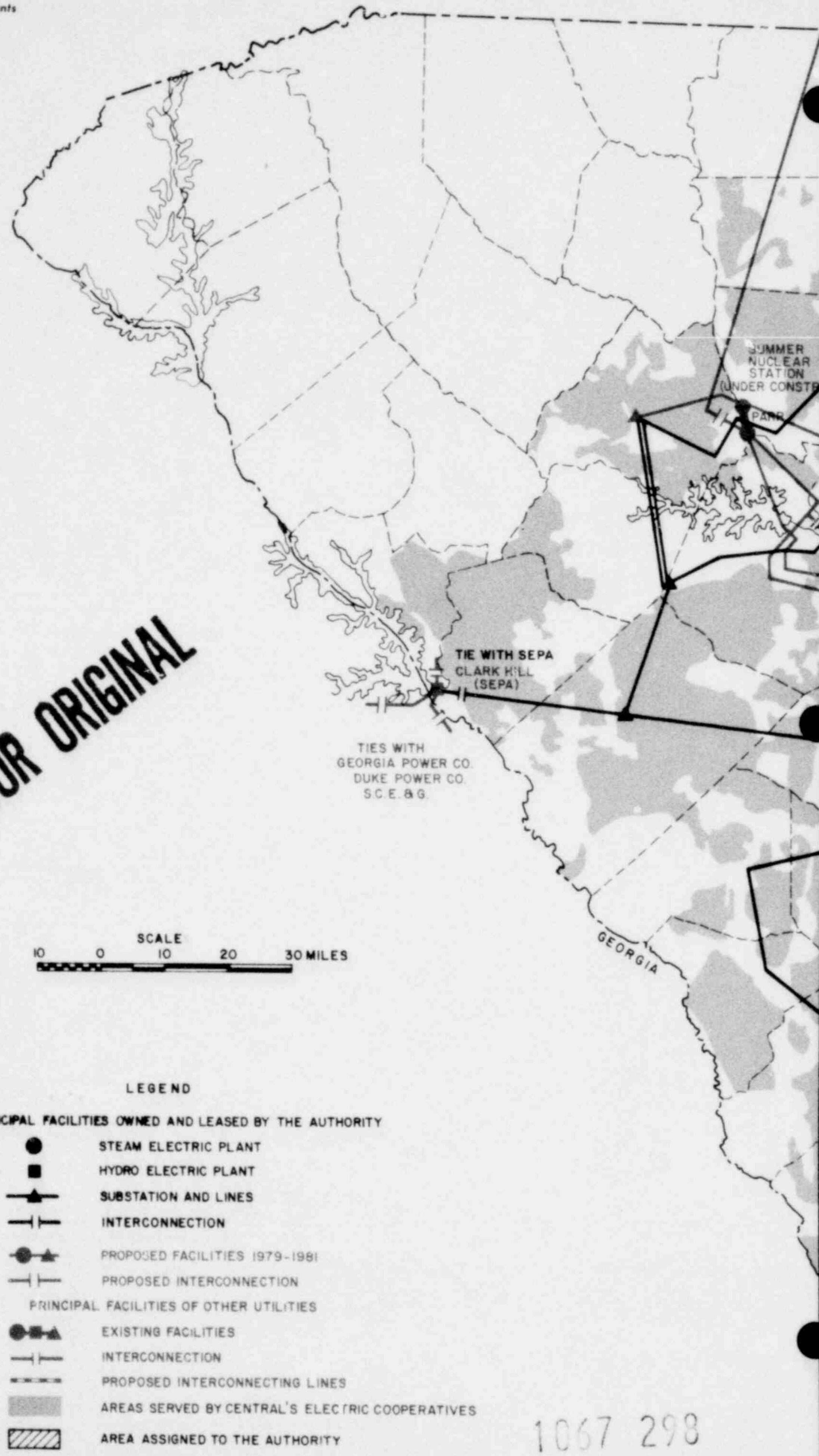


GRAINGER GENERATING STATION at Conway, South Carolina, with a capacity of 170 MW, is leased and operated by the Authority.

PREPARED BY

R. W. BECK and ASSOCIATES

Engineers and Consultants



POOR ORIGINAL

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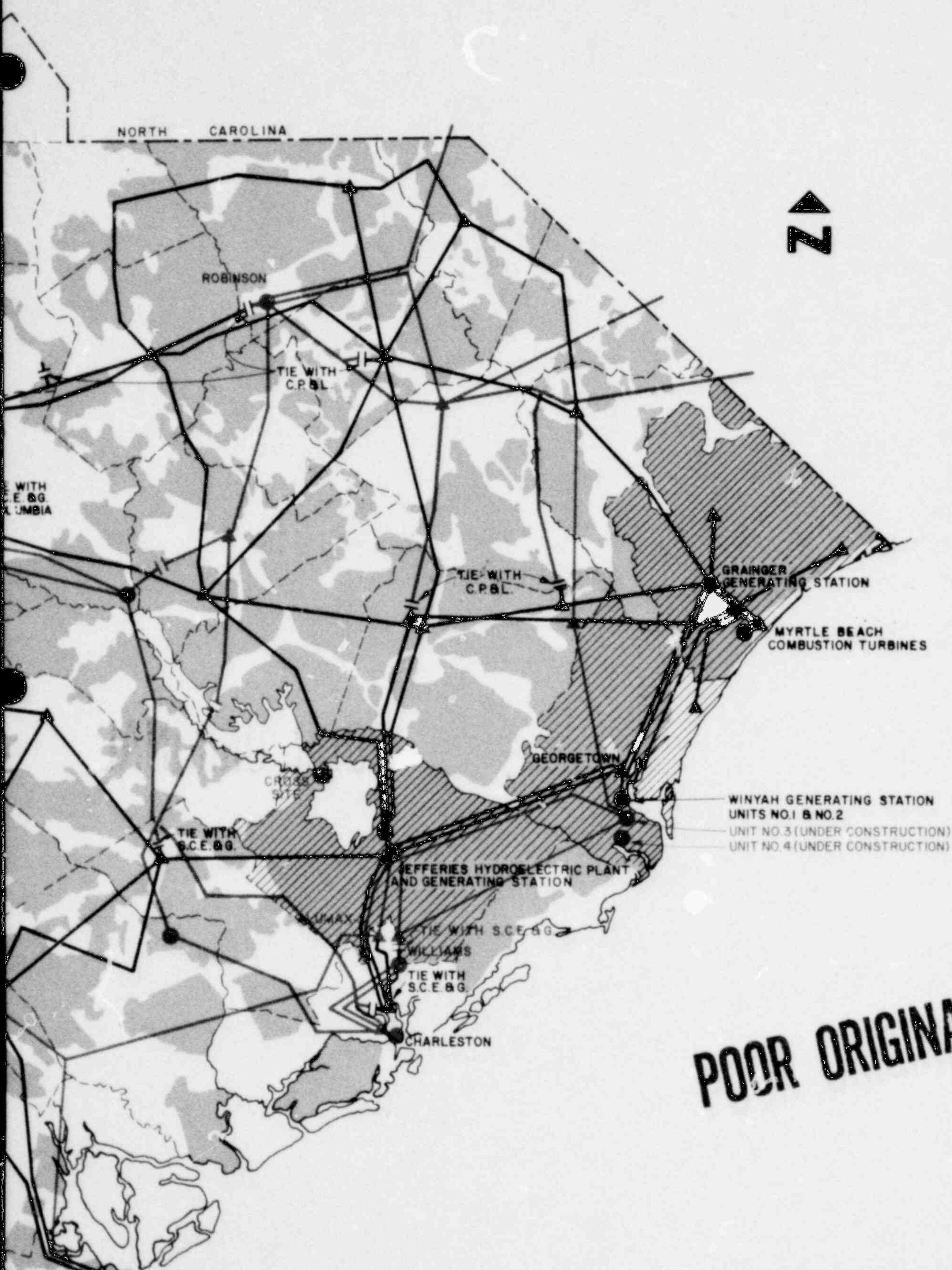

POOR ORIGINAL

PRINCIPAL GENERATING STATIONS
AND TRANSMISSION LINES
OF
SOUTH CAROLINA
PUBLIC SERVICE AUTHORITY

1067 299

WINYAH GENERATING STATION at Georgetown, South Carolina. Units No. 1 and No. 2, each with a capacity of 280 MW placed in operation March 1975 and July 1977, respectively. Units No. 3 and No. 4, each with a capacity of 280 MW under construction with commercial operation scheduled for May 1980 and May 1982, respectively.

POOR ORIGINAL

SUMMER NUCLEAR STATION located near Columbia, South Carolina, with a capacity of 900 MW is scheduled for commercial operation in December 1980. The Authority's ownership share is 300 MW.

1007 300

revised downward or withdrawn entirely by either or both of such rating agencies, if in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the 1979A Bonds.

UNDERWRITING

The 1979A Bonds are being purchased by the Underwriters for whom Blyth Eastman Dillon & Co. Incorporated, Lehman Brothers Kuhn Loeb Incorporated, Merrill Lynch, Pierce Fenner & Smith Incorporated, Drexel Burnham Lambert Incorporated and The Robinson-Humphrey Company, Inc., are acting as representatives. The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the 1979A Bonds at an aggregate discount of $1,681,900 from the initial offering prices set forth on the cover page of this Official Statement, plus accrued interest, if any. The Contract of Purchase provides that the Underwriters will purchase all 1979A Bonds if any are purchased. The initial offering prices may be changed, from time to time, by the Underwriters.

The Underwriters may offer and sell the 1979A Bonds to certain dealers (including dealers depositing 1979A Bonds into investment trusts) and others at prices lower than the prices stated on the cover page hereof.

MISCELLANEOUS

All of the foregoing summaries of the Act, Indenture, Resolution, Contract Obligation, Lease Contracts, F Power Contract, Summer Agreement, Beck Report and Burns and Roe Letter are made subject to all of the provisions of such documents and such summaries do not purport to be complete statements of such provisions. Reference is hereby made to such documents for further information in connection therewith. The Beck Report, portions of the Report on Audit and the Burns and Roe Letter are included as Appendices I, II and III, respectively, to this Official Statement. A copy of each of such documents may be examined at the main office of the Authority in Moncks Corner, South Carolina, at the office of McNair Glenn Konduros Corley Singletary Porter & Dibble, Bond Counsel, in Columbia, South Carolina, and at the office of Wood & Dawson, Bond Counsel, in New York, New York.

The agreements of the Authority with holders of the 1979A Bonds are fully set forth in the Resolution and the Eighth Supplemental Bond Resolution. This Official Statement is not to be construed as a contract with the purchasers of the 1979A Bonds. Any statements herein involving matters of opinion or estimates, whether or not expressly so stated, are intended merely as such and not as representations of fact. This Official Statement has been approved by the Board of Directors of the Authority.

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

By /s/ WILLIAM C. MESCHER
William C. Mescher
President and Chief Executive Officer

April 19, 1979

R. W. BECK AND ASSOCIATES

ENGINEERS AND CONSULTANTS

PLANNING
DESIGN
RATES
ANALYSES
EVALUATIONS
MANAGEMENT

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FILE NO.

April 18, 1979

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
223 North Live Oak Drive
Moncks Corner, South Carolina 29461

Gentlemen:

Subject: *Consulting Engineer's Report on Financing and Capital Improvement Program*

Presented herewith is a summary of our analyses, investigations and studies concerning the proposal by the South Carolina Public Service Authority (Authority) to construct and operate a fourth coal-fueled steam-electric generating unit adjacent to the Winyah Generating Station Units Nos. 1, 2 and 3 and related transmission facilities (Winyah No. 4), and certain general improvements to the Authority's electric system and general plant. Winyah No. 4 is now under construction by the Authority with commercial operation scheduled for May 1982.

On April 19, 1979, the Authority is expected to authorize the issuance of $204,000,000 of Electric System Expansion Revenue Bonds (Bonds) to finance the costs of construction of Winyah No. 4 and $10,000,000 of Bonds to pay a portion of the costs of certain general system improvements, and to issue its Electric System Expansion Revenue Bonds, 1979 Series A (1979A Bonds) in the principal amount of $110,000,000 for such purposes. Concurrent with the authorization of the 1979A Bonds the Authority is expected to authorize the issuance of $39,400,000 of Electric System Expansion Revenue Bonds (Additional Summer Bonds) to pay the estimated costs of acquisition and construction of its ownership interest in the Virgil C. Summer Nuclear Station Unit No. 1 (Summer Nuclear Station) which are in excess of such costs to be paid from Bonds heretofore issued for such purpose. The Additional Summer Bonds are not being issued at this time, but are expected to be issued at a later date. The 1979A Bonds, the Bonds authorized but not now being issued for Winyah No. 4 and the Additional Summer Bonds are considered Authorized Bonds for purposes of this report. Reference is made to the preliminary Official Statement of the Authority dated March 30, 1979 (Official Statement) for a description of the Authority's Bond Resolution, as amended and supplemented.

CAPITAL IMPROVEMENT PROGRAM

Each year the Authority adopts a detailed capital improvement budget cover' ng expected expenditures for capital improvements and additions to its system during the next succeeding fiscal year and those planned for the ensuing two fiscal years. In addition, the Authority has developed a preliminary plan of major generation and transmission additions which are expected to be required during the next ten-year period. In our studies and projections of operating results of the Authority presented herein, which cover the period fiscal years 1979 through 1984, we have utilized the approved capital budget for the 1979-1981 period, adjusted for known changes, and the major generation and transmission additions which are indicated in the preliminary long-range plan for the fiscal years 1982-1984. Such capital improvement program and the expected sources of funds are summarized in the following paragraphs.

Winyah Generating Station, Unit No. 4

Winyah No. 4 will consist of a coal-fueled steam-electric unit of approximately 280 MW and associated transmission facilities. The 280 MW unit will essentially be a duplicate of Winyah Generating Station Unit No. 3 (Winyah No. 3) and will be located at, and become an integrated part of, the Winyah Generating Station which is located approximately three miles southwest of the City of Georgetown, South Carolina. The Winyah Generating Station presently consists of Winyah Generating Station Unit No. 1 (Winyah No. 1) which was pl: ... in commercial operation on March 26, 1975; Winyah Generating Station Unit No. 2 (Winyah No. 2) which was placed in commercial operation on July 1, 1977; and Winyah No. 3 which is presently under construction and scheduled to be placed in commercial operation on May 1, 1980.

The Authority has retained Burns and Roe, Inc. as design and construction engineers for Winyah No. 4 to prepare plans and specifications, to perform related services, and to manage construction of the project. A detailed description of Winyah No. 4, as prepared by Burns and Roe, Inc., appears in Appendix III of the Official Statement.

Winyah No. 4 will include a single steam-turbine generating unit having a net capability of approximately 280 MW; boiler; condenser; coal pulverizing, handling and storage equipment and facilities; and related electrical and mechanical equipment. A construction permit, setting forth required performance conditions, has been issued by the South Carolina Department of Health and Environmental Control (DHEC). The Authority has indicated that other required permits and licenses have been or are e..pected to be obtained on a schedule commensurate with construction and operation needs. Preliminary site work has commenced and soil borings have been made.

The total construction costs for the Winyah No. 4 unit are estimated by Burns and Roe, Inc. to be $146,175,000. This estimated total construction cost includes the cost of pollution control equipment considered adequate, in the opinion of Burns and Roe, Inc., to meet existing State of South Carolina pollution codes and regulations. As of December 31, 1978, the Authority had entered into 32 contracts totaling approximately $50,000,000 which represent approximately 34% of the total estimated construction costs of the unit. Initial operation of the unit is scheduled for December 1, 1981, and commercial operation is scheduled for May 1, 1982.

In addition to the construction costs of the generating station, included as a part of Winyah No. 4 project capital costs is an amount to fund certain transmission facilities necessary to deliver the output from the generating station to the Authority's existing transmission system and an amount to increase the coal fuel stockpile at the Winyah Generating Station. Such transmission facilities will include a 230 kV transmission line and terminal facility from the Winyah Generating Station to the Authority's Hemingway Substation (see centerfold map). Construction of such facilities is expected to commence in mid-1979, with completion planned in early 1982. The Authority has estimated the costs of the transmission facilities to be $9,000,000 and the coal fuel stockpile to be $5,000,000.

The estimated total capital costs o: Winyah No. 4, as prepared by Burns and Roe, Inc., and the Authority, excluding .unded interest, reserves and financing expenses, are summarized in the following table.

SUMMARY OF ESTIMATED CAPITAL COSTS
WINYAH NO. 4

Generating Station:	
Land and Land Rights	$ —
Structures and Improvements	15,482,000
Boiler Plant Equipment	69,251,000
Turbine Generator Unit	22,452,000
Accessory Electrical Equipment	7,850,000
Miscellaneous Power Plant Equipment	61,000
Station Equipment	2,547,000
TOTAL DIRECT CONSTRUCTION COST	$117,643,000
Engineering Design and Construction Management	10,000,000
Escalation	Included in above accounts
Contingency	16,613,000
Other Costs and Expenses	1,919,000
TOTAL CONSTRUCTION COST GENERATING STATION	$146,175,000
Transmission Facilities*	9,000,000
Fuel Stock	5,000,000
TOTAL CAPITAL COSTS WINYAH NO. 4	$160,175,000

* Amount shown includes the estimated cost of the 230 kV Winyah-Hemingway line and terminal facilities.

Other Capital Improvement Items 1979-1981

Winyah Generating Station Unit No. 3

Winyah No. 3, which is now under construction by the Authority, will consist of a coal-fueled steam-electric unit of approximately 280 MW and associated transmission facilities. The 280 MW unit will be located at and become an integral part of the Winyah Generating Station. Burns and Roe, Inc. has been retained by the Authority as design and construction engineers for Winyah No. 3.

Winyah No. 3 will be essentially a duplicate of Winyah Nos. 1 and 2 which are now in operation at the Winyah Generating Station, with the exception of changes in the cooling water and flue gas treatment systems. A construction permit, setting forth required performance conditions, has been issued by DHEC. The Authority and Burns and Roe, Inc. have indicated that other permits and licenses which are required for construction or operation of Winyah No. 3 have been or are expected to be obtained on a schedule commensurate with construction needs. Site work for Winyah No. 3 was initiated in September 1977.

The total construction costs for the Winyah No. 3 unit are estimated by Burns and Roe, Inc. to be $142,230,000. This estimated total construction cost includes the cost of sulfur dioxide emission control equipment considered adequate, in the opinion of Burns and Roe, Inc., to meet existing State of South Carolina pollution codes and regulations. As of December 31, 1978, the Authority had entered into 64 construction and equipment contracts totaling approximately $89,400,000 which represent approximately 63% of the total estimated construction costs of the project. Overall site construction was estimated to be approximately 25% complete. Initial operation of the unit is scheduled for March 1980, and commercial operation is scheduled for May 1980.

In addition to the construction costs of the generating station, the total capital costs of Winyah No. 3 include certain transmission facilities necessary to deliver the output from the generating station to the Authority's existing transmission system and an amount to increase the coal fuel stockpile at the Winyah Generating Station. Construction of the transmission facilities commenced in mid-1978, with completion planned in early 1980. The Authority has estimated the costs of the transmission facilities to be $9,000,000 and the amount for increased fuel stockpile to be $4,000,000. The total capital costs of Winyah No. 3 based

on a May 1980 commercial operation date are estimated to be $155,230,000, exclusive of funded interest, reserves and financing expenses, which is the same total capital cost as estimated at the time the Authority issued its 1978 Bonds to pay the costs of construction of Winyah No. 3.

Summer Nuclear Station

The Authority and South Carolina Electric & Gas Company (SCE&G) have entered into a joint ownership agreement dated October 18, 1973, providing the Authority and SCE&G, which own the Summer Nuclear Station as tenants in common, with undivided interests of 33⅓% for the Authority and 66⅔% for SCE&G. Pursuant to this agreement, SCE&G acts for itself and as agent for the Authority in the construction and operation of the Summer Nuclear Station, including fuel acquisition and management.

The Summer Nuclear Station is now under construction at a site approximately 26 miles northwest of Columbia, South Carolina, on the east bank of the Broad River and adjacent to SCE&G's Fairfield Pumped Storage Hydroelectric Station. The Summer Nuclear Station will be capable of producing a net output of approximately 900 MW under expected operating conditions. The construction permit for the project was issued by the Nuclear Regulatory Commission (NRC) on March 21, 1973.

SCE&G is proceeding with construction of the Summer Nuclear Station with commercial operation presently scheduled for December 1980. The December 1980 date represents a delay of seven months from the previously scheduled date for commercial operation of May 1980. SCE&G advises that the delays have resulted principally because of problems in the delivery of materials and construction modifications primarily due to changing regulatory requirements. SCE&G's ability to meet the revised date for commercial operation will, in our opinion, require a major emphasis on all future construction efforts and close coordination throughout the remaining construction period and the testing and start-up operations to avoid further slippages in the schedule.

SCE&G reports that as of December 31, 1978 the engineering of Summer Nuclear Station was approximately 89% complete and construction was approximately 80% complete.

The estimated construction costs which have been furnished by SCE&G are based on a commercial operation date of December 1980. The total estimated direct construction cost is now estimated to be approximately $476,954,000. Engineering and construction management, sales tax, owner's costs and other indirect costs are estimated to be approximately $136,582,000, resulting in a total estimated cost of construction of $613,536,000, excluding nuclear fuel, contingencies and interest or other carrying charges, but including an allowance for escalation to the scheduled commercial operation date. This is approximately $59,044,000, or 11%, above the construction costs estimated by SCE&G at the time of issuance of the 1978 Bonds. SCE&G reports that the principal factors which have contributed to such increase in the estimated construction costs are problems in the delivery of materials and construction modifications due primarily to changing regulatory requirements.

As shown in the table which follows, the Authority's share of the total estimated construction cost is $204,512,000 before allowance for contingencies. In addition to the total construction costs of the project as estimated by SCE&G, we have included $3,000,000 as a part of the capital costs to be provided from bond proceeds for the estimated one-time capital cost to the Authority representing its obligation for costs assignable by SCE&G to Summer Nuclear Station for cooling water supplied from the upper reservoir of SCE&G's Fairfield Pumped Storage Project; $15,500,000 for the estimated cost of the Authority's share of the initial nuclear fuel core based on the estimated cost of uranium concentrates discussed hereinafter in the section captioned "Fuel Supply"; $351,000 for the Authority's direct costs not otherwise included in SCE&G's construction cost estimates; $1,600,000 as the Authority's share of working capital; and $8,200,000 as a working fund for nuclear fuel replacement, resulting in a total estimated capital cost for the Authority's ownership share of Summer Nuclear Station of $233,163,000, exclusive of allowances for contingencies. The Authority has included an amount of approximately $6,000,000 or 13% of the remaining balance of the Authority's share of construction costs as an allowance for contingencies. The resulting estimated total capital cost of the Authority's ownership share of Summer Nuclear Station, including the foregoing amount for contingencies but excluding funded interest, reserves and financing expenses, is $239,163,000.

The Additional Summer Bonds, together with the $284,600,000 Bonds heretofore authorized and issued for such purpose, are estimated to be sufficient to pay all costs of acquisition and construction of the Authority's ownership share of Summer Nuclear Station. The Additional Summer Bonds are not being issued at this time.

In late March and early April 1979, events at the Three Mile Nuclear Unit No. 2 in Pennsylvania resulted in reported damage to the plant and release of radioactivity to the surrounding environment. SCE&G has reported that it cannot predict what impact, if any, these events will have upon the cost of, the scheduled completion date for, the issuance of an operating license for, or the operation of, the Summer Nuclear Station, but that it is possible that there may be delays in the issuance of the operating license or that changes in the design of the Station might be required, either of which would probably increase the total cost of the Station, and that additional safety requirements could significantly increase the operating cost of the Station.

SUMMARY OF ESTIMATED CAPITAL COSTS

Summer Nuclear Station

($000)

	Total Plant(1)	Authority's Ownership Share
Land and Land Rights	$ 1,162	$ 387
Structures and Improvements(2)	108,359	36,120
Reactor Plant Equipment	166,557	55,519
Turbine Generator Equipment	43,500	14,500
Accessory Electrical Equipment	37,000	12,333
Miscellaneous Power Plant Equipment	6,500	2,167
Station Equipment	5,776	1,925
Construction Costs	108,100	36,034
Subtotal—Direct Construction Costs	$476,954	$158,985
Other Direct Costs:		
Engineering	$ 52,156	$ 17,385
Owner's Cost	73,426	24,475
Sales Tax	3,000	1,000
Other Costs	8,000	2,667
Total—Construction Costs	$613,536	$204,512
Nuclear Fuel—Initial Core		15,500(3)
Water Rights Adjustment		3,000
Total—Plant Costs		$223,012
Contingencies		6,000
Authority's Direct Cost		351
Working Capital:		
Nuclear Fuel		8,200(4)
Other		1,600
Total Capital Costs—Authority's Ownership Share		$239,163

(1) Based on January 24, 1979 estimates by SCE&G.

(2) Includes transmission structures and improvements.

(3) Based on approximately 82% of initial core uranium concentrates provided by Westinghouse at the contract price and approximately 18% purchased on spot market.

(4) Includes approximately $1,082,000 for the Authority's share of uranium concentrates purchased by SCE&G on the spot market and available to fill partial needs for reload fuel.

Hilton Head Combustion Turbine No. 3

The Authority has retained the General Electric Company to engineer and completely install Hilton Head Combustion Turbine No. 3 (Hilton Head No. 3). Hilton Head No. 3 will consist of a General Electric Company self-contained combustion turbine package power plant. The unit, which will be located at and become a part of the Hilton Head combustion turbine complex, will have a rated net output of 56 MW. The Hilton Head complex includes two combustion turbines which are in operation. The unit is being installed to provide additional power supply and strengthen transmission of power and energy to the Hilton Head area. The total cost for Hilton Head No. 3 is estimated by the Authority to be approximately $10,000,000. Initial operation of this unit is scheduled for April 1979, and commercial operation is scheduled for May 1979.

The construction permit for Hilton Head No. 3 was received from DHEC on February 23, 1979. The unit is being designed to conform with Federal "Regulations for Prevention of Significant Deterioration of Air Quality." The unit will be housed in trim all-weather enclosures designed to simplify maintenance and provide thermal and acoustical insulation. It will also be equipped with a water injection system for the reduction of nitrous oxide emissions into the atmosphere.

Winyah No. 2

All major construction work on Winyah No. 2 has been completed and the unit was placed in commercial operation on July 1, 1977. It will be necessary for the Authority to make certain improvements to upgrade the performance of the emission control equipment for Winyah No. 2 to comply with the requirements established by DHEC for the addition of a third and fourth unit at the Winyah Generating Station. The cost of such improvements is estimated by Burns and Roe, Inc. to be $500,000. In addition, some minor work such as final landscaping and corrective action on the boiler, for which the contractor has acknowledged responsibility and is undertaking remedial modifications, remains to be completed. The Authority estimates that the cost of completing construction of Winyah No. 2, including contract retentions pending full contract performance, is $2,245,000.

General Improvements

The proposed general improvements for fiscal years 1979-1981 include extensions and improvements to the Authority's transmission and distribution system, general plant, and existing generating facilities.

The costs of transmission system improvements planned for construction during the fiscal years 1979-1981 are estimated by the Authority to total $78,575,000. This estimated amount includes two double-circuit 230 kV steel tower lines from the Jefferies Generating Station to a new substation near the Alumax Inc. (Alumax) site. Engineering design, awarding of certain contracts and the application for necessary permits for the construction of the line and substation have commenced. The Authority estimates that the construction of the line and substation will be completed in sufficient time to provide electric power and energy requirements to Alumax pursuant to the terms and conditions of the Alumax contract as presently amended.

Other general system improvements planned for fiscal years 1979-1981, and the estimated cost thereof, include (i) Hilton Head No. 3 and improvements to existing generating facilities required to maintain and improve availability and efficiency—$16,161,000; (ii) improvements and extensions to the distribution system to serve existing and new customers—$22,556,000; (iii) improvements to general plant—$14,124,000; (iv) future generating station site studies and acquisitions—$4,000,000; and (v) the acquisition of 154 coal cars which have been purchased—$5,174,000.

The improvements to general plant include $12,000,000 for the construction of a new headquarters facility for the Authority in Moncks Corner, South Carolina. The Authority has acquired property for the new facility, has entered into a contract with Berkeley County for the sale of the existing facility, and is proceeding with plans for completion of the new facility in fiscal year 1981. The amount included in the capital improvement program for this facility is net after sale of the existing facility.

Major Generation and Transmission Improvements 1982-1984

The Authority has developed a preliminary ten-year plan of major generation and transmission improvements expected to be required to meet projected power and energy requirements. A summary discussion of the

major improvements planned for the fiscal years 1982 through 1984 based on the Authority's preliminary expansion plan of major capital additions follows.

Cross Generating Station

In order to meet projected load growth into the 1980's and 1990's, the Authority has initiated studies and taken certain actions for the development of a major generating station (the "Cross Generating Station") to be located in Berkeley County, South Carolina. The Cross Generating Station, as presently envisioned, will ultimately be expanded, subject to Federal and state regulatory approval and the granting of necessary licenses and permits, to accommodate four 450 MW coal-fueled steam-electric units. In order to facilitate construction access when subsequent units are to be constructed, the Authority's plans provide that the first 450 MW unit at the new site will be designated as Cross Generating Station Unit No. 2 (Cross No. 2).

The Authority has retained Burns and Roe, Inc. as design and construction engineers for Cross No. 2. The unit will be coal-fueled and will include air and water pollution control facilities as required to meet applicable Federal and state regulatory requirements. The total construction costs for Cross No. 2 are estimated by Burns and Roe, Inc. to be $356,800,000. As of February 28, 1979, the Authority has entered into five contracts totaling approximately $61,281,000 which represent approximately 17% of the total estimated construction costs of the unit. The cancellation charges on contracts awarded as of February 28, 1979, could total approximately $3,855,000 by July 1, 1979 and increase thereafter. Commercial operation of Cross No. 2 is presently scheduled for May 1983. The ability of the Authority to meet the scheduled date of commercial operation will depend upon the timely receipt of the necessary licenses and permits and execution of an accelerated construction schedule.

In addition to the construction costs of Cross No. 2, included as a part of the planned project capital costs are an amount to fund certain 230 kV transmission facilities necessary to deliver the power and energy from the generating station to the Authority's existing transmission system and an amount to establish an initial coal fuel stockpile at the Cross Generating Station. The Authority has estimated the cost of such transmission facilities as presently planned to be $30,000,000 and the allowance for initial fuel stockpile to be $10,000,000. The resulting estimated total capital cost of Cross No. 2, exclusive of funded interest, reserves and financing costs, is $396,800,000.

Transmission Facilities

In addition to the transmission facilities included as a part of major generating station construction, the Authority expects to continue to construct major new transmission lines and substations and to upgrade existing transmission lines and substations. The costs of such transmission improvements are estimated by the Authority to be approximately $54,646,000 for 69kV or higher voltage facilities and $1,712,000 for 44 kV facilities, during the three fiscal years 1982 through 1984.

Estimated Costs and Sources of Funds—1979-1984 Capital Improvement Program

The estimated capital costs, exclusive of funded interest, reserves and financing costs, of the Authority's capital improvement program for fiscal years 1979-1981 and the planned major generation and transmission improvements for the fiscal years 1982-1984, together with the expected sources of funds to pay such estimated costs, are summarized on the following page.

CAPITAL IMPROVEMENT PROGRAM
Fiscal Years 1979-1984
($000)

Estimated Capital Costs(1):		
Winyah No. 4		$ 160,175
Winyah No. 3(2)		143,133
Completion of Summer Nuclear Station Authority's Share(2)		81,287
Completion of Winyah No. 2		2,245
Cross No. 2		396,800
General System Improvements		
Generation System Improvements(3)	$ 16,161	
Transmission System Improvements(4)	133,221	
Distribution System Improvements(4)	24,268	
General Plant Improvements(5)	14,124	
Future Site Studies and Acquisitions	4,000	
Freight-Train Cars—Coal	5,174	
Total General System Improvements		196,948
Total Estimated Cost of Capital Improvement Program		$ 980,588
Expected Sources of Funds:		
Proceeds of Bonds:		
Winyah No. 4		
1979A Bonds		$ 64,771
Authorized but Unissued Bonds		78,672
Winyah No. 3		
1978 Bonds		144,064
Summer Nuclear Station (Authority's Share)		
1973 Bonds, 1976 Bonds and 1977 Bonds		179,929
Authorized but Unissued Bonds(6)		24,398
General Improvements		
Previously Issued Bonds(7)		14,352
1979A Bonds		9,075
Additional Unauthorized Bonds		
Cross No. 2 Bonds(8)		366,147
General Improvements(9)		53,587
Investment Earnings(10)		115,310
Revenues		100,256
Total Expected Sources of Funds		$1,150,561
Less: Amounts Expended at June 30, 1978(11)		169,973
Total Funds		$ 980,588

(1) Excludes approximately $18,252,000 of facilities to be constructed and funded from REA loans to Central Electric Power Cooperative, Inc. Under the existing lease agreements, the facilities are to be leased and operated by the Authority.
(2) Balance of estimated construction costs remaining as of July 1, 1978.
(3) Amount shown includes $10,000,000 attributable to the acquisition and construction of Hilton Head No. 3.
(4) Includes $54,646,000 for major transmission and $1,712,000 for major distribution facilities presently planned for fiscal years 1982-1984.
(5) Amount shown includes a net amount of $12,000,000 for the acquisition and construction of a new office facility.
(6) Amount shown assumes the issuance in late 1980 or early 1981 of $39,400,000 of Additional Summer Bonds at an estimated annual interest rate of 7.25%.
(7) Amount shown includes the approximate amount from 1978 Bonds issued for General Improvements.
(8) Amount shown assumes the authorization and issuance of approximately $508,000,000 of Bonds to fund the construction of Cross No. 2.
(9) Amount shown assumes the authorization of General Improvements Bonds in the principal amount of $30,000,000 to be issued in 1980 and $31,000,000 to be issued in 1981.
(10) Amount shown includes accrued interest resulting from the difference in the date of the bonds and the date of closing, actual investment earnings to June 30, 1978, and estimated future income on the: (i) Winyah No. 4 Construction Fund, (ii) Winyah No. 3 Construction Fund, (iii) Winyah No. 2 Construction Fund, (iv) Summer Nuclear Station Construction Fund, (v) planned Cross No. 2 Construction Fund, and (vi) General Improvement Fund.
(11) Amount shown includes the Authority's share of Summer Nuclear Station construction expenditures through June 30, 1978, of approximately $157,876,000 and Winyah No. 3 construction expenditures through June 30, 1978 of approximately $12,097,000.

EXPECTED DISPOSITION OF PROCEEDS OF 1979A BONDS

Based upon the estimates of direct construction and other costs of Winyah No. 4 and general improvments as set forth hereinbefore and upon an estimated commercial operation date of May 1982, the expected disposition of the proceeds from the sale of the 1979A Bonds is shown in the following table:

Financing Requirements for Winyah No. 4 and General System Improvements

($000)

	1979A Bonds		Authorized but Unissued Bonds(1)(2)	Total Authorized Bonds(2)
	Winyah No. 4	General Improvements		
Capital Costs	$ 75,572	$ 9,075	$ 84,603	$169,250
Less: Amounts from Investment Income(3)	10,801	—	5,931	16,732
Paid from Bond Proceeds	$ 64,771	$ 9,075	$ 78,672	$152,518
Reserve Account	7,250	725	7,540	15,515
Funded Interest(4)	25,979	—	15,708	41,687
Bond Discount(5)	2,000	200	2,080	4,280
Principal Amount of Bonds	$100,000	$10,000	$104,000	$214,000

(1) Assumes issuance of additional authorized but unissued Bonds for the completion of Winyah No. 4 on October 1, 1980, and interest requirements at the estimated annual rate of 7.25%, as provided by the Underwriters, funded from Bond proceeds to November 1, 1982.
(2) Does not include Bonds in the amount of $39,400,000 which are to be authorized for the completion of Summer Nuclear Station.
(3) Investment earnings calculated on available funds during the construction period at an estimated average annual rate of 7.25% as provided by the Underwriters.
(4) Interest requirements at the estimated annual rate of 7.25% funded from Bond proceeds to November 1, 1982 for Bonds allocable to Winyah No. 4.
(5) Estimated at 2.0%.

BUSINESS OF THE AUTHORITY

The Authority was created in 1934 by an Act of the General Assembly of the State of South Carolina to construct and acquire flood control, navigation and reclamation works on the Cooper River, the Santee River and the Congaree River and to produce, distribute and sell electric power. The Authority initiated its electric power operations in 1942 upon completion of construction of the Santee Cooper Hydroelectric Project.

During the 12 months ended December 31, 1978, the Authority sold 5,976 million kilowatt-hours of electric energy and received total operating revenues of $132,647,402, including sales to SCE&G and CP&L, as shown on Exhibit B. At December 31, 1978, the Authority's net electric utility plant in service (gross plant less reserve for depreciation) as reported by the Authority was $324,265,696 (unaudited). During the ten-year period 1969 through 1978, the Authority invested $38,829,018 in additions and improvements to its utility plant from operating revenues, exclusive of funds advanced for construction of Winyah No. 4.

The Authority sells electric energy at wholesale to public authorities and other utilities and at retail to industrial, commercial and residential customers.

Electric System Properties

The Authority owns electric generation, transmission and distribution facilities and leases certain generation and transmission facilities under contract with Central Electric Power Cooperative, Inc. (Central) which are operated collectively by the Authority as a fully integrated electric system. The Authority's generating capability in service totals 1,400 MW comprising 130 MW of hydroelectric, 1,142 MW of steam electric, and 128 MW of combustion turbine capability. In addition, the Authority receives 105 MW from the Southeastern Power Administration (SEPA). Transmission and distribution facilities include approximately 2,462 miles of 230 kV, 115 kV, 69 kV and 44 kV overhead transmission lines, 89 sub-stations, distribution system properties, offices and other buildings, equipment and related facilities.

Rates

In the opinion of the Authority's general counsel, the Authority is empowered and required under the Act to fix, establish and collect rates, tolls and other charges which shall be at least sufficient to provide for the payments of all costs and expenses of ownership and operation and maintenance of the properties and facilities of the Authority and to conform to the requirements of its Bond Resolution and Indenture. We have relied upon such opinion in developing our projections.

The Indenture and Resolution, under which the Authority's outstanding bonds were issued and the 1979A Bonds will be issued, require that the rates and charges shall be at least adequate to produce revenue sufficient for the payment of all obligations of the Authority, including payments into all funds established under the Indenture and Resolution, and that the Authority will, from time to time and as often as necessary, revise the rates and charges to provide the required revenues.

The Authority has maintained rates for electric service which have been sufficient to provide for all operating and maintenance costs and expenses, debt service, lease payments, repairs, renewals to and replacement of its electric system and for substantial additions thereto. At the same time, the Authority's rates compare favorably with those of other major suppliers in the State of South Carolina as shown on Exhibit A.

The rates presently in effect applicable to residential, commercial, municipal street lighting and industrial customers, except for two industrial customers served under fixed rate contracts, were adopted on February 5, 1977 and became effective on power deliveries after May 1, 1977.

On March 21, 1978, the Authority's Board of Directors adopted new rates to become effective for power deliveries commencing May 1, 1979. These rates were subsequently reviewed in light of the Authority's then most recent capital and operating budgets and modified accordingly by the Authority's Board of Directors on January 29, 1979. The new rates will be applicable to residential, commercial, municipal street lighting, and industrial customers, except for two industrial customers served under fixed rate contracts that terminate during calendar year 1979. The new rates are estimated to produce an increase in revenue for the fiscal year ending June 30, 1980, of approximately $9,809,000, or an increase in revenues from customers other than Central of approximately 10.7%. The average percentage increase on the basic rate schedules to major customer classes is estimated to be approximately 10.5% for industrial customers, 14.8% for municipal customers, 11.8% for commercial customers and 9.6% for residential customers.

On March 26, 1979 the Authority's Board of Directors adopted new rates to become effective for power deliveries commencing May 1, 1981. The new rates, based on projections for the fiscal year ending June 30, 1982, are estimated to produce an increase in revenues from customers other than Central of approximately $21,377,000, or an increase in revenue of approximately 12.6%. The average percentage increase in the basic rate schedules to major customer classes is estimated to be approximately 8.3% and 12.4% for large (350,000 kWh or more per month) and small industrial customers, respectively, 6.6% for municipal customers, 23.9% for commercial customers and 21.3% for residential customers. The rates will be subject to review prior to their implementation to reflect any changes in estimated costs determined appropriate at the time of the review.

In conjunction with its program of future power supply development, the Authority adopted a program providing for rate increases which it estimates will be required to carry out the initial phase of developing a major new generating resource. On March 26, 1979, the Authority also adopted a program providing for increases in rates to become effective for power deliveries commencing May 1, 1982 which are estimated to produce an increase in revenues from customers other than Central of $21,828,000 or approximately 10.3% in the fiscal year ending June 30, 1983 distributed to major customer classes based on a cost of service study. Prior to May 1, 1982 the Authority proposes to review such rate program and adopt rate schedules applicable to each customer class.

Existing contracts entered into between the Authority and Central, the most recent contract having become effective on April 29, 1971, as amended (the "F Power Contract"), provide among other things that the Authority will furnish and Central will purchase, until October 22, 1987, Central's power and energy

requirements. The F Power Contract includes provisions for periodic rate review and rate changes related to costs pursuant to a formula. As the result of the most recent rate review effective January 1, 1979, the monthly charge applicable to power and energy delivered to each point of delivery is $1.875 per kilowatt of billing demand and 5.65 mills per kWh for the first 100,000 kWh of billing energy and 4.33 mills per kWh for all additional billing energy. The energy charges are adjusted monthly for increased cost of fuel and purchased energy pursuant to the terms of the F Power Contract.

In our projections of operating revenues for the Authority for the period fiscal years 1979-1984, we have utilized the rates, and revenues resulting therefrom, which are to become effective as hereinabove discussed. Under the provisions of contracts with certain industrial customers, the Authority is required to review its rates not less than 120 days prior to the effective date thereof and to adjust the rates to reflect then current data. Such review and adjustment was undertaken of the rates adopted to become effective for power deliveries commencing May 1, 1979.

Power Requirements and Supply

The Authority provides retail electric service for residential, commercial and other customers in Berkeley, Georgetown and Horry Counties, which includes the Myrtle Beach area, and to certain industries, public authorities, and two municipalities and to Central (which supplies 15 cooperative electric utilities) throughout its transmission area which encompasses, in whole or in part, the eastern two-thirds of the State of South Carolina.

During the fiscal years ended June 30, 1969 through 1978, the Authority's energy requirements have increased at an average annual rate of approximately 10% per year. During the period 1974 through 1976, the average rate of increase was less, reflecting the general effects of the energy crisis resulting from the oil embargo, conservation, and a cutback by one large industrial customer. The Authority's historical power requirements, excluding sales of energy to SCE&G and Carolina Power & Light Company (CP&L), for the period 1969-1978 are as follows:

Historical Power Requirements

Fiscal Year Ended June 30	Energy (Million kWh)	Peak Demand (MW)
1969	2,669	498
1970	2,988	558
1971	3,357	622
1972	3,586	630
1973	4,079	736
1974	4,422	871
1975	4,710	911
1976	4,984	943
1977	5,629	1,089
1978	6,119	1,231
1978(1)	6,320	1,231

(1) Twelve months ended December 31, 1978.

The Authority's power supply consists of hydroelectric, steam electric and combustion turbine power plants together with firm power purchased from SEPA with supplemental amounts of purchased power from time to time from SCE&G and CP&L. The existing power supply and year of initial installation of the generating units are shown below:

Authority's Generating Capacity

	Year First Operated	Capability (MW)
Generation:		
Jefferies Hydro Plant	1942	130(1)
Jefferies Generating Station:		
Units 1 and 2	1954	92
Units 3 and 4	1970	320
Grainger Generating Station(2)	1966	170
Winyah No. 1	1975	280
Winyah No. 2	1977	280
Combustion Turbine	1962	20
Combustion Turbines	1972	40
Combustion Turbine(2)	1973	20
Combustion Turbine	1974	20
Combustion Turbine	1976	28
Total Generation		1,400
Received from SEPA(3)		105
Total Power Supply		1,505

(1) Includes 2 MW from Wilson Dam Generating Station.
(2) Leased from Central.
(3) Includes approximately 44 MW associated with the wheeling of SEPA energy to preference customers.

Fuel Supply

During the 12 months ended December 31, 1978, the Authority's energy supply was derived approximately 83.3% from coal-fueled generation, 0.6% from oil-fueled generation, 9.6% from the Authority's hydro facilities and 6.5% from purchases from SEPA, SCE&G and CP&L. By fiscal year 1982, the first full fiscal year following completion of Summer Nuclear Station, this distribution of energy sources, including the wheeling of SEPA energy to preference customers, is expected to be approximately 74.9% from coal-fueled generation, 14.6% from nuclear-fueled generation, 5.9% from hydro facilities, 3.5% from SEPA and other purchases, and 1.1% from oil-fueled generation.

The Authority uses coal for fuel at three generating stations—Winyah, Jefferies (Units 3 and 4) and Grainger. Deliveries to Winyah and Jefferies are by unit train shipment under contracts with four mining companies. The major part of the Authority's coal requirements have historically been purchased under contracts generally extending for terms of up to ten years. Limited "spot" purchases are utilized when favorable prices can be obtained and to meet requirements not satisfied by long-term contracts. Prices under the various coal contracts are subject to up or down adjustments based on production costs and prevailing market conditions.

The air quality requirements for emissions from the Authority's generating plants limit the maximum sulfur content of coal used at the individual coal-fueled stations and, in the case of the Winyah Generating Station, at the individual units. Following is the maximum sulfur content of coal which can be burned at the Authority's generating plants and meet existing sulfur emission codes and regulations:

Station or Unit	Maximum Sulfur Content(1)
Jefferies 3 and 4	2.1%
Grainger	2.1
Winyah No. 1	1.3
Winyah No. 2	1.1(2)
Winyah No. 3 and 4	1.7(2)(3)

(1) Based on coal having a heat content of 11,500 Btu per pound.
(2) With SO_2 scrubber in service.
(3) Estimated by the Authority.

The sulfur content of coal received under existing contracts ranges from about 1% to 1.9%. The Authority has informed us that it anticipates no difficulty in obtaining adequate coal with sulfur content within acceptable ranges to meet foreseeable needs.

The average cost of coal purchased by the Authority during the three fiscal years ended June 30, 1978 and during calendar year 1978, including the cost of rail freight, was as follows:

Fiscal Year Ended June 30	Average Cost per Ton	Average Cost per Million Btu
1976	$25.85	1.102
1977	$25.99	1.124
1978	$31.80	1.384
1978(1)	$34.55	1.481

(1) Twelve months ended December 31, 1978.

At the present time, SCE&G, acting for itself and as an agent for the Authority, has contracts with Westinghouse Electric Corporation (Westinghouse) for the supply of uranium concentrates, conversion services and fabrication services to meet the Summer Nuclear Station requirements for the initial core loading and eight reload regions, of which one reload region is required approximately every year. SCE&G has also contracted with the United States Energy Research and Development Administration (now known as the Department of Energy—DOE) to supply the necessary enrichment services through the year 2002, which is adequate for operation through the year 2004. Facilities are being incorporated in Summer Nuclear Station for on-site storage of thirteen reload regions of spent nuclear fuel which are expected to be adequate for approximately ten years of operation. SCE&G presently has no provisions for off-site storage of spent nuclear fuel.

On September 8, 1975, Westinghouse notified SCE&G that "Under present and anticipated market conditions, Westinghouse finds itself unable to obtain sufficient uranium to meet . . . customer needs except at such onerous prices that performance on Westinghouse's part would be commercially impracticable." The portion of SCE&G's contract with Westinghouse and similar Westinghouse contracts with other utilities for nuclear fuel materials and services that concerns the supply of uranium concentrates is under consideration by the U. S. District Court for the Eastern Division of Virginia, and has been the subject of a consent order dated February 3, 1976 (the "Consent Order"). Under the Consent Order SCE&G has received approximately 731,000 pounds of uranium concentrates, which represent approximately 82% of the first fuel core requirements. On October 27, 1978, the United States District Court for the Eastern District of Virginia ruled that Westinghouse had breached its contract, among other things, to supply uranium for the Summer Nuclear Station and recommended that SCE&G and other utilities with similar contracts attempt to negotiate a settlement of the damages with Westinghouse. The trial on damages is expected to commence in late May 1979.

Sufficient quantities of uranium to meet the remaining requirements of the initial core were purchased on the open market during 1976. Fabrication of the 157 fuel assemblies comprising the initial fuel core has been completed and all of the initial core fuel assemblies are now in storage at the Summer Nuclear Station. (See caption "Fuel Supply" in the Official Statement.)

If the quantities of uranium concentrates covered by the Consent Order had to be acquired at the spot market price an additional amount of financing of up to approximately $10,000,000 may have to be authorized by the Authority to pay the costs of the initial core. SCE&G, for itself and the Authority, is proceeding with actions to require Westinghouse to fulfill all of the requirements of its contract with SCE&G.

Our projections of operating results of the Authority are based on the assumption that the approximately 82% of the initial core uranium concentrate fuel requirements for Summer Nuclear Station supplied by Westinghouse will be at the costs provided in the Westinghouse contract as estimated by SCE&G and that the remaining approximately 18% of the initial core uranium concentrate fuel requirements will be at the spot market prices paid therefor. Additionally, predicated on data provided by SCE&G, it has been assumed that SCE&G will purchase uranium concentrates for reload nuclear fuel assemblies on the open market at costs based on current price levels of approximately $44 per pound escalated at 5% per year.

Alumax, Inc.

On September 23, 1977, the Authority and Alumax, an integrated aluminum company, entered into a contract for power supply to a major primary reduction plant to be constructed by Alumax in the Authority's service area. (See subsection captioned "Power Contract with Alumax Inc." in the Official Statement.)

Under the power supply contract, as amended, the Authority agrees to make available and Alumax agrees to purchase 166,000 kilowatts for the first potline commencing April 1, 1980 and 80,000 kilowatts for the first half of the second potline commencing November 1, 1980. In addition, the Authority agrees to make available, upon 12 months' notice to be given not later than November 1, 1980, an additional amount of up to 80,000 kilowatts for the second half of the second potline. If Alumax does not give such notice prior to November 1, 1980, then thereafter such notice period is 30 months. The Authority is not obligated, prior to November 1, 1981, to provide in excess of 270,000 kilowatts for both the first and second potlines.

The contract also contains provisions pursuant to which the Authority agrees to provide power supply to third and fourth potlines as follows: for a third potline—150,000 to 160,000 kilowatts upon at least 42 months' notice from Alumax to be given not prior to 8 months after notice is given for service to the second half of the second potline; for a fourth potline—150,000 to 160,000 kilowatts upon at least 42 months' notice from Alumax to be given not prior to 8 months after notice is given for the third potline. Alternatively, the Authority agrees to provide 300,000 to 320,000 kilowatts for a third and fourth potline upon Alumax giving at least 50 months' notice to be given not prior to 8 months after notice is given for the second half of the second potline.

The contract also provides that during an initial operating period of up to 12 months for the first potline and 8 months for the second, third and fourth potlines Alumax is required to pay for power and energy only as actually furnished and used. Thereafter Alumax is required to pay the demand charge in accordance with the applicable rate schedule for the amount of power specified in the notice. The rate for service to Alumax is to be at the Authority's large industrial power rate schedule as revised from time to time by the Authority. Under the contract Alumax has certain rights of review of the Authority's rates applicable to it. Similar review rights are also extended to Airco Inc., another large industrial customer of the Authority.

In our projections of operating results we have assumed that use for the first potline would begin April 1, 1981 with a build-up to the full requirements of the first potline and first half of the second potline, (a combined total of 246,000 kilowatts), by July 1, 1981. These dates represent the approximate maximum delay allowable under the contract for that portion of the Alumax load for which initial notice has been received. Acceleration from these dates should, in our opinion, result in increased net revenues to the Authority.

If Alumax completes the first potline to require the full 166,000 kilowatts during the Authority's summer peak period of 1980, or, if Alumax gives notice to proceed with the second half of the second potline (which it has announced it intends to do) to require a total of 326,000 kilowatts prior to or during the Authority's 1981 peak load period, the Authority may be required to obtain short-term purchases from other utilities and/or exercise the interruptible provisions of certain interruptible industrial customer contracts in order to maintain desired levels of reserves. In any event, however, the Authority is not required to provide in excess of 270,000 kilowatts prior to November 1, 1981.

Alumax commenced initial site work in June 1978 and is proceeding with construction of the plant.

FUTURE POWER SUPPLY OPERATIONS OF THE AUTHORITY

Estimates of the power and energy requirements of the Authority's system for the period 1979 through 1984 have been prepared based upon an analysis of historical and current trends of customer and sales by class of service and the prospective sales to the several classes of customers. These projections include the requirements of Alumax on the assumption that Alumax will proceed with contruction of the aluminum reduction plant to require and utilize power supply from the Authority of 166 MW for the first potline and 80 MW for the first half of the second potline, by July 1, 1981 with build-up of loads prior to such dates as herein discussed.

Following is a summary of the projected power requirements, excluding any sales to SCE&G and CP&L, of the Authority for the period 1979 to 1984:

Projected Requirements

Fiscal Year Ended June 30	Energy (Million kWh)(1)	Peak Demand (MW)(2)
1978(3)	6,320	1,231
1979	6,515	1,258
1980	7,049	1,364
1981	7,575	1,474
1982(4)	10,488	1,861
1983(4)	11,257	2,013
1984(4)	12,103	2,177

(1) Includes losses and 198 million kWh wheeled for SEPA.
(2) Based on August peak which is normally highest annual peak.
(3) Actual 12 months ended December 31, 1978.
(4) Projected amounts of demand and energy requirements include 246 MW and attendant energy attributable to Alumax.

As indicated by the foregoing tabulation, the total energy requirements of the Authority, excluding sales to SCE&G and CP&L but including assumed annual energy sales to Alumax of approximately 2,112 GWh commencing in fiscal year 1982, can be expected to increase by approximately 86% in the six-year period 1979 through 1984. Such increase, excluding assumed direct sales to Alumax, is estimated to be approximately 53%. This compares with an increase of approximately 50% in the six-year period 1973 through 19 .

Power supply to meet projected requirements through fiscal year 1984 will consist of the Authority's existing generation and firm purchases aggregating 1,505 MW, the 56 MW from Hilton Head No. 3, the 280 MW from Winyah No. 3, the 300 MW from the Summer Nuclear Station, the 280 MW from Winyah No. 4 and the planned 450 MW from Cross No. 2. In addition to the planned Cross Generating Station, which, as now being planned, will contain four units having a combined capacity of approximately 1,800 MW, the Authority is in the process of evaluating additional potential locations for selection as sites for future generating stations.

In our projection of future power requirements we have assumed that Central will continue to purchase all of its power supply requirements from the Authority pursuant to the terms of the F Power Contract. However, Central has indicated to the Authority a desire to own a portion of its power supply resources. The Authority and Central have entered into discussions concerning a new contract and possible joint ownership of future power supply resources. We do not know at this time what effect, if any, such discussions concerning a new contract and possible joint ownership of future power supply facilities will have on the Authority's future power supply facilities and projected requirements and the attendant revenues and expenses attributable to Central.

On June 29, 1977, SEPA gave notice to the Authority that its contract will terminate effective June 30, 1981. In its notice of termination, SEPA advised the Authority that it "... has initiated the development of a new power allocation policy which is to be embodied in contracts as soon as possible after development, ...". On February 16, 1979, SEPA announced in the Federal Register its intent to formulate a policy with regard to marketing SEPA power and energy and the solicitation of proposals and recommendations for its consideration. All submittals to SEPA are to be made no later than May 1, 1979. The major issues SEPA expects to consider in developing its marketing policy include but are not limited to: (i) determining market area; (ii) allocation of power among area customers; (iii) utilization of area utility systems for power integration, firming, wheeling, and other essential relationships; and (iv) handling of resale rates and conservation measures.

We do not know at this time what the effect of such determination or subsequent reallocation of power and energy by SEPA will be or the amount, if any, of SEPA power which the Authority will be allocated after termination of the present contract. In our projections of power supply and operating results of the Authority, we have assumed that the Authority will continue to purchase the amounts of SEPA power provided for by the present contract.

The reserves and standbys for the Authority's generating plants have been provided from the Authority's generating capability in excess of its power requirements and through interconnections with others. The

Authority presently purchases 50 MW of reserve capacity from SEPA under long-term contract. The Authority utilizes a planned reserve criteria of 20% of the projected peak demand less firm purchases for power supply planning purposes.

The Virginia-Carolinas Reliability (VACAR) Agreement which the Authority executed on March 26, 1961, and which has been executed by SCE&G, CP&L, Duke Power Company, SEPA, Yadkin, Inc., and Virginia Electric and Power Company, provides a basis which reasonably supports the assumption that provisions for limited term power purchases and sales among VACAR members will continue to be available in the area. In addition, the Authority is a member of the Southeastern Electric Reliability Council, an organization of all major utilities in the southeastern United States whose purpose, among others, is to study and coordinate the activities of its members with regard to reliability and continuity of power supply.

The Authority has entered into an agreement with the U. S. Department of Army Corps of Engineers relating to the diversion of a portion of the flow in the Cooper River which is now utilized for generation at the Authority's Jefferies Hydro Plant (see caption in Official Statement "The Authority—Power Supply"). The Cooper River Rediversion Project is scheduled for completion in December 1984. At that time, the system capacity available to the Authority will be increased by 84 MW. Under the terms of the contract with the U. S. Department of Army Corps of Engineers, however, the Authority is not required in the initial year to accept the full capacity available from the project, but it must accept at least 20 MW.

The following tabulation summarizes the projected loads and resources of the Authority for the calendar years 1979 through 1984. Data in this table is presented on a calendar year basis rather than a fiscal year basis because the Authority's peak system demand occurs in the summer months and the Authority plans its power supply resources on that basis. The loads set forth therein assume that Central will continue to purchase its entire power supply requirements from the Authority in excess of amounts Central purchases from SEPA. See subsection captioned "Central Contracts" in Official Statement concerning discussions with Central regarding future power supply.

Projected Loads and Resources—MW
1979-1984

	Calendar Year					
	1979	1980	1981	1982	1983	1984
Resources:						
Generating Capability						
Existing(1)	1,400	1,400	1,400	1,400	1,400	1,400
Under Construction(2)	56(3)	336(4)	636(5)	916(6)	916	916
Planned(2)	—	—	—	—	450(7)	450
Total Generating Capability	1,456	1,736	2,036	2,316	2,766	2,766
Firm Purchases—SEPA	105	105	105(8)	105(8)	105(8)	105(8)
Total Resources(9)	1,561	1,841	2,141	2,421	2,871	2,871(10)
Maximum Annual Demand (August)	1,364	1,474(11)	1,861(11)	2,013(11)	2,177(11)	2,361(11)
Resources Available for Reserves	197	367	280	408	694	510
Purchased Reserves	50	50	50	50	50	50
Total Purchased Reserves and Resources Available for Reserves	247	417	330	458	744	560
Percent of Maximum Annual Demand	18%	28%	18%	23%	34%	24%
Planned Reserves at 20%(12)	252	274	351	382	414	451
Surplus (Deficiency) to Meet Planned Reserves	(5)	143	(21)	76	330	109

(1) See tabulation in section captioned "Power Requirements and Supply."

(2) Unit capabilities are shown in the first calendar year during which units under construction or planned will be available to meet the summer peak demand, which normally occurs in August.

(3) Represents additional turbine at Hilton Head.

(4) Increase represents Winyah No. 3.

(5) Increase represents Authority's one-third share of Summer Nuclear Station. Summer Nuclear Station is presently scheduled for commercial operation in December 1980; however, the first calendar year during which its capability will be available at the time of the Authority's annual system peak demand will be 1981.

(6) Increase represents Winyah No. 4.

(7) Represents Cross No. 2.

(8) Assumes SEPA power equal to that provided under the present contract will continue to be available after June 30, 1981.

(9) Amounts shown assume all units will be available for service at the designated capability during the time of the annual system peak demand.

(10) Does not include capability from the St. Stephen Hydroelectric Plant which is scheduled for completion in December 1984, which is after the Authority's 1984 annual peak demand.

(11) Pursuant to the terms of the Alumax contract, as amended, prior to November 1, 1981, the Authority is not obligated to provide to Alumax capacity in excess of 270 MW which will supply approximately one and one-half potlines. Projected maximum annual demands shown in 1981 and thereafter include approximately 250 MW of demand associated with Alumax.

(12) For planning purposes, the Authority utilizes the criteria of reserves equal to 20% of annual system peak demand less firm purchases.

PROJECTED OPERATING RESULTS

We have prepared estimates and projections of the operations of the Authority for the period covering the fiscal years ending June 30, 1979 through 1984 based upon our analyses of the Authority's retail and wholesale operations and the loads and resources of the Authority as hereinbefore discussed. Our projections of operating results for the Authority are presented in Exhibit C to this Report. Our projections are based on the following principal considerations and assumptions:

1. Projected revenues from customers, other than Central, have been based: (i) for power deliveries through April 1979, on rates presently in effect; (ii) for power deliveries during the period May 1979 through April 1981, on rates adopted by the Authority to become effective May 1979; (iii) for power deliveries during the period May 1981 through April 1982, on rates adopted by the Authority to become effective May 1981; and (iv) for the period commencing with power deliveries in May 1982 and continuing thereafter through the term of projections, on rates to be hereafter adopted to implement the rate program adopted by the Authority to become effective May 1982, including in each case the fuel

1067 318

adjustment provisions of such rates. Revenues from sales to commercial and large customers, other than Central, reflect the terms of the Authority's contracts with such customers.

2. Revenues to be derived from Central have been projected on the basis of the present contract terms including adjustments computed in accordance with the contract and during the period to January 1, 1979 an interim agreement which provided for a 1.8 mill per kilowatt-hour surcharge. Upon completion of Summer Nuclear Station, a substantial amount of energy produced by the Authority will be from nuclear fuel, the cost of which is projected to be less than the cost of fossil (coal and oil) fuel. The Authority has previously advised Central that it intends to reconsider the fuel adjustment clause in its contract with Central when nuclear power generation is commenced by the Authority and that concurrent therewith, changes will be negotiated in the rate and fuel clause provisions of the contract which will be fair and equitable to both parties. It is not possible to predict at this time what changes may be made in the Central contract when Summer Nuclear Station is completed in December 1980. Our projections of revenues and expenses assume that Central will continue to purchase its power supply requirements from the Authority as provided under the present contract.

3. Projections of revenues and power supply expenses assume that Alumax will require and utilize power supply from the Authority of approximately 246 MW beginning in July 1981 for the first potline and the first half of a second potline with a build-up of loads commencing in April 1981. These dates are based on the approximate maximum allowable delay for that portion of the load for which initial notice had been received as of the date of this Report. If Alumax gives notice to proceed with additional potlines or portions thereof as provided in the Alumax contract or if the operation dates of any or all potlines change from those stated above, the projected revenue and expenses for the fiscal years beginning as early as 1982 and thereafter could change significantly.

4. Generation by the Jefferies and Wilson Dam Generating Stations has been projected at 619 million kWh annually through fiscal year 1984.

5. Purchases and wheeling of power from SEPA have been projected on the basis of the existing SEPA contract and reflect the average energy available for wheeling and direct use of the Authority's system of approximately 300 million kWh annually of which approximately 198 million kWh are wheeled for Central and municipal customers.

6. The cost of fossil fuels has been projected using as the base the Authority's budget estimate for fiscal years ending June 30, 1979, 1980 and 1981 and escalated at the rate of seven-tenths of one percent per month throughout the remaining portion of the projection.

7. Upon advice of the Authority, we have assumed that no sales of surplus energy would be made to SCE&G or CP&L.

8. Power costs used herein are predicated in part on the availability of the following generation resources to be owned and operated in their entirety by the Authority: (i) 56 MW-Hilton Head No. 3 in May 1979; (ii) 280 MW-Winyah No. 3 in May 1980; (iii) 300 MW-Summer Nuclear Station in December 1980; (iv) 280 MW-Winyah No. 4 in May 1982; and (v) 450 MW-Cross No. 2 in May 1983.

9. The Authority has or will obtain all licenses and permits required for all generation and transmission facilities on a schedule commensurate with construction needs.

10. SCE&G will obtain all licenses and permits necessary for and Summer Station will commence commercial operation in December 1980 as presently scheduled by SCE&G. The Summer Nuclear Station is projected to operate at an average monthly plant factor of 60% during the first two years of operation and an 80% monthly plant factor for subsequent years with two-month refueling periods. (An 80% monthly plant factor, with annual refueling period of two months, is equivalent to approximately a 67% annual plant factor.)

11. Nuclear fuel costs for Summer Nuclear Station are estimated on the basis that the 82% of the initial fuel core uranium already delivered will be at the costs provided in the Westinghouse contract.

All reload fuel uranium will be purchased on the open market at costs based on current price levels of approximately $44 per pound escalated at 5% per year.

12. The total amount of bonds required to be issued to pay the costs of Summer Nuclear Station was estimated based upon the Authority purchasing its ownership share of the initial nuclear fuel under the terms and at the costs set forth in the Westinghouse contract, with the exception of the approximately 18% of the initial core uranium concentrates purchased by SCE&G on the spot market.

13. Our projection of power supply assumes that the Authority and SEPA will execute a new contract containing terms and conditions, including the power allocated to the Authority, which will be substantially the same as the present contract as to which SEPA has served notice of termination effective June 30, 1981. Based upon such assumption, the existing power supply resources, Hilton Head No. 3, Winyah No. 3, Summer Nuclear Station, Winyah No. 4 and the planned Cross No. 2 should be adequate for the period shown to meet the Authority's projected power requirements, including the provisions for reserves. The existing power supply resources and those under construction and planned may not be adequate in the 1981 peak load period if SEPA does not enter into a new contract with the Authority.

14. Operation and maintenance expenses, exclusive of fuel, have been based on the Authority's fiscal year ending June 30, 1979 budget and increased each year thereafter to reflect increased expenses required for projected growth and escalation based on inflation rates and other conditions prevailing in the present economy.

15. Payments in lieu of taxes reflect present levels of such payments and are projected to increase approximately in proportion to increases in sales to certain classes of customers.

16. Revenues which are expected from rentals of land owned by the Authority, wheeling of SEPA power for the account of the cooperatives and municipalities, and miscellaneous revenues including sales of timber harvested from Authority-owned lands have been projected at approximately current levels.

17. Debt service requirements for the period shown have been projected utilizing the following criteria: (i) actual debt service schedules on the outstanding priority obligations and Bonds heretofore issued, (ii) the estimated debt service requirements at an annual interest rate of 7.25% on the 1979A Bonds with interest requirements on the portion allocable to Winyah No. 4 funded from Bond proceeds to November 1, 1982, (iii) the estimated debt service requirements at an annual interest rate of 7.25% on the remaining $104,000,000 of Bonds authorized but unissued for the completion of Winyah No. 4 with interest requirements funded from Bond proceeds to November 1, 1982, (iv) the estimated debt service requirements at an annual interest rate of 7.25% on the authorized but unissued $39,400,000 of Additional Summer Bonds expected to be issued in late 1980 or early 1981 to provide long-term funding for the completion of Summer Nuclear Station with interest requirements funded from Bond proceeds to June 1, 1981 on the Bonds heretofore issued allocable to Summer Nuclear Station and the Additional Summer Bonds, (v) the estimated debt service requirement at an annual interest rate of 6.75% on $30,000,000 of unauthorized Bonds to fund General Improvements with interest requirements funded from Bond proceeds to July 1, 1980, (vi) the estimated debt service requirements at an annual interest rate of 6.75% on $31,000,000 of unauthorized Bonds to fund General Improvements with interest requirements funded from Bond proceeds to January 1, 1982, and (vii) the estimated debt service requirements at an annual interest rate of 6.75% on $508,000,000 of presently unauthorized Bonds to fund the construction of Cross No. 2 with interest requirements funded from Bond proceeds to November 1, 1983.

Escalation rates other than for fuel have been based upon current inflation rates and other conditions prevailing in the present economy and, in our opinion, are reasonable for the purposes of the projections set forth herein. However, we can give no assurance that such rates will not be exceeded. Due to uncertainties caused by variable factors including labor disputes and other factors which influence the cost of all energy sources, we can give no assurance as to the reasonableness of the rate of escalation used herein with respect to fuel costs. Since at the present time it is not possible to predict the outcome of the litigation involving the Westinghouse contract or the availability or price of uranium from other sources, we can give no assurance as to the estimates used herein with respect to nuclear fuel costs.

OPINION

Based upon our studies, investigations and analyses as summarized herein, we are of the opinion that:

1. The Authority's proposal to construct and operate Winyah No. 3 and Winyah No. 4 each having a net generating capability of approximately 280 MW with commercial operation scheduled in May 1980 and May 1982 respectively, the Authority's ownership of a one-third interest (equal to approximately 300 MW) in the Summer Nuclear Station with commercial operation scheduled in December 1980, and Hilton Head No. 3 combustion turbine unit with commercial operation scheduled for May 1979, all of which have heretofore been authorized by the Authority, together with the Authority's existing power supply resources, are necessary in order to produce additional power supply needed to meet the projected power requirements of the Authority through fiscal year 1983 including the power supply requirements which will result from or be attributable to Alumax in accordance with the terms of the Alumax contract. Additional power supply resources will be required to meet the projected power requirements beginning in the summer of 1983 and the Authority's present plans to construct Cross No. 2 appear reasonable for such purpose.

2. The construction, operation and ownership by the Authority of Winyah No. 4 as presently being designed by Burns and Roe, Inc. are economically feasible.

3. The net operating revenues of the Authority, after giving effect to the rate increase adopted by the Authority to become effective beginning May 1981, will be adequate to meet all estimated debt service on all authorized Bonds, including authorized Bonds not now being issued to complete payment of the costs of construction of Winyah No. 4 and Summer Nuclear Station, and lease payment requirements for the periods shown and to make payments into the Capital Improvement Fund established pursuant to the Bond Resolution, in amounts at least equal to the minimum requirement therefor, to provide for needed renewals, replacements and additions to the Authority's plant and facilities. If the Authority proceeds with construction and operation of Cross No. 2 as presently planned for commercial operation in May 1983, it will be necessary for the Authority to implement, effective in May 1982, the rate program which the Authority has authorized to produce revenues of approximately $21,828,000 in fiscal year 1983 in excess of revenues estimated to be derived from the rates then in effect.

4. The Consulting Engineer's Certificate required under the Authority's Bond Resolution to issue the 1979A Bonds can be furnished.

We have reviewed the Official Statement to which this Consulting Engineer's Report is appended and, in our opinion, the data presented therein which is taken from our report is accurately represented.

Respectfully submitted,

R. W. BECK AND ASSOCIATES

1067 321

APPENDIX I
Exhibit A

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
Comparison of Rates
(As of December, 1978)

	Residential Electric Service					
		Rate Schedule	300 kWh	500 kWh	700 kWh	1,000 kWh
Authority						
Existing(1)	(S)	RS-78	$13.82	$20.18	$26.20	$35.24
	(W)	RS-78	13.36	19.04	24.16	31.85
Effective May 1979(2)	(S)	RS-79R	14.83	22.04	28.89	39.17
	(W)	RS-79R	14.08	20.49	26.24	34.87
Duke Power Company(3)		R	14.26	23.24	32.99	47.63
Carolina Power & Light Company(4)	(S)	RES-5	15.97	23.02	30.06	40.63
	(W)	RES-5	15.97	23.02	30.06	38.71
South Carolina Electric & Gas Company(5)		8	16.36	24.27	32.18	44.04

	Commercial Service (300 Hours of kW Demand)				
		Rate Schedule	3,000 kWh	5,000 kWh	7,500 kWh
Authority					
Existing(1)	(S)	GS-78	$122.00	$185.84	$265.64
	(W)	GS-78	88.16	137.00	198.05
Effective May 1979(2)	(S)	GS-79R	119.91	195.45	289.88
	(W)	GS-79R	101.71	165.25	244.68
Duke Power Company(3)		G	147.12	236.12	333.31
Carolina Power & Light Company(4)		SGS-5	111.41	182.36	257.30
South Carolina Electric & Gas(5)		9	153.85	237.75	328.55

	Industrial Service				
	Rate Schedule	1,000 kW 500,000 kWh	2,000 kW 1,000,000 kWh	9,000 kW 5,000,000 kWh	40,000 kW 25,000,000 kWh
Authority					
Existing(6)	L-78	$10,685.00	$20,270.00	$ 95,000.00	$460,850.00
Effective May 1979(7)	L-79R	12,188.00	22,708.00	103,818.00	497,168.00
Duke Power Company(3)	I	13,659.01	25,711.51	119,894.01	576,856.51
Carolina Power & Light Company(4)	LGS-5	12,495.00	24,765.00	118,075.00	565,225.00
South Carolina Electric & Gas(5)	23	13,650.00	26,800.00	127,200.00	610,000.00

Summer rate schedule designated (S); Winter rate schedule designated (W).
(1) Includes fuel adjustment adder of $.00202/kWh.
(2) Includes fuel adjustment credit of $.00423/kWh.
(3) Includes fuel adjustment adder of $.00179/kWh.
(4) Includes fuel adjustment adder of $.00059/kWh, fuel adjustment applies to November 1978 billing.
(5) Includes fuel adjustment adder of $.00095/kWh.
(6) Includes fuel adjustment adder of $.00177/kWh.
(7) Includes fuel adjustment credit of $.00406/kWh.

1067 322

APPENDIX I

Exhibit B

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

Summary of Historical Operating Results
Fiscal Year Ended June 30(1)

	1974	1975	1976	1977	1978	Twelve Months Ended December 31, 1978 (Unaudited)
Requirements:						
Demand—kW (000)	871	911	943	1,089	1,231	1,231
Energy—kWh (000) (2)	4,678,854	4,745,243	4,996,056	5,682,219	6,437,659	6,525,936
Sales—kWh (000):						
Retail (3)	2,172,288	2,240,697	2,264,576	2,527,432	2,717,611	2,882,236
Wholesale (4)	1,795,621	2,018,602	2,220,560	2,576,795	2,843,949	2,891,179
Surplus (5)	257,052	46,520	25,710	53,654	318,779	203,004
Total Sales	4,224,961	4,305,819	4,510,846	5,157,881	5,880,339	5,976,419
Operating Revenues:						
Sales of Electrical Energy—						
Firm Sales	$41,525,535	$75,806,186	$80,564,225	$92,533,095	$117,743,957	$126,626,766
Surplus Sales	4,219,720	1,021,681	506,960	975,255	7,594,648	4,711,540
Total Sales of Electrical Energy	$45,745,255	$76,827,867	$81,071,185	$93,508,350	$125,338,605	$131,338,306
Other—						
Land Rentals	452,155	446,964	449,548	459,311	481,393	581,136
SEPA Transmission (6)	320,968	321,272	322,420	322,264	322,107	322,047
Miscellaneous	235,222	210,112	395,808	437,068	432,572	405,913
Total Operating Revenues	$46,753,600	$77,806,215	$82,238,961	$94,726,993	$126,574,677	$132,647,402
Operating Expenses:						
Production—						
Hydro	$ 761,731	$ 816,028	$ 873,173	$ 1,187,721	$ 1,398,102	$ 1,505,594
Steam and Combustion Turbine (excluding fuel)	2,258,723	2,740,028	3,603,055	5,785,867	7,486,115	8,266,344
Fuel	23,714,458	37,704,204	42,716,672	46,848,296	76,168,514	81,422,801
Other	64,097	83,368	162,935	165,973	227,631	484,449
Purchased Power	3,692,174	13,679,493	2,213,916	8,331,935	2,846,160	2,587,293
Total Power Supply Expense	$30,491,183	$55,023,121	$49,569,751	$62,319,792	$ 88,126,522	$ 94,266,481
Transmission Expense	1,244,526	1,241,540	1,525,484	1,922,761	2,237,103	2,401,686
Distribution Expense	626,839	714,509	817,709	920,531	960,885	1,067,143
Customer Accounts	537,629	625,502	748,615	895,972(7)	1,277,391(7)	1,310,067(7)
Sales Expense	216,746	147,538	156,473	194,593	230,987	219,671
Administrative and General	1,447,790	1,659,906	1,890,733	2,562,405	2,905,444	3,408,116
In Lieu of Taxes	126,466	404,528(8)	550,482(8)	734,280(8)	658,418(8)	883,274(8)
Total Operating Expenses	$34,691,179	$59,816,644	$55,259,247	$69,550,334	$ 96,396,750	$103,556,438
Net Operating Revenues	$12,062,421	$17,989,571	$26,979,714	$25,176,659	$ 30,177,927	$ 29,090,964
Other Income:						
Investment Income	1,424,108	1,864,052	2,806,586	2,806,184	3,481,324	4,155,946
Other Income and income Deductions	117,919	129,263	12,308	108,060	136,444	235,441

1067 323

[illegible]nue Available for Debt Service and Other Purposes	$13,604,448	$1[illegible]2,886	$29,798,608	$28,090,903	$ 33,795,695	$ 33,482[illegible]
Debt Service:						
Priority Obligations	$ 4,314,635	$ 4,317,573	$ 4,323,527	$ 4,317,371	$ 4,319,365	$ 4,296,717
1971 Series Bonds (9)	737,044	3,460,216	7,123,251	3,066,951	—	—
1973 Series Bonds	—	—	701,700	701,700	701,701	701,701
1974 Series Bonds	—	—	—	496,138	5,138,299	7,211,310
1977 Refunding Series Bonds	—	—	—	2,844,978	6,921,786	6,911,330
Total Debt Service	$ 5,051,679	$ 7,777,789	$12,148,478	$11,427,138	$ 17,081,151	$ 19,121,058
Lease payments to Central (10)	1,936,610	2,105,355	2,412,599	2,983,721	3,354,659	3,582,173
Principal and Interest on Other Obligations (11)	—	147,137	1,690,690	1,363,660	1,402,401	1,388,202
Balance after Debt Service, Lease payments and Other Obligations	$ 6,616,159	$ 9,952,605	$13,546,841	$12,316,384	$ 11,957,484	$ 9,390,918
Payments to State of South Carolina	1,093,496	763,535	843,996	1,797,497	1,200,564	1,200,383
Payments to Reserve Fund	—	—	—	—	—	—
Payments into Contingency Fund	97,200	—	2,352	—	—	—
Balance Available for Renewals, Replacements, Capital Additions to Plant and Other Lawful Purposes	$ 5,425,463	$ 9,189,070	$12,700,493	$10,518,887	$ 10,756,920	$ 8,190,535
Coverage:						
On Priority Obligations	3.15	4.63	6.89	6.51	7.82	7.79
On Debt Service	2.69	2.57	2.45	2.46	1.98	1.75
Debt Service, Lease Payments, Other Obligations, and Contingency Fund Payments	1.92	1.99	1.83	1.78	1.55	1.39

(1) Prepared from financial statements of the Authority. Net revenues not reduced by depreciation, lease payments or interest on long-term debt, for determining revenues available for debt service and other purposes, all in accordance with the Indenture and Bond Resolution.

(2) Includes energy wheeled for SEPA.

(3) Includes large industries and public authorities (military).

(4) Includes sales to Central, Berkeley Electric Cooperative, Inc. and the City of Georgetown and the Town of Bamberg, South Carolina.

(5) Includes surplus sales to SCE&G and CP&L.

(6) Revenues received for wheeling SEPA power (SEPA transmission).

(7) Includes Customer Service and Informational Expense.

(8) Includes the following payments to counties recorded as an operating expense:

Fiscal Year Ended June 30	Amount
1975	$256,920
1976	282,744
1977	441,737
1978	358,418
Twelve Months Ended December 31, 1978	372,610

In the opinion of Bond Counsel, such amounts are available for debt service coverage but are not reflected in the coverage calculations shown in this exhibit.

(9) The 1971 Series Bonds were defeased on March 10, 1977, through the issuance of the 1977 Refunding Series Bonds.

(10) Cash basis.

(11) Includes bank loans.

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

Projected Operating Results
Fiscal Year Ending June 30(1)

(Dollars in Thousands)

	1979	1980	1981	1982	1983	1984
Requirements:						
Demand—MW(2)	1,258	1,364	1,474	1,861	2,013	2,177
Energy—GWh(3)	6,515	7,049	7,575	10,488	11,257	12,103
Sales—GWh:						
Retail(4)	2,893	3,063	3,248	5,576	5,814	6,073
Wholesale(5)	3,092	3,401	3,727	4,209	4,696	5,239
Total Sales	5,985	6,464	6,975	9,785	10,510	11,312
Operating Revenues:						
Sales of Electric Energy(6)	$144,794	$179,960	$198,744	$307,492	$371,678	$426,657
Other—						
Land Rentals	637	658	682	705	705	705
SEPA Transmission	322	322	322	322	322	322
Miscellaneous	452	516	550	573	573	573
Total Operating Revenues	$146,205	$181,456	$200,298	$309,092	$373,278	$428,257
Operating Expenses:						
Production—						
Hydro(7)	$ 1,457	$ 1,556	$ 1,723	$ 1,895	$ 2,084	$ 2,293
Steam and Combustion Turbine (Excluding Fuel)	8,972	8,7	13,252	16,771	20,072	24,246
Fuel	91,809	112,646	112,077	174,214	204,246	238,782
Other	1,310	1,429	1,625	1,788	1,966	2,163
Purchased Power	2,509	2,706	3,020	3,379(8)	3,804(8)	4,306(8)
Total Power Supply Expense	$106,057	$127,055	$131,697	$198,047	$232,172	$271,790
Transmission Expense	2,389	2,699	2,997	3,297	3,626	3,989
Distribution Expense	1,036	1,195	1,313	1,444	1,588	1,747
Customer Accounts	1,114	1,313	1,445	1,590	1,748	1,923
Sales Expense	300	314	346	381	419	461
Administrative & General	3,594	4,084	4,484	4,932	5,425	5,967
In Lieu of Taxes(9)	297	322	351	382	417	455
Total Operating Expenses	$114,787	$136,982	$142,633	$210,073	$245,395	$286,332
Net Operating Revenues	$ 31,418	$ 44,474	$ 57,665	$ 99,019	$127,883	$141,925
Other Income:						
Investment Income(10)	3,304	3,357	5,245	6,565	7,574	9,887
Other Income and Deductions	117	132	185	152	171	190
Revenue Available for Debt Service and Other Purposes	$ 34,839	$ 47,963	$ 63,095	$105,736	$135,628	$152,002
Debt Service(11)						
Priority Obligations	$ 4,319	$ 4,322	$ 4,319	$ 4,322	$ 4,319	$ 4,473
1973 Series Bonds	702	1,527	1,977(12)	6,494	6,498	6,505
1974 Series Bonds	7,211	7,311	8,085	8,038	8,079	8,076
1977 Refunding Series Bonds	6,946	6,972	8,291(12)	14,399	14,390	14,394
1977 Series Bonds	—	510	1,478(12)	6,938	6,911	6,920
1978 Series Bonds	—	—	8,053	11,722	12,409	12,254
1979 Series A Bonds(13)	181	793	793	793	5,976	8,728
Authorized but Unissued Bonds						
Winyah No. 4 Completion Bonds(14)	—	—	—	—	5,377	8,252
Additional Summer Bonds(15)	—	—	238	3,126	3,126	3,126
Total Debt Service on Authorized Bonds	$ 19,359	$ 21,435	$ 33,234	$ 55,832	$ 67,085	$ 72,728
Additional Unauthorized Bonds						
General Improvement Bonds(16)	—	—	2,025	3,301	4,583	4,583
Cross No. 2 Bonds(17)	—	—	—	—	—	24,800
Total Estimated Debt Service on Authorized and Unauthorized Bonds	$ 19,359	$ 21,435	$ 35,259	$ 59,133	$ 71,668	$102,111
Lease Payments to Central(18)	4,410	5,235	5,523	5,549	5,549	5,546
Principal and Interest on Other Obligations(19)	92	89	86	83	80	77
Total Estimated Debt Service, Lease Payments and Other Obligation Payments	$ 23,861	$ 26,759	$ 40,868	$ 64,765	$ 77,297	$107,734
Balance Available for Payments to State of South Carolina, Renewals, Replacements, Additions to Plant and Other Lawful Purposes	$ 10,978	$ 21,204	$ 22,227	$ 40,971	$ 58,331	$ 44,268
Coverage:						
Priority Obligations	8.07	11.10	14.61	24.46	31.40	33.98
Total Debt Service on Authorized Bonds	1.80	2.24	1.90	1.89	2.02	2.09
Total Debt Service on Authorized and Unauthorized Bonds	1.80	2.24	1.79	1.79	1.89	1.49
Total Debt Service, Lease Payments, and Other Obligations	1.46	1.79	1.54	1.63	1.75	1.41

1067 325

(1) Net revenues not reduced by depreciation, lease payments or interest on long-term debt for determining revenues available for debt service and other purposes, all in accordance with the Indenture and Bond Resolution, as amended and supplemented.

(2) Projected amounts of demand reflect an August peak which is normally the highest peak during the summer months. Included in the peak demands for fiscal year 1982 and thereafter are approximately 246 MW attributable to Alumax.

(3) Includes 198 GWh of energy wheeled for SEPA, based on the present contract entitlement.

(4) Includes assumed sales to Alumax of 11 GWh in fiscal year 1981 and 2,112 GWh in each fiscal year shown thereafter.

(5) Includes sales to Central; the City of Georgetown, South Carolina; and the Town of Bamberg, South Carolina.

(6) Projected revenues from customers in general, other than Central, have been based on the following: (i) for power deliveries through April, 1979, on rates presently in effect; (ii) for power deliveries during the period May, 1979 through April, 1981, on rates adopted by the Authority to become effective May, 1979; (iii) for power deliveries during the period May, 1981 through April, 1982, on rates adopted by the Authority to become effective May, 1981; and (iv) for the period commencing with power deliveries in May, 1982 and continuing thereafter through the term of the projections, on rates to be hereafter adopted to implement the rate program adopted by the Authority to become effective May, 1982, including in each case the fuel adjustment provisions of such rates. Revenues to be derived from Central have been projected on the basis of the present contract terms including adjustments computed in accordance with the F Power Contract, and that Central will continue to purchase its entire power supply requirements from the Authority. During the period to January 1, 1979, revenue from Central reflects an interim agreement which provided for a 1.8 mill per kilowatt-hour surcharge.

(7) Includes normalized hydroelectric generation at 619 million kWh annually.

(8) Includes SEPA power will continue to be purchased under contract terms and in the same amounts as provided under the existing contract between the Authority and SEPA.

(9) Does not include certain estimated tax payments payable from the Special Reserve Fund to counties for determining projected revenues available for debt service and debt service coverage.

(10) Excludes all interest earned by reason of the investment of moneys in any Construction Fund or ratable portions of the Reserve Account during the construction period, established with the proceeds of Bonds, all in accordance with the Indenture and Bond Resolution. Assumes existing investment income levels with adjustments for additional investment income associated with Reserve Account requirements commencing with the commercial operation of various facilities or the date to which interest has been funded from Bond proceeds.

(11) The amounts shown are payable from revenues.

(12) Fiscal year 1981 adjusted to reflect an additional 7 months funded interest to June 1, 1981 on Bonds heretofore issued which are allocable to Summer Nuclear Station:

Estimated Amount to Be Funded From a Portion of the Proceeds of Additional Summer Bonds

	($000)
1973 Series Bonds	$2,870
1977 Refunding Series	3,888
1977 Series Bonds	3,207
Total	$9,965

(13) Estimated debt service on $110,000,000 at 7.25% annual interest rate; pro rated on the basis of $100,000,000 Winyah No. 4 (90.91%) with the final principal maturity occurring July 1, 2017 and $10,000,000 General Improvements (9.09%). Amounts shown reflect the following estimated requirements from revenues:

Fiscal Year Ending June 30:	Winyah No. 4 ($000)	General System Improvements ($000)	Total ($000)
1979	$ —	$181	$ 181
1980	—	793	793
1981	—	793	793
1982	—	793	793
1983	5,183	793	5,976
1984	7,935	793	8,728

(14) Estimated debt service on $104,000,000 authorized but unissued Bonds for Winyah No. 4 at 7.25% annual interest rate with the final principal maturity occurring July 1, 2017 and interest requirements funded from Bond proceeds to November 1, 1982.

(15) Estimated debt service on $39,400,000 authorized but unissued Additional Summer Bonds at 7.25% annual interest rate with the final principal maturity occurring July 1, 2016, and interest requirements funded to June 1, 1981.

(16) Estimated debt service on unauthorized Bonds estimated to be required for 1979-1984 Capital Improvement Program to fund General Improvements. Amounts shown reflect the expected issuance in fiscal year 1980 of $30,000,000 of Bonds at 6.75% annual interest rate with the final principal maturity occurring July 1, 2016; and the expected issuance in fiscal year 1981 of $31,000,000 of Bonds at 6.75% annual interest rate with interest requirements funded to January 1, 1982 and the final principal maturity occurring July 1, 2017.

(17) Estimated debt service on unauthorized Bonds estimated to be required for Cross No. 2. Amount shown reflects the expected issuance of $508,000,000 of Bonds at 6.75% annual interest rate with interest requirements funded to November 1, 1983 and the final principal maturity occurring July 1, 2018.

(18) Includes estimated lease payments on H, K, and L Lease Contracts.

(19) Principal and interest payments on note held by Bankers Trust of South Carolina.

1067 326

J. W. HUNT, C.P.A.
BRUCE O. HUNT, C.P.A.
R. L. DAVIS, C.P.A.
W. R. HUNT, C.P.A.
B. L. DAVIS, C.P.A.
P. R. JOHNSON, C.P.A.
Z. V. SMITH, C.P.A.
MICHAEL S. STRANGE, C.P.A.

T. A. WAITES, JR., C.P.A.

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS

J. W. Hunt and Company

CERTIFIED PUBLIC ACCOUNTANTS

MIDDLEBURG OFFICE PARK
1607 ST. JULIAN PLACE
POST OFFICE BOX 265
COLUMBIA, S. C. 29202
803-254-8196

September 21, 1978

The Advisory Board
South Carolina Public Service Authority
Columbia, South Carolina

Gentlemen:

We have examined the balance sheet of the South Carolina Public Service Authority as of June 30, 1978, and June 30, 1977, and the related statements of accumulated net revenues, revenue and expenses and changes in financial position for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements as of December 31, 1978, and for the period ended that date (indicated "unaudited") were not examined by us and accordingly no opinion is expressed thereon.

For the year ended June 30, 1978, the method used for computing the allowance for funds used during construction was changed, in accordance with Order 561 from the Federal Energy Regulatory Commission. This resulted in an increase in the amount of interest capitalized by $946,015 with a resultant increase in net revenues of the same amount. See Note 10.

In our opinion, the accompanying financial statements, except those indicated "unaudited", present fairly the financial position of the South Carolina Public Service Authority as of June 30, 1978, and June 30, 1977, and the results of its operations and changes in financial position for the five years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except as set forth in the preceding paragraph.

Respectfully submitted,

J. W. HUNT AND COMPANY

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

BALANCE SHEET

ASSETS

	December 31, 1978 (Unaudited)	June 30, 1978	June 30, 1977
ELECTRIC PLANT, AT ORIGINAL COST—Note 2:			
Electric plant in service	$395,612,296	$377,591,327	$363,498,199
Electric plant held for future use	652,775	652,775	739,587
Total	396,265,071	378,244,102	364,237,786
Less, accumulated depreciation	71,596,055	66,412,477	57,600,078
Balance	324,669,016	311,831,625	306,637,708
Construction work in progress	237,990,526	206,158,403	130,524,490
Total	562,659,542	517,990,028	437,162,198
UNEXPENDED FUNDS FROM SALE OF ELECTRIC SYSTEM EXPANSION REVENUE BONDS—Note 3	189,210,875	217,258,039	55,032,141
IMPOUNDED RESERVE FUNDS—Note 3	150,606,498	154,598,462	90,599,868
OTHER PHYSICAL PROPERTY	622,838	622,838	545,508
Less, accumulated depreciation	135,502	132,392	126,190
Balance	487,336	490,446	419.318
CURRENT ASSETS:			
Funds held by Trustee	9,682,877	7,311,424	6,376,804
Other funds	2,037,006	5,894,262	2,985,720
Accounts receivable, less allowance for uncollectible accounts	11,771,249	12,438,059	13,650,309
Accrued interest receivable	663,424	940,931	473,121
Inventories (at average cost):			
Fuel	22,215,316	15,713,110	10,941,450
Materials and supplies	2,649,960	1,783,825	1,522,102
Prepayments (insurance, etc.)	501,265	394,177	460,297
Total	49,521,097	44,475,788	36,409,803
DEFERRED DEBITS:			
Unamortized debt expense	3,170,501	3,223,189	2,562,098
Unamortized loss on reacquired debt	10,546,345	10,738,401	11,125,225
Other deferred charges	746,101	379,586	511,261
Total	14,462,947	14,341,176	14,198,584
Total	$966,948,295	$949,153,939	$633,821,912

See Accompanying Notes to Financial Statements.

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

BALANCE SHEET

LIABILITIES AND OTHER CREDITS

	December 31, 1978 (Unaudited)	June 30, 1978	June 30, 1977
LONG-TERM DEBT—Note 4:			
Priority Obligations	$ 73,687,574	$ 74,860,842	$ 76,178,480
Electric System Expansion Revenue Bonds	736,455,000	737,975,000	424,150,000
Other Long-Term Debt	450,000	1,700,000	3,025,000
Total	810,592,574	814,535,842	503,353,480
Unamortized debt discount and premium—net	12,667,569	12,882,827	7,795,180
Long-Term Debt—Net	797,925,005	801,653,015	495,558,300
ACCRUED INTEREST DUE JULY 1 AND JANUARY 1—FUNDS REMITTED TO PAYING AGENT AND CARRIED AS IMPOUNDED FUNDS	8,109,077	8,108,685	4,016,950
CONSTRUCTION FUND LIABILITIES—ACCOUNTS PAYABLE	17,901,268	1,965,331	3,015,390
CURRENT LIABILITIES (EXCLUSIVE OF MONTHLY PAYMENTS TO TRUSTEE FOR DEBT SERVICE REQUIREMENTS — Note 4, AND PAYMENTS TO THE STATE OF SOUTH CAROLINA—Note 1):			
Accounts payable	13,163,134	9,528,424	8,383,968
Customers' deposits	1,554,493	1,491,237	1,210,644
Accrued sums in lieu of taxes	497,022	297,783	275,723
Other	326,430	439,441	402,063
Total	15,541,079	11,756,885	10,272,398
COMMITMENTS AND CONTINGENCIES—NOTE 9 AND NOTE 11			
LONG-TERM LEASE COMMITMENTS—NOTE 6 AND NOTE 6-A			
ACCUMULATED RESERVE FOR FUTURE RENTAL PAYMENTS	3,882,006	3,538,373	3,133,716
UNAMORTIZED GAIN ON REACQUIRED DEBT	1,840,694	1,994,279	2,321,706
CAPITAL CONTRIBUTIONS—U. S. GOVERNMENT GRANTS	34,438,264	34 438,264	34,438,263
ACCUMULATED NET REVENUES—Exhibit B	87,310,902	85,699,107	81,065,189
Total	$966,948,295	$949,153,939	$633,821,912

See Accompanying Notes to Financial Statements.

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY
STATEMENT OF ACCUMULATED NET REVENUES

Detail	Twelve Months Ended December 31, 1978 (Unaudited)	Year Ended June 30, 1978	1977	1976	1975	1974
Accumulated Net Revenues, Beginning of Period	$83,961,034	$81,065,189	$73,884,469	$62,826,474	$55,14[illegible]987	$52,139,370
Net Revenue for the Period —Exhibit C	4,550,248	5,834,482	8,978,217	11,901,990	8,442,022	4,102,113
Total	88,511,282	86,899,671	82,862,686	74,728,464	63,590,009	56,241,483
Distribution to the State of South Carolina	1,200,380	1,200,564	1,797,497	843,995	763,535	1,093,496
Accumulated Net Revenues, End of Period	$87,310,902	$85,699,107	$81,065,189	$73,884,469	$62,826,474	$55,147,987

See Accompanying Notes to Financial Statements.

1067 330

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

STATEMENT OF REVENUE AND EXPENSES

	Twelve Months Ended December 31, 1978 (Unaudited)	Year Ended June 30, 1978	1977	1976	1975	1974
ELECTRIC OPERATING REVENUE:						
Sales of electricity:						
Residential	$ 15,039,415	$ 14,585,306	$10,801,508	$ 9,107,234	$ 8,353,991	$ 4,910,431
Commercial and industrial	47,084,994	42,202,378	33,995,565	30,095,701	30,592,213	17,051,563
Public street and highway lighting	226,392	222,843	198,978	188,518	142,023	132,179
Sales to military bases	6,467,463	6,329,365	5,048,561	4,754,426	4,563,793	2,834,407
Sales for resale	62,194,829	61,695,673	43,240,100	36,722,318	33,060,172	20,731,638
Other sales	325,214	303,040	223,638	202,988	115,676	85,037
Total sales of electricity	131,338,307	125,338,605	93,508,350	81,071,185	76,827,868	45,745,255
Other operating income:						
Forfeited discounts	161,704	160,847	117,450	112,832	99,884	130,229
Rent from electric property	581,136	481,393	459,311	449,548	446,964	452,155
Income from wheeling	322,047	322,107	322,264	322,420	321,272	320,968
Other income	244,209	271,725	319,618	282,976	110,227	104,994
Total other operating income	1,309,096	1,236,072	1,218,643	1,167,776	978,347	1,008,346
Total electric operating revenue	$132,647,403	$126,574,677	$94,726,993	$82,238,961	$77,806,215	$46,753,601
ELECTRIC OPERATING EXPENSES:						
Operating and maintenance expenses:						
Electric power production expenses:						
Fuel burned	81,422,801	76,168,514	46,848,296	42,716,672	37,704,204	23,714,458
Purchased power	2,587,292	2,846,160	8,331,935	2,213,916	13,679,493	3,692,174
Other	11,167,185	10,402,411	8,429,985	5,929,587	4,807,212	4,252,339
Total	95,177,278	89,417,085	63,610,216	50,860,175	56,190,909	31,658,971
Transmission expenses	5,575,780	4,705,856	[illegible],720,148	3,262,871	2,369,767	2,372,753
Distribution expenses	1,067,143	960,885	920,531	817,709	714,509	626,839
Customer accounting expenses	1,310,067	1,273,236	895,972	748,615	625,503	537,629
Sales expenses	219,671	235,142	194,593	156,473	147,538	216,746
Administrative and general expenses	3,408,116	2,905,440	2,562,405	1,890,723	1,659,906	1,447,790
Total operating and maintenance expenses	106,758,055	99,497,644	71,903,865	57,736,566	61,708,132	36,860,728
Depreciation	9,651,122	8,874,910	6,217,354	5,718,361	4,184,041	3,519,208
Sums in lieu of taxes	883,274	658,418	734,278	550,482	404,528	126,466
Total electric operating expenses	117,292,451	109,030,972	78,855,497	64,005,409	66,296,701	40,506,402
OPERATING INCOME	15,354,952	17,543,705	15,871,496	18,233,552	11,509,514	6,247,199
OTHER INCOME:						
Interest income	$ 23,198,594	$ 17,159,446	$12,553,297	$12,371,600	$16,998,629	$10,738,728
Allowance for funds used during construction:						
Borrowed funds—prior to July 1, 1977—Note 10	—	—	9,298,720	4,673,754	1,918,452	(159,623)
Other than borrowed funds subsequent to June 30, 1977—Note 10	315,275	457,879	—	—	—	—
Amortization of gain (loss) on reacquired debt—net	—	(59,397)	227,496	364,951	382,219	398,491
Miscellaneous—net	(33,214)	(34,021)	(35,803)	(59,291)	4,204	(30,557)
Total other income	23,480,655	17,523,907	22,043,710	17,351,014	19,303,504	10,947,039
Total	38,835,607	35,067,612	37,915,206	35,584,566	30,813,018	17,194,238
INTEREST CHARGES:						
Interest on long-term debt	42,757,488	35,977,328	28,727,880	23,504,016	22,263,452	13,035,401
Amortization of debt discount and expense	628,837	391,786	145,149	99,148	70,854	35,737
Interest on customers' deposits	87,721	79,356	63,960	50,919	36,690	20,987
Allowance for borrowed funds used during construction—subsequent to June 30, 1977—Note 10	(9,189,050)	(7,215,703)	—	—	—	—
Other interest	363	363	—	28,493	—	—
Total interest expense	34,285,359	29,233,130	28,936,989	23,682,576	22,370,996	13,092,125
NET REVENUE	$ 4,550,248	$ 5,834,482	$ 8,978,217	$11,901,990	$ 8,442,022	$ 4,102,113

See Accompanying Notes to Financial Statements.

1067 331

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Twelve Months Ended December 31, 1978 (Unaudited)	Year Ended June 30,				
		1978	1977	1976	1975	1974
WORKING CAPITAL PROVIDED:						
By operations:						
Net income	$ 4,550,248	$ 5,834,482	$ 8,978,217	$ 11,901,990	$ 8,442,022	$ 4,102,113
Charges (credits) to income not providing or requiring working capital:						
Depreciation	9,651,122	8,874,910	6,217,354	5,718,361	4,184,041	3,519,208
Amortization of debt discount and expense	560,667	391,786	145,149	99,148	70,854	35,737
Increase in accumulated reserve for future rental payments	502,722	404,657	104,091	615,212	190,660	359,405
Amortization of (gain) or loss on reacquired debt—net	68,170	59,397	(227,496)	(364,951)	(382,219)	(398,491)
Total from operations	15,332,929	15,565,232	15,217,315	17,969,760	12,505,358	7,617,972
Sale of bonds	200,000,000	315,000,000	—	100,000,000	—	209,000,000
Other borrowed money	—	—	525,000	—	5,648,949	—
Increase (decrease) in Construction Fund liabilities	15,634,713	(1,050,059)	393,881	147,900	(1,205,868)	2,191,836
Reduction of current liabilities by bond refunding	—	—	2,508,852	—	—	—
Increase (decrease) in accrued interest due July 1 and January 1—Funds remitted to paying agent and carried as impounded funds	8,109,077	4,091,735	(966,615)	—	—	—
Customer contributions for construction	(366,430)	—	65,035	107,583	85,463	1,542
Decrease (increase) in other deferred charges	430,316	131,675	39,456	(161,620)	(23,601)	(336,224)
Total working capital provided	239,140,605	333,738,583	17,782,924	118,063,623	17,010,301	218,475,126
WORKING CAPITAL APPLIED:						
Authorized distribution to the State of South Carolina	1,200,380	1,200,564	1,797,497	843,995	763,535	1,093,496
Retirement of long-term debt	4,018,268	3,817,638	4,872,589	3,540,890	1,218,132	1,171,273
Increase (decrease) in impounded reserve funds	40,913,930	63,998,594	(18,301,478)	901,452	4,030,307	442,989
Addition to unamortized debt discount and expense	4,805,858	6,140,524	45,529	2,170,468	212,843	3,119,480
Increase in electric plant and other physical property	105,812,316	89,773,868	87,770,399	83,723,329	58,555,418	60,914,239
Increase (decrease) in unexpended funds from sale of long-term obligations	86,761,567	162,225,897	(57,401,486)	22,724,469	(59,526,767)	151,202,818
Total working capital applied	243,512,319	327,157,085	18,783,050	113,904,603	5,253,468	217,944,295
INCREASE (DECREASE) IN WORKING CAPITAL	$ (4,371,714)	$ 6,581,498	$ (1,000,126)	$ 4,159,020	$ 11,756,833	$ 530,831
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT:						
Funds held by Trustee	$ 1,379,281	$ 934,620	$ 1,060,148	$ 751,059	$ 2,116,996	$ (1,155,779)
Other funds	(1,220,189)	2,908,542	(1,328,024)	1,498,728	1,245,202	61,703
Accounts receivable	(176,803)	(1,212,250)	2,871,971	2,213,587	3,084,805	1,614,042
Accrued interest receivable	(144,344)	467,810	(23,572)	112,228	147,750	(89,061)
Inventories	271,423	5,033,383	(174,197)	901,978	3,128,793	4,536,523
Prepayments	223,205	(66,120)	149,946	53,801	48,863	3,954
Accrued interest on long-term debt	44,782	—	—	110,500	(110,500)	—
Accounts payable	(4,178,045)	(1,144,456)	(3,246,085)	(1,146,090)	2,432,088	(4,291,110)
Customers' deposits	(277,232)	(280,593)	(226,131)	(257,690)	(171,176)	(46,885)
Other current liabilities	(34,465)	(37,378)	(117,354)	9,451	19,068	(130,417)
Accrued sums in lieu of taxes	(259,327)	(22,060)	33,172	(88,532)	(185,056)	27,861
Increase (decrease) in working capital	$ (4,371,714)	$ 6,581,498	$ (1,000,126)	$ 4,159,020	$ 11,756,833	$ 530,831

See Accompanying Notes to Financial Statements.

1067 332

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

CUSTOMERS' CONTRIBUTIONS FOR CONSTRUCTION, YEARS ENDED JUNE 30, 1978, AND JUNE 30, 1977

Detail	1978	1977
Accumulated Balance, Beginning of Period	$ —	$301,395
Additional Contributions	—	65,035
Total	$ —	$366,430
Balance Written Off—credited to electric plant in service, in accordance with Order 490 of the Federal Energy Regulatory Commission—See Note 8	—	366,430
Accumulated Balance, End of Period	$ —	$ —

See Accompanying Notes to Financial Statements.

1067 333

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, JUNE 30, 1978 and (Unaudited) December 31, 1978

Note 1—Summary of Significant Accounting Policies:

A—GENERAL ACCOUNTING METHODS. The accounting records of the Authority are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (formerly the Federal Power Commission).

B—ADDITIONS TO PLANT. The cost of additions, renewals and betterments to the electric plant is added to the electric plant. Such costs include direct labor and material, indirect construction costs (supervision and engineering) and interest during construction.

C—DEPRECIATION. The Authority provides for depreciation on a straight line basis over the estimated useful life of the properties.

D—FUEL COSTS. Fuel costs are expensed as fuel is consumed. The Authority's electric rates included fuel adjustment clauses under which fuel costs above or below the base levels included in the various rate schedules were billed or credited to customers approximately thirty days to six months after such costs were incurred.

E—PENSION COSTS. Salaries paid by the Authority are subject to withholding and employer contributions in accordance with the provisions of a State Pension Plan administered by the South Carolina State Retirement System. Rates are fixed by State statutes.

F—BOND AND INTEREST MATURITIES DUE JULY 1, 1977 AND 1978. At June 30, 1977, the bond and interest maturities due July 1, 1977, had been remitted to paying agent and were treated on the books and financial statements as having been paid on June 30, 1977.

At June 30, 1978, this was changed. The funds are shown as being held in impounded reserve funds and the liability is shown therefor. The balance sheet for June 30, 1977, has been restated to show funds being held in such reserve funds. The funds held are as follows:

	June 30, 1978	June 30, 1977
Bonds and coupons, July 1, maturity	$10,827,094	$6,318,153
Coupons, prior maturities	35,014	23,073
Total	$10,862,108	$6,341,226

In summary, the bonds and interest maturities were treated as having been paid when remitted to the fiscal agent. Under the new method, the bonds and interest are treated as paid when the fiscal agent actually pays the bonds. In the meantime such funds are carried as impounded reserve funds. The years ending prior to July 1, 1976, have not been restated.

G—DISTRIBUTION TO THE STATE OF SOUTH CAROLINA. The South Carolina law provides that "The South Carolina Public Service Authority is a corporation, completely owned by and to be operated for the benefit of the people of South Carolina and any and all net earnings thereof not necessary or desirable for the prudent conduct and operation of its business or to pay the principal of and the interest on its bonds, notes, or other evidences of indebtedness or other obligations or to fulfill the terms and provisions of any agreements made with the purchasers or holders thereof or others shall be paid over semi-annually to the State Treasurer for the general funds of the State and shall be used to reduce the tax burdens of the people of this State." Payments to the State are indicated on exhibit B.

NOTES TO FINANCIAL STATEMENTS (Continued) JUNE 30, 1978 and (Unaudited) December 31, 1978

Note 2—Electric Plant:

See Note 1 above.

The Central "A-3" System is being acquired through an installment purchase contract (see Note 4), and the Authority is to receive title to the property upon payment of the full amount of the contract obligation to Central.

Other property being used by the Authority under long-term lease commitments has not been capitalized.

Note 3—Impounded Reserve Funds Held By Trustee and Unexpended Construction Funds From Sale of Authority Bonds:

Unexpended funds from sale of Authority bonds and impounded reserve funds held by the Trustee for other specific purposes are maintained and their use restricted in accordance with applicable provisions of various Trust Indentures and Bond Resolutions, Central System Agreements and the Enabling Act included in the South Carolina law.

Note 4—Long-Term Debt Outstanding:

	December 31, 1978 (Unaudited)	June 30, 1978	June 30, 1977
PRIORITY OBLIGATIONS:			
ELECTRIC REVENUE BONDS:			
Series of 1950, 2.7%, due serially July 1, 1979-1993	$ 11,120,000	$ 11,355,000	$ 11,580,000
Series of 1967:			
Serial Bonds, 4%, due serially July 1, 1979-1981	440,000	575,000	705,000
Term Bonds, 4.1%, due July 1, 2006 (Sinking Fund installments due July 1, 1982-2006)	50,425,000	50,425,000	50,425,000
Total	50,865,000	51,000,000	51,130,000
REFUNDING BONDS:			
Refunding Series of 1973, 5 to 5½%, due serially July 1, 1979-1989	9,250,000	9,860,000	10,440,000
CONTRACT OBLIGATION:			
Principal (funds expended during construction)	2,350,247	2,535,004	2,900,619
Accumulated interest during period of construction	102,327	110,838	127,861
Total	2,452,574	2,645,842	3,028,480
Total Priority Obligations	73,687,574	74,860,842	76,178,480
EXPANSION BONDS:			
Electric System Expansion Revenue Bonds, 1973 Series:			
Serial Bonds, 5% to 5.4%, due serially July 1, 1980-1993	16,545,000	16,545,000	16,545,000
Term Bonds, 5.75%, due July 1, 2013 (Sinking Fund installments due July 1, 1994-2013)	83,455,000	83,455,000	83,455,000
Total	100,000,000	100,000,000	100,000,000

1067 355

Note 4—Long-Term Debt Outstanding (Continued):

	December 31, 1978 (Unaudited)	June 30, 1978	June 30, 1977
Electric System Expansion Revenue Bonds, 1974 Series:			
Serial Bonds, 6% to 6.5%, due serially July 1, 1980-1999	$ 30,140,000	$ 30,140,000	$ 30,140,000
Term Bonds, 6.75%, due July 1, 2014 (Sinking Fund installments due July 1, 2000-2014)	78,860,000	78,860,000	78,860,000
Total	109,000,000	109,000,000	109,000,000
Electric System Expansion Revenue Bonds, 1977 Refunding Series:			
Serial Bonds, 3.4% to 5.7%, due July 1, 1979-1997	64,245,000	65,765,000	66,940,000
Term Bonds, 5⅞%, due July 1, 2002 (Sinking Fund installments due July 1, 1998-2002)	31,495,000	31,495,000	31,495,000
Term Bonds, 6%, due July 1, 2016 (Sinking Fund installments due July 1, 2003-2016)	116,715,000	116,715,000	116,715,000
Total	212,455,000	213,975,000	215,150,000
Electric System Expansion Revenue Bonds, 1977 Series:			
Serial Bonds, 4% to 5.6%, due July 1, 1982-2002	14,750,000	14,750,000	—
Term Bonds, 5.75%, due July 1, 2017 (Sinking Fund installments due July 1, 2003-2017)	100,250,000	100,250,000	—
Total	115,000,000	115,000,000	—
Electric System Expansion Revenue Bonds, 1978 Series:			
Serial Bonds, 4.20% to 5.4%, due July 1, 1981-1998	20,340,000	20,340,000	—
Term Bonds, 5.7%, due July 1, 2008 (Sinking Fund installments due July 1, 1999-2008)	32,980,000	32,980,000	—
Term Bonds, 5⅞%, due July 1, 2018 (Sinking Fund installments due July 1, 2009-2018)	146,680,000	146,680,000	—
Total	200,000,000	200,000,000	—
Total Expansion Bonds	736,455,000	737,975,000	424,150,000

1067 336

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued) JUNE 30, 1978 and (Unaudited) December 31, 1978

Note 4—Long-Term Debt Outstanding (Continued):

	December 31, 1978 Unaudited	June 30, 1978	June 30, 1977
OTHER LONG-TERM DEBT:			
2.325% note dated December 30, 1976—due July 1, 1977	$ —	$ —	$ 1,250,000
3.215% note dated December 30, 1976—due July 3, 1978	—	1,250,000	1,250,000
4¼% note dated January 28, 1977 — due serially January 28, 1979-1984	450,000	450,000	525,000
Total Other Long-Term Debt	450,000	1,700,000	3,025,000
Total Long-Term Debt	$810,592,574	$814,535,842	$503,353,480

The Contract Obligation included above arose through an agreement to purchase certain transmission lines (generally known as the "A-B" System) from Central Electric Power Cooperative, Inc. Interest at 2% per annum is payable semi-annually on unpaid principal balances—no interest is payable on the accumulated interest. Payments on the principal and accumulated interest during construction are due in semi-annual installments which commenced January 1, 1958, and extend over a period of twenty-six (26) additional years.

The Authority is required to make monthly payments from revenue to Corporate Trustees for debt service as set forth in the related Trust Indenture and Bond Resolutions. Monthly payments to be made during the fiscal year July 1, 1978, through June 30, 1979, are approximately $1,606,000.

Note 5—Long-Term Debt Refunding:

The Authority refinanced its Electric System Expansion Revenue Bonds, 1971 Series, and its Electric System Expansion Revenue Bonds, 1976 Series, with outstanding balances of $99,060,000 and $100,000,000, respectively, on March 10, 1977, by issuing $215,150,000 Electric System Expansion Revenue Bonds, 1977 Refunding Series, and $90,920,000 Electric System Expansion Revenue Bonds, 1977 Special Obligation Refunding Series. The refunding resulted in a net loss (the difference between the net carrying amount of the debt and the reacquisition price) of $11,244,416. The Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (formerly the Federal Power Commission) requires that this loss be amortized over future accounting periods that will receive the cost reduction benefits of the refinancing.

Net proceeds from the issuance of the 1977 Bonds were used to purchase direct obligations of the United States of America in the aggregate principal amount of $300,912,100. The Government Obligations were placed with a Corporate Trustee under an irrevocable Refunding Trust Agreement and will mature in such amounts and at such time as shall be necessary and sufficient, (a) to pay the principal of and interest on the 1971 Bonds as the same shall become due and payable to and including January 1, 1982, (b) to pay the principal of and interest on the 1976 Bonds as the same shall become due and payable to and including July 1, 1986, (c) to pay on January 1, 1982, the full redemption price on the 1971 Bonds maturing after January 1, 1982, and (d) to pay on July 1, 1986, the full redemption price on the 1976 Bonds maturing after July 1, 1986, and shall bear interest payable in such amounts and at such times as shall be necessary and sufficient to pay the principal of and interest on the 1977 Special Refunding Bonds as the same shall become due and payable.

The above refinancing was done in accordance with appropriate provisions of the Bond Resolutions authorizing the issuance of the 1971 and 1976 Revenue Bonds and such bonds are no longer a lien against the Electric System Revenues. Since the holders of the refunded Revenue Bonds and the 1977 Special Obligation Refunding Series Bonds must look to the Refunding Trust Fund Trustee for payment of principal and interest, such obligations are not recorded as liabilities of the Authority. Likewise, U. S. Government Obligations held by the Trustee for payment of such Bonds are not recorded as assets of the Authority.

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued) JUNE 30, 1978 and (Unaudited) December 31, 1978

Note 6—Long-Term Lease Commitments:

The Authority has lease contracts with Central Electric Power Cooperative, Inc., covering a steam electric generation plant and various other facilities. The rental is a sum equal to the interest on and principal of Central's indebtedness to the Rural Electrification Administration for funds borrowed to construct the facilities involved. Rental payments are due quarterly. The Authority has an option to purchase the leased properties at any time during the period of the lease agreements for a sum equal to Central's indebtedness remaining outstanding on the property involved at the time the option is exercised or to return the properties at the termination of the lease.

Rental payments during the entire life of the lease contracts are equal to annual debt service for construction costs, including interest on funds borrowed for construction.

Total rental expense on these contracts during the years ended June 30, 1978, and June 30, 1977, aggregated $3,354,658 and $3,087,811, respectively. Aggregate rental payments due on these contracts in future years are approximately as follows:

Year ending June 30:	
1979	$ 4,114,413
1980	5,183,905
1981	5,298,095
1982	5,460,945
1983	5,562,231
Five-year periods ending June 30:	
1988	27,924,359
1993	26,642,574
1998	26,607,011
Remaining years (in total)	47,765,255

Note 6-A—Long-Term Lease Commitments, December 31, 1978 (Unaudited):

The Authority presently accounts for leases entered into prior to January 1, 1977, in accordance with generally accepted accounting principles established prior to the issuance of FASB Statement No. 13, "Accounting for Leases." By 1981, the Authority will have to restate its financial statements to reflect the accounting for these leases in accordance with the Statement. Capital leases entered into subsequent to December 31, 1976, amount to $158,707 at cost. Such leases have been capitalized but the effect on earnings is not material. This change in accounting principles will result in certain leases being capitalized with an increase (decrease) in the amounts reflected in the Authority's financial statements as follows:

	December 31,	
Det	1978	1977
Electric Plant	$ 70,285,000	$63,510,000
Capital Lease Obligations:		
Current	1,578,853	1,386,739
Noncurrent	75,389,153	76,968,006
Net Income (decrease) (year ended Dec. 31)	(231,000)	(628,000)

Future minimum payments, by year and in the aggregate, under the capital leases and non-cancelable operating leases with initial or remaining terms of one year or more have been estimated to consist of the following at December 31, 1978:

Note 6-A—Long-Term Lease Commitments, December 31, 1978 (Unaudited) (Continued):

Detail	Capital Leases	Operating Leases
Year ending December 31:		
1979	$ 4,176,056	$75,271
1980	4,448,004	11,429
1981	4,517,772	4,887
1982	4,544,097	—
1983	4,543,941	—
Thereafter	95,415,871*	—
Total minimum lease payments	117,645,741	$91,587
Less amounts representing interest	40,677,735	
Present value of net minimum lease payments	$ 76,968,006	

* This total does not include approved loans in the amount of $15,969,000, which amounts have not been advanced to Central and for which no payment schedules can be prepared at this time.

Note 7—Restatement of Gain on Reacquired Debt in Year Ended June 30, 1973:

During the fiscal year ended June 30, 1973, a gain of $3,913,676 was realized by the Authority on an early extinguishment of debt accompanied with the issuance of Refunding Bonds. This gain was included in income on the books but the Federal Power Commission later ruled that such gains should be amortized against future operations. The accompanying financial statements have been restated to remove the gain from 1973 income and amortize such gain over the life of the Refunding Bonds.

Note 8—Customers' Contribution for Construction:

Effective June 30, 1977, the Customers' Contribution for Construction in the amount of $366,430 was charged off and the electric plant in service was reduced by an equal amount. This adjustment has been made in accordance with Order 490 of the Federal Energy Regulatory Commission. All contributions subsequent to this date are being credited to plant account. The balance sheet has been restated as of June 30, 1977, to reflect this change.

Note 9—Commitments:

The Authority's Construction Budget, as adjusted for known changes, provides for expenditures (principally consisting of Winyah #3, Winyah #4, Summer Plant, Cross #2, Hilton Head Turbine #3, coal cars and other construction) of approximately $206,900,000 during the fiscal year ending June 30, 1979, and $717,200,000 during later years. The Authority has sold its present general office headquarters and has purchased land for the construction of a new general headquarters complex.

Note 10—Allowance for Funds Used During Construction:

Allowance for funds used during construction (AFUDC), a non-cash item, reflects the cost for the period of capital devoted to plant under construction. This cost represents interest charges on borrowed funds and a reasonable rate of return on other funds so used. This accounting practice results in the inclusion as a component of construction cost of amounts of AFUDC. Effective January 1, 1977, the FERC issued Order 561 which provided a formula for computing a maximum allowable AFUDC rate. The AFUDC rate for year ended June 30, 1978, was 4.64% and for the six months ended December 31, 1978 was 5.03% and does not exceed the maximum allowable rate.

1067 339

Note 10—Allowance for Funds Used During Construction (Continued):

Beginning with fiscal year ended June 30, 1978, pursuant to FERC Order, the interest portion of AFUDC related to borrowed funds has been shown as a reduction in "Interest Charges." The AFUDC resulting from use of other funds has been credited to other income. Also, interest received on borrowed funds has been credited to other income.

In prior years, AFUDC was only applied to jobs for which funds were borrowed to finance such jobs. The net long-term debt (long-term interest paid, less interest income on invested funds) was capitalized on such jobs. No interest was capitalized on other funds used to finance jobs. Also, in prior years the interest earned on invested construction funds and allowance for funds during construction was credited to long-term interest paid. The long-term interest expense shown was the amount of long-term interest expense, less interest income on borrowed funds and allowance for funds during construction. The long-term interest for the years ended prior to July 1, 1977, has been restated to separate the components for the years, as follows:

	June 30,			
	1977	1976	1975	1974
Long-term debt—net (shown in financial statements for year ended)	$ 9,682,047	$ 9,265,248	$ 5,210,423	$ 3,880,404
Restated as:				
Other income—interest income on funds borrowed for construction	$(9,747,113)	$(9,565,014)	$(15,134,577)	$(9,314,620)
Allowance for funds used during construction (AFUDC) —only on borrowed money	(9,298,720)	(4,673,754)	(1,918,452)	159,623
Interest on long-term debt	28,727,880	23,504,016	22,263,452	13,035,401
Balance	$ 9,682,047	$ 9,265,248	$ 5,210,423	$ 3,880,404

The change in the method of computing the AFUDC to the method prescribed by the Federal Energy Regulatory Commission for the year ended June 30, 1978, increased the AFUDC for the year, which also increased the net revenue for the year by the same amount, as follows:

AFUDC for borrowed money—increase over the amount that would have been capitalized under prior method	$488,136
AFUDC for other than borrowed funds	457,879
Total increase in net revenues	$946,015

In comparing the years, the allowance for funds used during construction in years ending prior to July 1, 1977 has been shown under "Other Income." Thereafter the comparable item is shown as a reduction of interest charges.

Note 11—Contingent Liabilities:

As of December 31, 1978, the following civil actions against the Authority were pending:

1. *Ralph Bell, Jr.* vs. *S. C. Public Service Authority.* This case involves a boundary dispute in which Plaintiff seeks a restraining order, or, in the alternative "compensation to the Plaintiff for the injury done to his property."

1067 340

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued) JUNE 30, 1978 and (Unaudited) December 31, 1978

Note 11—Contingent Liabilities (Continued):

2. *Avinger* vs. *S. C. Public Service Authority.* The statute under which Avinger's property was condemned provides, in substance, that if condemned land is not flooded within five years, the former owner has a right for one year to buy the property back at the original price per acre paid by the Authority, and that the right may be extinguished upon 90 days written notice by the Authority. The Authority has never given such notice to any landowner. Avinger seeks to buy his family's property back pursuant to the statute. The Authority has been granted summary judgment in this case and the Plaintiff has appealed to the South Carolina Supreme Court.

3. *Summer Plant Licensing and Nuclear Fuel.* The Authority presently has certain matters pending with respect to the licensing of the Summer Nuclear Station (reference is made to the "Regulatory Matters—Nuclear Matters" section of the Official Statement). Also, the Authority is involved in litigation with Westinghouse Electric Corporation concerning contracts for the supply of nuclear fuel for the Summer Nuclear Station (reference is made to the R. W. Beck Report included in the Official Statement—"Business of the Authority—Fuel Supply").

Burns and Roe, Inc.

P.O. Box 663 ■ 283 Route 17 South ■ Paramus, New Jersey 07652 ■ Tel. N.J. (201) 265-8710 – N.Y. (212) 594-9210
Telex 134403 ■ Cable BUROE PARAMUS, N. J.

Main Office
550 Kinderkamack Road
Oradell, New Jersey 07649
(201) 265-2000

Subject: W. O. 3415
Santee Cooper
Winyah Unit 4

March 30, 1979

Mr. W. C. Mescher, President
South Carolina Public Service Authority
P.O. Box 396
Moncks Corner, SC 29461

Dear Mr. Mescher:

The South Carolina Public Service Authority has retained Burns and Roe, Inc. to provide engineering, design, and construction management services for the Winyah Unit 4 addition to the Winyah Electric Generating Station located approximately three miles southwest of Georgetown, South Carolina.

Burns and Roe, Inc.'s responsibilities will be similar to those provided for the Winyah Units 1 and 2 recently completed and Unit 3 presently under construction and cover complete engineering and construction management services, and include preparation of plans; specifications; capital cost estimates; economic analyses; project schedule; review of bids; expediting of vendors and contractors; managing of construction contracts; coordination of contractors; supervision and general direction of contractor work; establishing and administering security, first aid and other site programs; assistance in plant startup and test; and all related items to result in the complete and successfully operating fourth unit.

The proposed Unit 4 extension to be constructed by South Carolina Public Service Authority will consist of a coal-fired steam generator; turbine-generator; cooling water system; and 230 KV switchyard, all complete with structures, auxiliary equipment, instrumentation, controls and other associated accessories.

This unit will essentially be a duplicate of Winyah Unit 3, and will have a net capability of approximately 280,000 KW.

The estimated construction cost of the Unit 4 addition is $146,175,000 excluding interest during construction, bond reserve requirements, and expenses of financing. The capital cost estimate attached hereto as Exhibit A covers the complete coal-fired generating plant equipment and construction including the extension of the 230 KV switchyard; engineering and construction management services; South Carolina Public Service Authority's expenses; contingency and escalation.

The present site of approximately 2,000 acres is adequate for the structures, cooling water and coal handling systems for the proposed Unit 4 expansion.

Soil borings have been made at the locations for the Unit 4 structures and confirm a general continuity in subsurface conditions that were encountered during the construction of Units 1, 2, and 3. The estimate of the foundation costs was made on the basis of a design similar to Unit 3.

The contracts for the steam generator and turbine-generator have been awarded to Riley Stoker Corporation and Westinghouse Electric Corporation, respectively. The steam generator manufacturer is the same company that provided this equipment for Units 1, 2, and 3. The design of the steam generator will be similar to Unit 3 and includes the necessary modifications to comply with current regulatory requirements. The design of the turbine-generator is similar to that provided for the previous units except for the different details associated with the change in manufacturers from the previous units. The design of the flue gas desulfurization system is similar to that specified for Unit 3. The contract amounts included in the capital cost estimate covering the steam generator, the turbine-generator, and the flue gas desulfurization system include limited escalation and represent approximately forty percent (40%) of the estimated cost of the Unit 4 addition.

The steam generator contract, which was awarded on August 21, 1977, covers all steam generating equipment including structural steel supports, ducts, breeching, air heaters, fuel-firing equipment and particulate matter removal. Design of the fuel-firing equipment provides for the firing of pulverized coal. The estimate covers the ceiling material price for the coal-fired equipment including the base price of $18,145,717 and allowance for the ceiling escalation of 28%. In addition, the estimate includes the base erection price of $6,266,946 and an allowance to cover possible labor escalation of 23% on the ceiling manhours.

The turbine-generator contract was awarded through a Letter of Intent dated February 19, 1974, at a total contract price of $10,691,743 and is not subject to escalation for shipment through July 1, 1979. It is now expected that the unit will be shipped in July, 1980. A quotation covering the added costs for this later shipment has been obtained from Westinghouse, and these costs are covered by the capital cost estimate.

The flue gas desulfurization system contract was awarded during February, 1979. The construction permit as issued on February 28, 1978, requires the same higher SO_2 removal rates as on Unit 3 to satisfy ground level SO_2 concentrations at an area remote from the site. The performance of the purchased equipment to meet these revised emission levels is technically feasible and can be accomplished within the contingency in the budget.

There have been an additional 30 contracts awarded through December, 1978, totaling $14,841,863 for equipment and site construction work. Items of major significance included within these awarded contracts are coal handling system, structural steel, piling, and the major foundations for the boiler and turbine plant island. The capital cost estimate allows $22,578,000 for these awarded contracts. Included within this allowance is the escalation associated with these contracts.

The estimate for Unit 4 was derived utilizing the experience obtained during the construction of Units 1 and 2 and applying actual escalation amounts experienced to the dates of the estimates and the projected cost escalation for the period up to completion of Unit 4. Several changes in plant design, in addition to those previously mentioned for the steam generator and the flue gas desulfurization system, must be incorporated in Unit 4 to comply with current regulatory requirements. We feel that the current estimates contain sufficient funding to meet these requirements.

The work will be divided into related work packages in a manner similar to that which was followed for construction of Units 1 and 2 and is presently being followed on Unit 3. Firm prices for the balance of the materials to be furnished and work to be performed on the plant will be obtained where market conditions permit. The breakdown of related work packages has been determined, and the cost of each package has been extracted from the estimated construction costs for the Unit 4 addition. Actual bid prices will be compared with estimated amounts for each work package. Quarterly cost reports will be made to South Carolina Public Service Authority reflecting actual cost experience and comparing it with estimated amounts.

The construction schedule calls for initial operation of the unit on December 1, 1981, and commercial operation of the unit on May 1, 1982. Unit 4 is planned to be essentially a duplicate of Unit 3, and it is our opinion that by duplicating Unit 3 the construction schedule for Unit 4 may be met. Since other heavy construction is anticipated in the general area during the construction of this project, an additional contingency of $5,500,000 has been allowed in the capital cost estimate to cover the possible use of overtime and reduced productivity associated with a highly competitive labor construction market.

The particulate, SO_2 and NO_x emission control equipment contemplated will be designed to meet existing pollution codes and regulations. The electrostatic precipitator already contracted for under the steam generator contract for the removal of fly ash from the flue gas is guaranteed to meet the existing pollution codes and regulations, and is essentially a duplicate of those furnished for Units 1, 2, and 3. The steam generator is guaranteed to meet current Federal NO_x emission standards. The flue gas desulfurization system will be guaranteed to meet current Federal SO_2 emission standards. The permit has been granted for Unit 4 based on exceeding the removal efficiency required by current Federal SO_2 emission standards in order that the offsite ground concentrations resulting from the overall (four units) station emissions are within allowable limits. A closed cycle cooling water system utilizing a mechanical draft cooling tower will be incorporated in the design in order to meet state and Federal thermal discharge regulations.

It is our considered opinion with respect to the Unit 4 addition that:

1. The present plans and designs are suitable for the site and the site is suitable for the Unit 4 addition.

2. The program for construction of an essentially duplicate fourth unit is realistic and the completion of Unit 4 in accordance with the construction schedule is reasonably assured.

We understand that South Carolina Public Service Authority will make copies of this le' . available to a' persons who may consider purchasing Electric System Expansion Revenue Bonds, 1979 Seri. A. We authorize South Carolina Public Service Authority to cause a copy of this letter to be appended to its Official Statement with respect to said Bonds.

Very truly yours,

W. H. RICHARDOT
Manager of Projects

WHR:nhd
Attachments

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EXHIBIT A

CONSTRUCTION COST ESTIMATE

Direct Construction Costs—Winyah Generating Station—Unit 4

SUMMARY

Account Number	Description	Total
310	Land and Land Rights	$ 0
311	Structures and Improvements	15,482,000
312	Boiler Plant Equipment	69,251,000
314	Turbine Generator Unit	22,452,000
315	Accessory Electrical Equipment	7,850,000
316	Miscellaneous Power Plant Equipment	61,000
353	Station Equipment	2,547,000
	TOTAL CONSTRUCTION COST	$117,643,000
	Engineering, Design & Construction Management	$ 10,000,000
	Escalation	Included in above accounts
	Contingency	11,113,000
	Labor Premium Allowance	5,500,000
	Other Costs and Expenses	1,919,000
	TOTAL COST—GENERATING STATION	$146,175,000

APPENDIX IV

FORM OF OPINIONS OF WOOD & DAWSON AND McNAIR GLENN KONDUROS CORLEY SINGLETARY PORTER & DIBBLE

May , 1979

Board of Directors
South Carolina Public Service Authority
Moncks Corner, South Carolina 29461

Dear Sirs:

SOUTH CAROLINA PUBLIC SERVICE AUTHORITY ELECTRIC SYSTEM EXPANSION REVENUE BONDS, 1979 SERIES A, $110,000,000

At your request we have examined into the validity of an issue of $110,000,000 South Carolina Public Service Authority Electric System Expansion Revenue Bonds, 1979 Series A (the "1979A Bonds"), of the South Carolina Public Service Authority, South Carolina (the "Authority"). The 1979A Bonds are issuable in coupon form, registrable as to principal only, in the denomination of $5,000 each, and in fully registered form, without coupons, in the denominations of $5,000 or any multiple thereof. The coupon 1979A Bonds are numbered from 1 upwards, and the fully registered 1979A Bonds are numbered from R-1 upwards. The coupon 1979A Bonds are dated April 1, 1979, and the fully registered 1979A Bonds, except for fully registered 1979A Bonds initially issued, which shall be dated April 1, 1979, shall be dated so that no gain or loss of interest shall result from exchanges or transfers thereof as provided therein and in the Resolution and Supplemental Resolution hereinafter mentioned. The 1979A Bonds mature on July 1 in each of the years and in the principal amounts, and bear interest payable July 1, 1979, and semi-annually thereafter on January 1 and July 1 at the rates per annum, as follows:

Year	Amount	Interest Rate	Year	Amount	Interest Rate
1980	$ 65,000	5.40%	1993	$ 1,360,000	5.95%
1981	70,000	5.40	1994	1,425,000	6.00
1982	70,000	5.40	1995	1,490,000	6.05
1983	575,000	5.40	1996	1,565,000	6.10
1984	955,000	5.45	1997	1,645,000	6.20
1985	985,000	5.50	1998	1,725,000	6.30
1986	1,025,000	5.50	1999	1,815,000	6.35
1987	1,065,000	5.55	2000	1,915,000	6.40
1988	1,105,000	5.60	2001	2,025,000	6.45
1989	1,150,000	5.70	2002	2,135,000	6.50
1990	1,195,000	5.75	2003	2,260,000	6.50
1991	1,240,000	5.85	2009	16,660,000	6¾
1992	1,300,000	5.90	2019	63,180,000	6⅞

The 1979A Bonds maturing on and after July 1, 1990, are subject to redemption prior to maturity upon the terms and conditions set forth therein. The 1979A Bonds recite that they are issued under the authority of and in full compliance with the Constitution and statutes of the State of South Carolina, including, particularly, Act No. 887 of the Acts of the State of South Carolina for 1934, as amended (Code of Laws of South Carolina 1976, Title 58, Sections 58-31-10 through 58-31-390, inclusive), and under and pursuant to a resolution adopted by the Board of Directors of the Authority on August 31, 1971, as amended (the "Resolution"), and a resolution supplemental thereto adopted by the said Board of Directors on April 19, 1979 (the "Supplemental Resolution"), for the purpose of financing the cost of acquisition and construction of capital additions and improvements to the Authority's System (as defined in the Resolution) and for other corporate purposes of the Authority.

We have examined the Constitution and statutes of the State of South Carolina, and certified copies of proceedings of the Board of Directors of the Authority authorizing the issuance of the 1979A Bonds, including the Resolution and Supplemental Resolution, and such other records and documents as we have considered necessary or appropriate for the purposes of this opinion. We have also examined an executed coupon 1979A Bond.

In our opinion the 1979A Bonds have been authorized and issued in accordance with the Constitution and statutes of the State of South Carolina, and constitute valid and legally binding obligations of the Authority payable from and secured by a lien upon and pledge of the Revenues (as defined in the Resolution) of the System, all as set forth and provided in the Resolution, on a parity with the presently outstanding and unpaid bonds of (a) an issue of $100,000,000 Electric System Expansion Revenue Bonds, 1973 Series, (b) an issue of $109,000,000 Electric System Expansion Revenue Bonds, 1974 Series, (c) an issue of $215,150,000 Electric System Expansion Revenue Bonds, 1977 Refunding Series, (d) an issue of $115,000,000 Electric System Expansion Revenue Bonds, 1977 Series, and (e) an issue of $200,000,000 Electric System Expansion Revenue Bonds, 1978 Series, heretofore issued pursuant to the Resolution and any bonds hereafter issued pursuant to the Resolution on a parity with said bonds and the 1979A Bonds, subject to a prior lien on said Revenues for the payment of the principal of and interest on the presently outstanding and unpaid portion of a $9,000,000 Contract Obligation of the Authority entered into by the Authority as of January 1, 1950, the presently outstanding and unpaid bonds of (a) an issue of $15,300,000 Electric Revenue Bonds, Series of 1950, of the Authority, dated July 1, 1950, (b) an issue of $51,600,000 Electric Revenue Bonds, Series of 1967, of the Authority, dated January 1, 1967, and (c) an issue of $12,050,000 Electric Revenue Bonds, Refunding Series of 1973, of the Authority, dated April 1, 1973 (said Contract Obligation and said bonds being hereinafter referred to, collectively, as the "Original Bonds"), and, so long as any of the Original Bonds are outstanding, subject also to the payments required by the Indenture, dated as of July 1, 1949, as amended and supplemented, pursuant to which the Original Bonds were issued and are secured, to be made to the Operating Fund, Interest Fund, Bond Fund and Debt Service Reserve Fund established pursuant to said Indenture.

It is to be understood that the rights of the holders of the 1979A Bonds under the 1979A Bonds and under the Resolution and Supplemental Resolution and the enforceability thereof under the same may be subject to judicial discretion and to valid bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors.

It is also our opinion that the interest on the 1979A Bonds is exempt from income taxation by the United States of America under existing law and regulations, and that under the laws of the State of South Carolina, the 1979A Bonds and the interest thereon are presently exempt from property and income taxation within said State.

Very truly yours,