

# SEATTLE

ANNUAL REPORT



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# SCANA

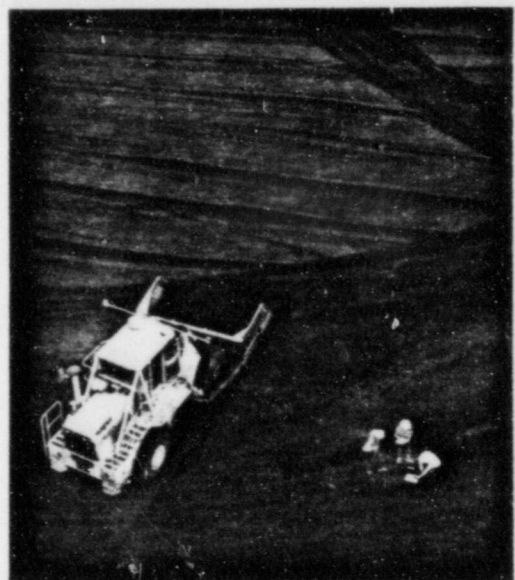
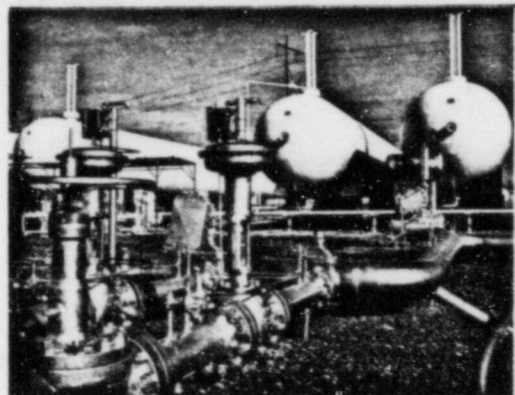
SCANA Corporation is a diversified holding company with a history in the traditional electric and gas utility business, tracing its predecessor companies back to 1846. In addition to its core utility businesses, the Company is now engaged in fiber optic telecommunications, computer software, real estate acquisition and development, and industrial and commercial construction. While SCANA continues to explore new areas of interest, the Company is committed to its utility foundation and growth in electric and gas services.



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# Contents



FINANCIAL AND OPERATING HIGHLIGHTS	3
------------------------------------	---

LETTER TO STOCKHOLDERS	4
------------------------	---

1986 – YEAR IN REVIEW	
-----------------------	--

SCANA Corporation	6
-------------------	---

South Carolina Electric & Gas Company	8
---------------------------------------	---

South Carolina Pipeline Corporation	18
-------------------------------------	----

MPX Systems, Inc.	20
-------------------	----

South Carolina Real Estate Development Company, Inc.	22
---	----

Primesouth, Inc.	24
------------------	----

Other Subsidiary Operations	24
-----------------------------	----

DIRECTORS AND OFFICERS – SCANA CORPORATION	26
--	----

OFFICERS OF PRINCIPAL SUBSIDIARIES	27
------------------------------------	----

FINANCIALS	
------------	--

Management Report	29
-------------------	----

Opinion of Independent Certified Public Accountants	29
--	----

Consolidated Financial Statements	30
-----------------------------------	----

Notes to Consolidated Financial Statements	36
--	----

Common Stock Information	43
--------------------------	----

Management's Discussion and Analysis of Financial Condition and Results of Operation	44
---	----

Selected Financial Data	46
-------------------------	----

INVESTOR INFORMATION	48
----------------------	----

## Notice of Annual Meeting

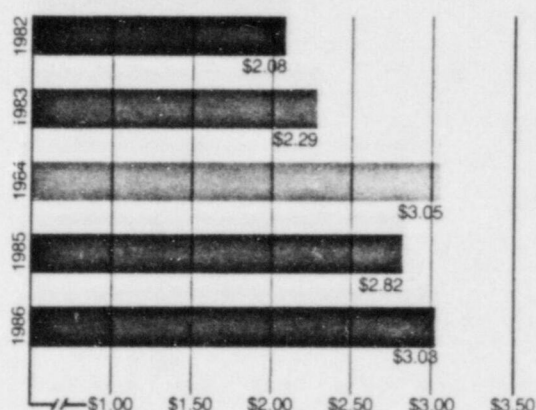
The 1987 Annual Meeting of Stockholders of SCANA Corporation will be held in Columbia, South Carolina on Wednesday, April 22. The meeting will convene at 10:00 a.m. at Seawell's at the Fairgrounds, 1200 Rosewood Drive. Proxies will be mailed to stockholders in March. Stockholders who are unable to attend the Annual Meeting should return their proxies promptly by mail.



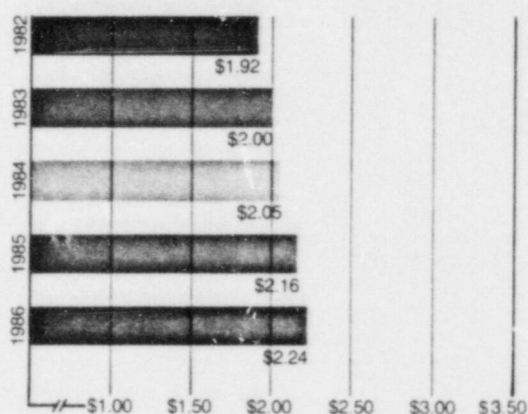
## Financial and Operating Highlights

	1986	1985	% Increase (Decrease)
	(Millions of Dollars except statistics and per share amounts)		
<b>Financial</b>			
Total Operating Revenues	\$ 1,102.0	\$ 1,110.3	(.7)
Total Operating Expenses	\$ 903.3	\$ 912.7	(1.0)
Earnings Available for Common Stock	\$ 122.2	\$ 113.6	7.6
Earnings Per Share of Common Stock	\$ 3.03	\$ 2.82	7.4
Dividends Declared Per Share of Common Stock	\$ 2.24	\$ 2.16	3.7
Book Value Per Share of Common Stock (Year-End)	\$ 20.77	\$ 20.01	3.8
Market Price Per Share of Common Stock (Year-End)	\$ 36.625	\$ 27.875	31.4
Common Stockholders' Equity (Year-End)	\$ 836.9	\$ 806.2	3.8
Common Stock Outstanding:			
Average (Thousands)	40,296	40,296	—
Year-End (Thousands)	40,296	40,296	—
Construction Expenditures	\$ 144.2	\$ 128.5	12.2
Gross Utility Plant	\$ 2,959.5	\$ 2,859.1	3.5
<b>Electric Operations</b>			
Electric Operating Revenues	\$ 809.5	\$ 787.8	2.8
Sales (Million KWH)	13,704	13,041	5.1
Customers (Year-End)	406,511	393,810	3.2
Generating Capability —			
Net MW (Year-End)	3,890	3,959	(1.7)
Territorial Peak Demand — Net MW	2,853	2,703	5.5
<b>Gas Operations</b>			
Gas Operating Revenues	\$ 289.4	\$ 318.9	(9.3)
Sales (Thousand Therms)	671,881	647,215	3.8
Customers (Year-End)	192,941	191,002	1.0
<b>Transit Operations</b>			
Transit Operating Revenues	\$ 3.1	\$ 3.7	(16.2)
Revenue Passengers Carried (Thousands)	8,699	9,032	(3.7)

EARNINGS PER COMMON SHARE



DIVIDENDS DECLARED PER COMMON SHARE



## Fellow Stockholders:



John A. Warren  
Chairman and  
Chief Executive Officer

This past year was filled with many successes for SCANA Corporation and its subsidiaries. Financially, earnings per common share were \$3.03, an increase of 7.4% over 1985. The dividend on common stock was increased 3.6% on January 28, 1987, to an indicated annual rate of \$2.32. The dividend has been increased 34 times in the last 35 years. Supporting the excellent 1986 operating results were significant accomplishments having very positive long range implications.

The number of electric customers served by South Carolina Electric & Gas Company exceeds 406,500, an increase of 3.2%. While this rate of growth may fall slightly in the next few years, we believe that continued customer growth will occur. Expansion of existing industries and movement of new industry to South Carolina continues to improve our industrial base, resulting in increased opportunities for residents in our service area.

The V. C. Summer Nuclear Station operated at a capacity factor of 92.4% during the year, the fifth best rate in the nation. The plant continues to receive favorable evaluations from various regulatory bodies. In March 1987, the plant will begin a planned outage to refuel for another 16-month period of production.

South Carolina Electric & Gas Company lowered its retail electric rates approximately 3% effective February 1, 1987, to pass on to its customers the cost savings which will result from reduced income tax rates recently legislated by the U. S. Congress. It has been three years since the last retail electric rate increase. During this period, electric rates actually have been reduced four times to reflect lower costs of fuel in addition to the latest 3% reduction. No electric rate increases are contemplated presently.

In 1984, the Public Service Commission removed from retail electric rate base the cost of 400 megawatts of generating

capacity. Since the 1984 order, demand on the Company's electric system has grown to the extent that inclusion of the 400 megawatts will give the Company approximately the same reserve margin it had (after excluding the deducted capacity) in 1984. The Company has filed an application to restore the cost of the 400 megawatts to the rate base. After considering the current cost of capital, this can be accomplished without an increase in retail electric rates.

South Carolina Pipeline Corporation had a very successful year while coping with increased competition from oil in industrial markets. Despite oil prices which went as low as \$10 per barrel, Pipeline was able to acquire supplies on the spot market and sell them at prices which kept most industrial customers using natural gas. Pipeline's demonstrated ability to operate effectively in highly competitive markets will be a significant asset should natural gas markets experience further deregulation.

Our diversification efforts continue. During December 1986, MPX Systems, Inc., our fiber optic subsidiary, reached profitability. We currently have \$27.5 million invested in this technology, of which \$15 million is in fiber optic cable installations and \$12.5 million is in the common stock of SouthernNet, Inc., a regional, facilities-based telecommunications company. Based on the over-the-counter market quotation for SouthernNet common stock, the Company's investment has a value of \$20 million. We believe that these investments will continue to have profitable growth in the coming years.

Our subsidiaries, South Carolina Real Estate Development Company, Inc. and Primesouth, Inc. (a newly created construction company), recently joined forces to win the bid for development and construction of a facility in Charleston for the South Carolina Research Authority. The Authority has contracted with a consor-



tium of business groups and research institutions at the leading edge in the field of computer integrated manufacturing. This facility, estimated to cost \$12 million, will be used by the Authority for testing of manufacturing techniques for electronic and small metal parts for the U. S. Navy. When completed in July 1988, this facility will bring the latest in manufacturing technology to South Carolina.

As can be seen from the examples above, the objective for our diversification program is to create stockholder value through the utilization of SCANA's capital and human resources. While we have made promising starts in several areas, it will be several years before these efforts fully mature.

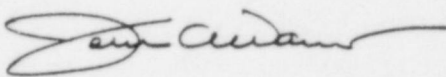
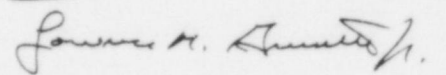
A major element of our continuing cost containment strategy is the Bonus Incentive Program implemented in the past year for all permanent employees. It was designed to focus the efforts of all employees toward a common goal of controlling costs, and included specific objectives for significant reductions in budgeted operating expenses, control of overtime and achievement of other quantified operating goals. Remarkable results were achieved, which benefitted customers and stockholders as well as employees. This plan has been continued for 1987.

There are two proposals in SCANA's 1987 proxy statement which are intended to strengthen the Company's ability to protect the stockholders' interest in the event of a hostile takeover attempt. One proposal is a "fair price" amendment which would prohibit acceptance of a two-tier takeover offer unless approved by 80% of the common shares outstanding. This is designed to ensure that the Company's stockholders would all receive the same price in the event of a takeover. The second proposal would create a classified Board of Directors who individually would be elected for three year terms. In effect, one-third of the Board

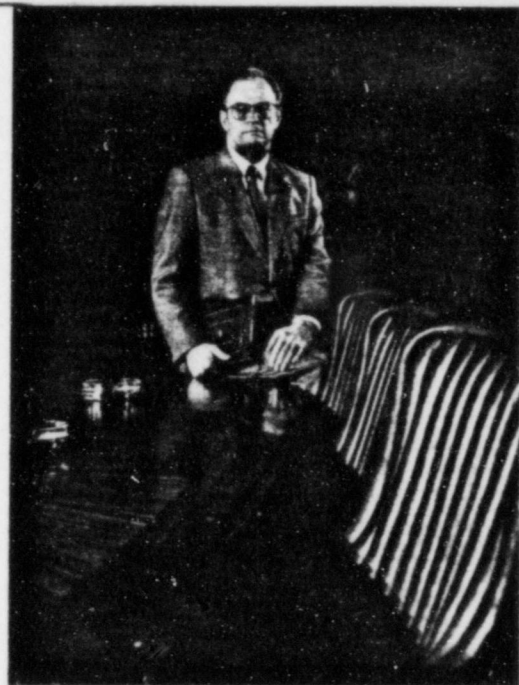
would be elected each year. A complete description of these proposals will be contained in the proxy statement, which will be separately mailed to stockholders of record March 5, 1987.

Three directors will retire as of the Annual Meeting of Stockholders in April. John H. Lumpkin has been a director for 21 years, William R. Bruce for 9 years and J. E. Schachte, Jr. for 21 years. They served with distinction during the years of construction of the V. C. Summer Nuclear Station, the difficult periods of rate increases and, more recently, the restructuring of the Company into SCANA. Their counsel will be missed. Lawrence M. Gressette, Jr., President of SCANA, and Thomas C. Nichols, Jr., President of South Carolina Electric & Gas Company, have been nominated to serve as directors.

Our plans for the next few years are straightforward. We will continue to emphasize customer satisfaction through rate stability, cost containment, and system reliability in our regulated businesses. We will operate our nuclear plant at the highest possible capacity factor but always with the highest degree of safety and reliability. Our diversification efforts will intensify, as we build on the promising start we have made. Finally, we will continue our commitment to be a strong corporate citizen, utilizing our resources to continue the progress of South Carolina, and to meet the human needs of the residents of our area.

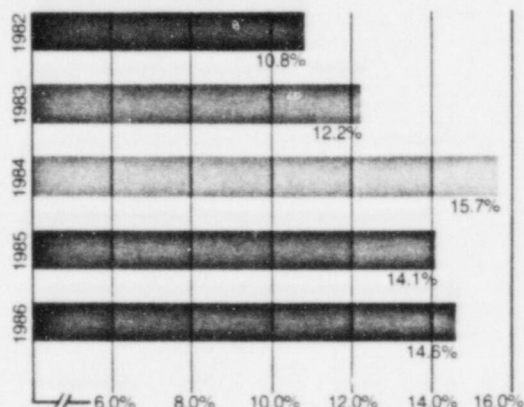
  


February 6, 1987

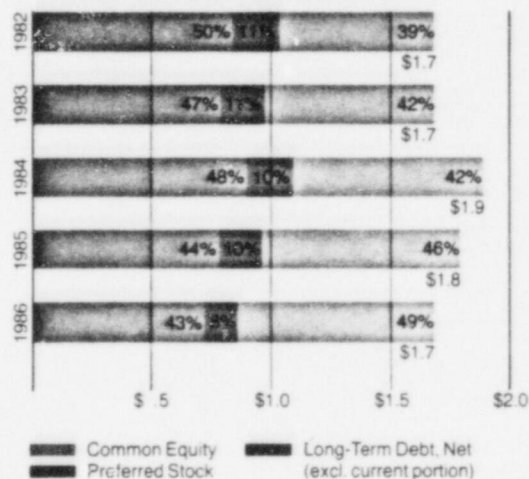


Lawrence M. Gressette, Jr.  
President

RETURN ON YEAR-END COMMON EQUITY



CAPITAL STRUCTURE  
(billions of dollars)



**Earnings and Dividends** Consolidated net income for SCANA Corporation (the "Company") totaled \$122.2 million in 1986, up from \$113.6 million in 1985. Earnings per share of common stock in 1986 were \$3.03 compared to \$2.82 in 1985. The improvement was due to a combination of factors including higher sales of electricity, lower total operating expenses and reduced interest and preferred dividend charges.

SCANA's 1986 earnings provided a return on year-end common equity of 14.6% compared to 14.1% at year-end 1985. At year-end 1986, SCANA's capital structure consisted of 43% long-term debt, 8% preferred stock and 49% common equity. There were approximately 40.3 million shares of common stock outstanding at year-end 1986, unchanged since year-end 1984, and no offerings of common stock are planned in the near future.

During the year, SCANA's common stock traded at prices ranging from a low of \$27-1/8 to a high of \$42-7/8. The stock closed the year at a price of \$36-5/8, up from \$27-7/8 at year-end 1985. Book value per share of common stock was \$20.77 at year-end 1986, up from \$20.01 at year-end 1985. The market-to-book ratio at year-end 1986 was 176%.

In January 1987, SCANA's Board of Directors raised the quarterly cash dividend on common stock to 58 cents per share from 56 cents per share. The increase, effective with the dividend payable on April 1, 1987, raised the indicated annual dividend rate to \$2.32 per share, up from \$2.24. The Company has increased the dividend rate on its common stock in 34 of the last 35 years.

For a detailed discussion of 1986 operating results and financial condition, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operation" beginning on page 44.

**Diversification** The Company extended the scope of its operations with the creation of SCANA Software Services, Inc. in June 1986 and Primesouth, Inc. in January 1987. Activities of each of the Company's subsidiaries are highlighted later in this report. SCANA now has 11 direct and 2 indirect wholly-owned subsidiaries that are engaged in a variety of traditional utility as well as non-utility businesses.

Two of SCANA's major corporate goals are the diversification of risk and the development of unregulated lines of business with the potential for higher returns than are possible in its regulated utility businesses. In evaluating new ventures, the Company will continue to focus on activities that utilize existing management expertise. SCANA will make capital commitments only to new enterprises that the Company believes have the potential to make a meaningful contribution to earnings within a few years of start-up.

SCANA's present non-utility subsidiaries are not expected to have a significant impact on the Company's financial picture for several years. For the immediate future, the electric and natural gas utility businesses will continue to dominate SCANA's overall performance, with capital investment, earnings and cash flow primarily driven by the requirements and performance of South Carolina Electric & Gas Company (SCE&G), its principal subsidiary. In its utility operations, SCANA's primary objective is to provide the highest quality of service to customers at the lowest possible cost. At the same time, SCANA will look to other business activities to optimize the investment of its shareholders.



# Corporate Organization Chart

January 1, 1997

## SCANA CORPORATION

A holding company with eleven direct and two indirect subsidiaries.

### SOUTH CAROLINA ELECTRIC & GAS COMPANY

Generates and sells electricity, purchases and sells natural gas at retail and provides public transit service in Columbia and Charleston.

### SOUTH CAROLINA GENERATING COMPANY, INC.

Owns and operates Williams Station and sells electricity to SCE&G.

### SOUTH CAROLINA FUEL COMPANY, INC.

Acquires, owns and provides for financing of SCE&G's nuclear and fossil fuel requirements.

### CAROTANE, INC.

Purchases, delivers and sells propane gas at retail.

### SOUTH CAROLINA PROPANE STORAGE CORPORATION

Provides for bulk storage of propane.

### SOUTH CAROLINA LPG CORPORATION

Transports propane through its pipeline.

### SOUTH CAROLINA PIPELINE CORPORATION

Purchases, sells and transports natural gas to wholesale and direct industrial customers.

### SOUTH CAROLINA EXPLORATION CORPORATION

Holds natural gas properties.

### SOUTH CAROLINA LNG COMPANY, INC.

Owns and operates LNG storage facilities.

### MPX SYSTEMS, INC.

Provides fiber optic telecommunications services.

### SOUTH CAROLINA REAL ESTATE DEVELOPMENT COMPANY, INC.

Holds and develops real estate.

### PRIME SOUTH, INC.

Engages in commercial and industrial construction, maintenance activities and construction management services.

### SCANA SOFTWARE SERVICES, INC.

Develops and markets computer software systems and related products and services.

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As of January 1, 1987

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## South Carolina Electric & Gas Company



*T.C. Nichols, Jr.*

T.C. Nichols, Jr.  
President

SCANA's principal subsidiary, SCE&G, generates and sells electricity, buys and sells natural gas at retail and operates public transit systems in the metropolitan Columbia and Charleston areas. SCE&G serves over 406,500 electric customers in the central and southern portions of the state, an area of more than 12,000 square miles with a total population approaching 2 million. SCE&G also serves approximately 192,800 natural gas customers across two-thirds of the state. At year-end 1986, SCE&G had 3,912 full-time employees, up 3% over 1985.

As a result of increased emphasis on cost control, SCE&G reduced budgeted operating and maintenance expenses in 1986 by approximately 3.1%. Also in 1986, SCE&G offered an early retirement program that is expected to result in savings of an estimated \$5 million over the next five years.

SCE&G's Energy Info Centers were honored with a national conservation award in November. The U.S. Department of Energy recognized the centers for their role in providing the public with assistance, education and information relating to energy conservation. Approximately 293,000 people visited the two centers in 1986.

### Responding to a Changing Environment

The electric utility marketplace is undergoing major changes brought on by emerging competition from other suppliers and alternative energy sources. In addition to providing reliable service at a reasonable price, SCE&G recognizes that the key to remaining competitive in this environment is developing a better understanding of what the customer wants and positioning itself to meet this challenge in innovative ways.

A cultural change is taking place internally. Instead of viewing SCE&G simply as a traditional electric and gas utility, employees are learning to market comfort and convenience through the sale of electricity and natural gas. Everyone is being asked to be a salesperson. To enhance industrial relations, for example, during 1986 all SCE&G officers made personal visits on a monthly basis to large manufacturing and service customers. This program will be expanded in 1987. Also in 1987, all employees will be asked to introduce their friends and neighbors to special services SCE&G offers to its customers, such as security lighting and equal payment billings.

Recognizing the necessity of being a market-driven organization, SCE&G reorganized its marketing department during 1986 to include detailed market research and sales training functions. Formal sales teams were also established in each of the district offices to help satisfy customer needs and provide support for new consumer-oriented programs like "Good Cents."

Good Cents is a nationally syndicated program that encourages energy efficiency in the construction and selection of heating and cooling equipment in new homes. According to market surveys, 86% of SCE&G's residential customers consider energy efficiency very important in the purchase of a new home. Good Cents homes automatically qualify for SCE&G's special electric conservation rate, and Good Cents homeowners can save up to 50% in monthly heating and cooling bills over conventionally built homes. If successful, conservation programs such as Good Cents can help SCE&G postpone the need for costly new generating plants.

An important advancement in customer relations occurred in November, when more than two years of market research culminated in the unveiling of a new bill. Consumer panels played a big part in determining the new format, which gives customers detailed information about how their bill is calculated and the date and time their meter is read. Consumer acceptance was excellent.

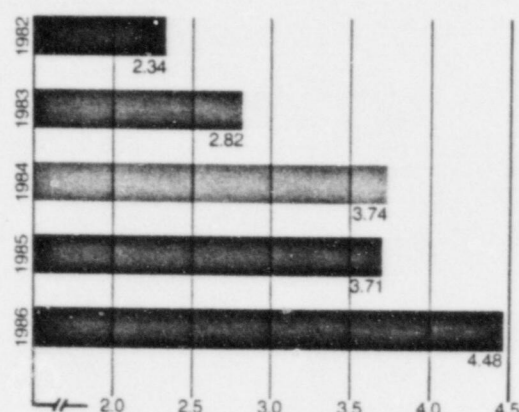
**Construction Expenditures** SCE&G's cash expenditures for construction amounted to \$133.6 million in 1986 compared to \$117.3 million in 1985. Expenditures for electric facilities were \$88.3 million while \$16.7 million was expended on gas facilities. An additional \$15.8 million was spent for nuclear fuel. Expenditures to build and upgrade other facilities accounted for the remaining \$12.8 million. SCE&G's construction cash expenditures in 1987 are projected to total \$169.1 million, including approximately \$25.5 million for nuclear fuel.



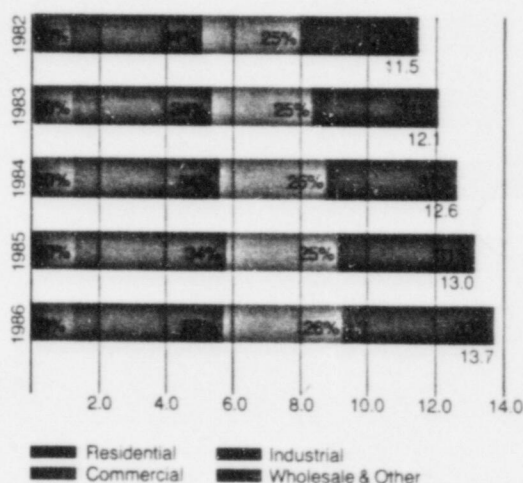
SCE&G continued to place emphasis on customer communication, implementing an industry visitation program by officers. Senior Vice President Cathy B. Novinger toured the Aiken County Pepperidge Farm facility to gain a better understanding of its energy needs and growth potential.



**EARNINGS COVERAGE OF FIXED CHARGES-  
SEC METHOD**  
(times covered before income taxes)



**TOTAL ELECTRIC SALES**  
(billions of KWH)



**Security Transactions** For the second consecutive year, internal generation of cash and short-term borrowings were sufficient to provide for substantially all of SCE&G's 1986 capital requirements. To further reduce interest and preferred dividend charges, SCE&G continued its program of retiring high-cost debt and preferred stock issues prior to maturity.

The following capital transactions occurred during 1986:

- In February, SCE&G redeemed, at par, \$14.11 million of the \$50 million principal amount outstanding of its 12.15% Series First and Refunding Mortgage Bonds due June 1, 2010.
- In April, South Carolina Electric & Gas Finance, N.V. redeemed the entire \$60 million principal amount outstanding of its 15-1/2% Guaranteed Notes due 1989 at a price of 101% of par value. These Notes were secured by the pledge of SCE&G's First and Refunding Mortgage Bonds. This wholly-owned subsidiary of SCANA was dissolved during 1986.
- In June, SCE&G raised \$1.1 million through the sale of tax-exempt annual tender Pollution Control Revenue Bonds issued by Fairfield County, South Carolina. Proceeds of this sale were used to finance construction of additional pollution control facilities at the V. C. Summer Nuclear Station.
- In July, SCE&G redeemed two outstanding series of cumulative preferred stock. The issues retired with the entire \$13.5 million par value of the 10-3/4% Series at a redemption price of 104.84%, and the entire \$20 million par value of the 11.08% Series at a redemption price of 108%.

Short-term capital needs during 1986 were satisfied through the sale of commercial paper. At year-end 1986, SCE&G had \$78.2 million in commercial paper obligations outstanding. South Carolina Fuel Company, a wholly-owned subsidiary of SCANA that finances SCE&G's inventories of nuclear and fossil fuel, had \$70.1 million in commercial paper obligations outstanding at year-end 1986.

SCE&G's earnings coverage of fixed charges in 1986 was 4.48 times, up from 3.71 times in 1985.

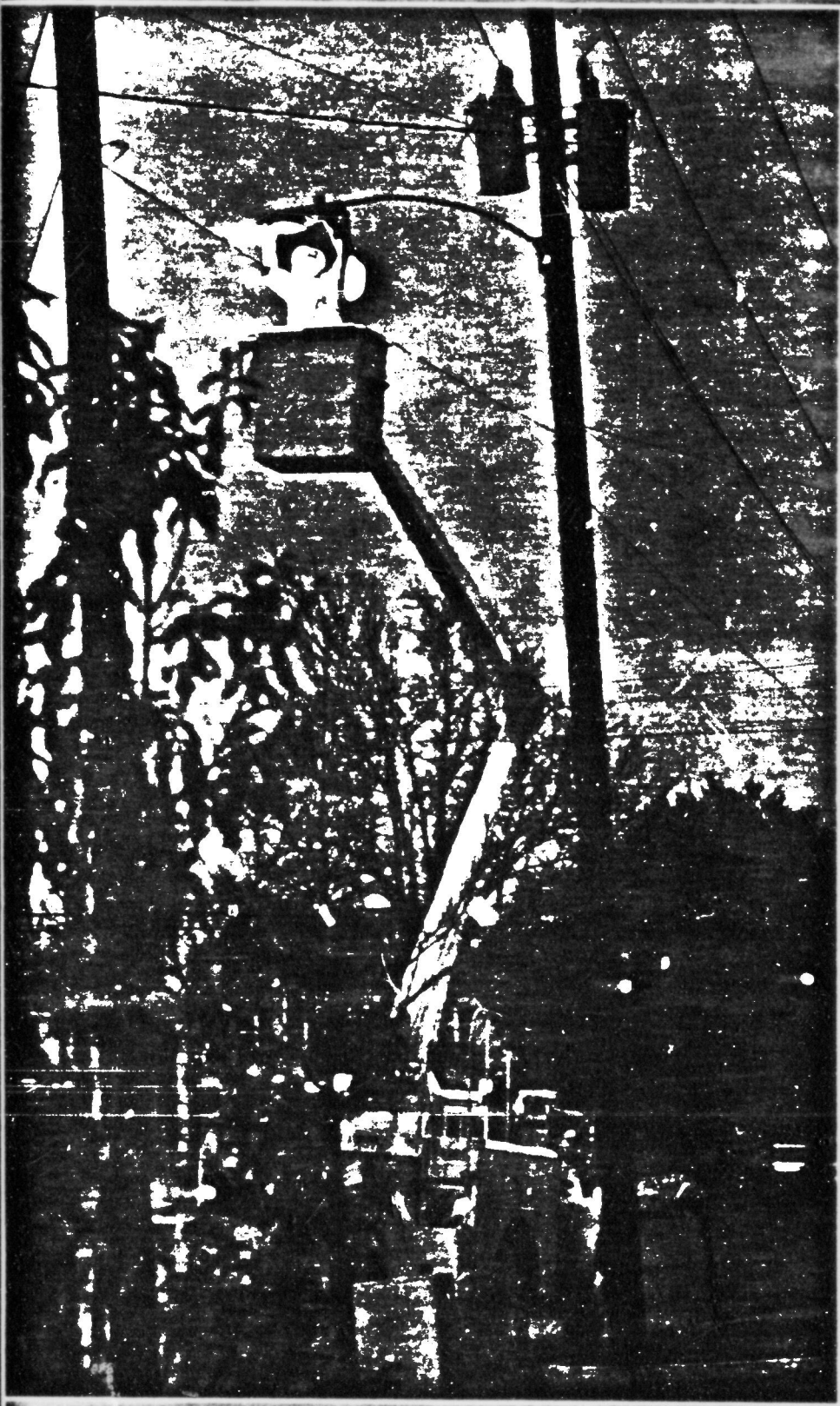
On February 18, 1987, SCE&G sold \$100 million principal amount of First and Refunding Mortgage Bonds, 8-3/4% Series due 2017. Proceeds from this sale were used to reduce SCE&G's short-term indebtedness. The remainder of SCE&G's 1987 cash requirements is expected to be provided by internally generated funds and short-term borrowings. If market conditions permit, SCE&G may issue additional long-term debt during the year to retire higher cost securities.

**Regulation and Rate Activity** SCE&G did not request a general rate increase in its retail or wholesale electric or natural gas jurisdictions during 1986. In accordance with state regulatory requirements, SCE&G filed during 1986 for adjustments in the fuel cost component of its retail electric rates. These adjustments resulted in a lowering of the fuel component in retail electric rates, the fourth such reduction since the V. C. Summer Nuclear Station began commercial operation in 1984. SCE&G's last general retail electric rate increase was granted in the spring of 1984.

In January 1987, The Public Service Commission of South Carolina (PSC) directed SCE&G to reduce its retail electric rates by approximately 3% to reflect a reduction in the corporate federal income tax rate that takes effect on July 1, 1987 under provisions of the Tax Reform Act of 1986. The PSC's order requires SCE&G to pass the resulting tax savings on to its retail electric customers. The lower rates, which became effective in February 1987, will result in a reduction in SCE&G's retail electric revenues of approximately \$25 million annually. However, the combined effects of reduced taxes and lowered rates will not have a significant impact on net income.

Based on the recent growth in demand on its electric system, SCE&G filed an application with the PSC on January 30, 1987 requesting, among other things, that 400 megawatts of electric generating capacity deducted from rate base in a March 2, 1984 PSC rate order be restored to rate base effective July 1, 1987. SCE&G did not request a change in its retail electric rates currently in effect. Although the changes, if approved by the PSC, would result in a lower earned return on equity, SCE&G believes this action to be in the best interests of its ratepayers and SCANA's stockholders.

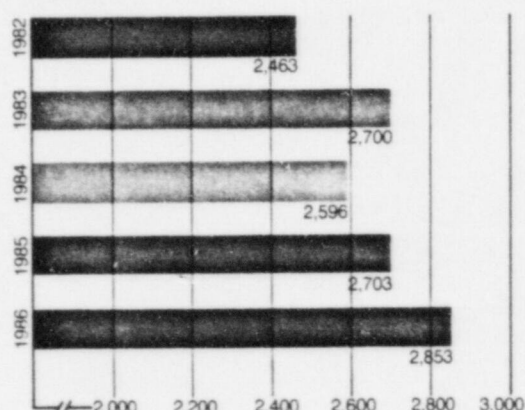
See Notes 1E and 2B of "Notes to Consolidated Financial Statements" for additional information.



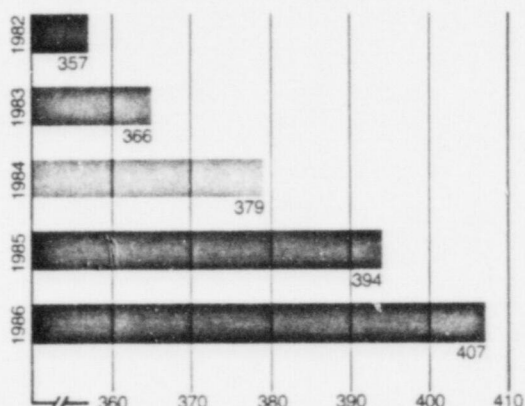
Replacing traditional mercury vapor street lamps with state-of-the-art high pressure sodium lamps can more than double the light output without increasing the cost of the fixture or the required energy input. As part of its customer satisfaction strategy, SCE&G is actively promoting this type of lamp in the residential and municipal market.



**ELECTRIC TERRITORIAL PEAK DEMAND**  
(megawatts)



**TOTAL NUMBER OF ELECTRIC CUSTOMERS**  
(thousands, year-end)



## ELECTRIC OPERATIONS

**Record Peak Demand** SCE&G's historical peak demand record was broken four times during 1986. Peak demand is the maximum requirement for electricity placed on the system by customers during any one-hour period. Record peaks were established January 27 and again January 28 as arctic air rushed into South Carolina. The record fell again July 8 in the midst of one of the state's worst heat waves in nearly a century. Temperatures climbed above the 100-degree mark for 15 straight days, and the all-time record demand of 2,853 MW was set July 9.

**Sales and Customers** Systemwide electricity sales totaled 13.7 billion kilowatt-hours (KWH) in 1986, an increase of 5.1% over 1985. January's extremely cold temperatures and the summer's extended heat wave contributed to this growth. Residential and commercial sales rose 10.8% and 7.0%, respectively, while industrial sales were up 7%. Wholesale and other energy sales decreased 2.9% due to the loss of a large cooperative customer early in the year.

For the third year in a row, SCE&G experienced a record increase in the number of new electric customers. At year-end 1986, 406,511 electric customers were being served, up 3.2% from year-end 1985. The majority of growth occurred in the residential and commercial classes. Based on the latest projections, SCE&G's customer growth is expected to average 2% annually through 1991. Total electric sales growth during the same period should average about 3.8% annually.

**Generation and Capacity** SCE&G purchases all of the electricity generated at A.M. Williams Station, a 560 MW unit near Charleston owned by South Carolina Generating Company, Inc. (GENCO), a wholly-owned subsidiary of SCANA.

The average 1985 fossil heat rate of 9,918 BTU/KWH placed SCE&G's generating system (includes GENCO's Williams Station) in seventh place in the latest rankings of the country's 100 largest investor-owned utilities by *Electric Light & Power* magazine. SCE&G's continuing record of generating efficiency is especially noteworthy because of the large percentage of relatively small plants on its system. The forced outage rate was also significantly better than the national average.

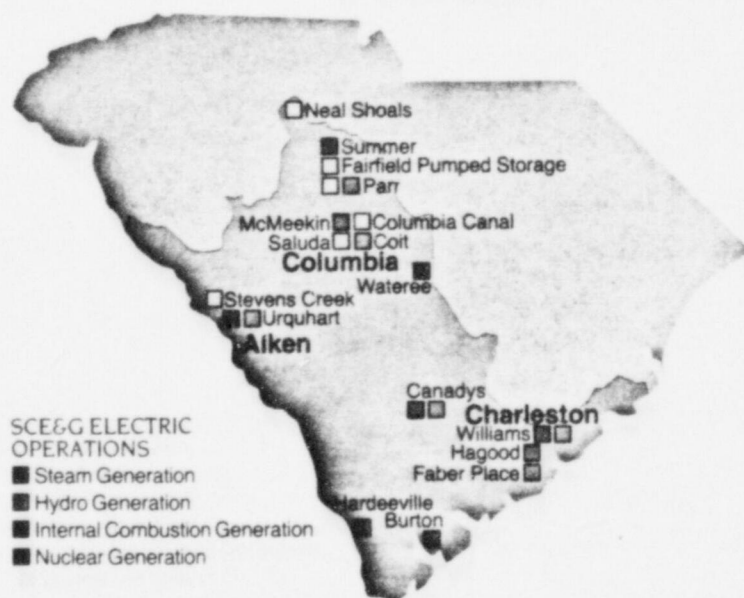
Total generation for the system in 1986, including GENCO, was 15.3 billion KWH, an increase of approximately 3.1% over 1985. Coal-fired plants accounted for 63%, nuclear 31%, hydroelectric 5% and oil and natural gas 1%.

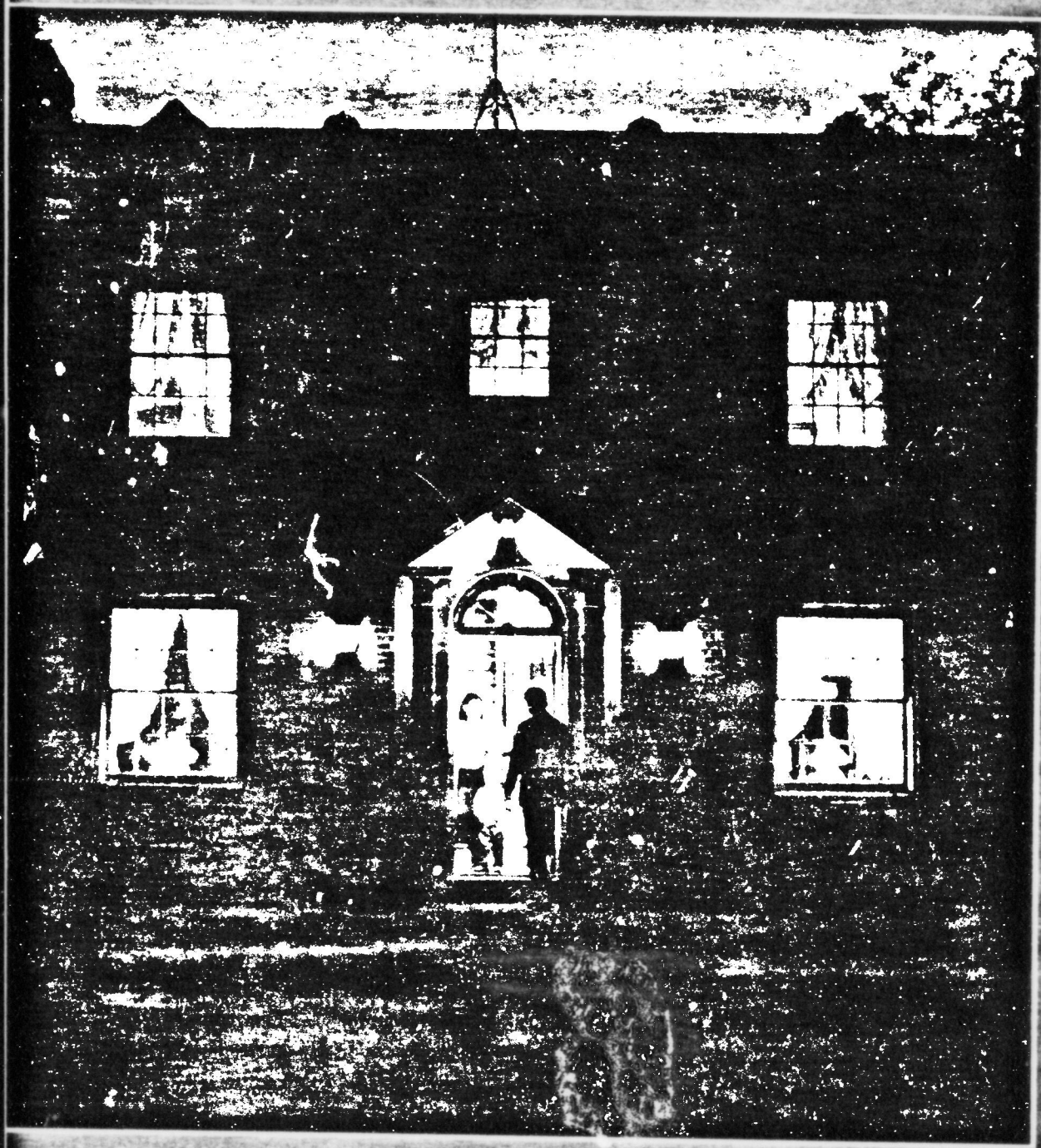
Coal-fired plants in the SCE&G system burned a total of 3.7 million tons of coal in 1986, a 7.8% decrease from 1985. The weighted average cost of the coal burned in 1986 was \$1.84 per million BTU, compared to \$1.95 per million BTU in 1985. About 80% of projected coal requirements in 1987 are under long-term contract.

SCE&G's peak generating capability was 3,890 MW as of January 1, 1987. Coal-fired generation accounted for 56% of that capacity, hydroelectric 20%, nuclear 15%, oil-fired 2%, and 7% was in 16 internal combustion peaking turbines and one combined-cycle plant which burn either No. 2 fuel oil or natural gas.

**System Improvements** SCE&G spent approximately \$15 million in 1986 as part of an on-going life-extension program for its generating facilities. About \$13.5 million is budgeted in 1987 for additional improvements. Keeping these older plants in service will result in substantial savings by postponing the need for costly new generating facilities.

Other system improvements focused primarily on preventive maintenance of substation equipment. Actions were also taken to ensure quicker response to power outages and to provide more effective technical assistance to field personnel.

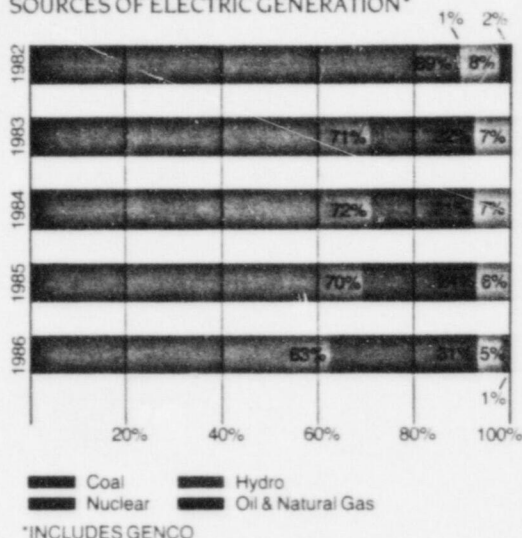




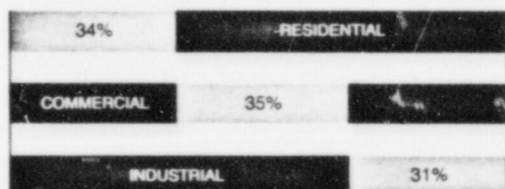
The Good Cents program was introduced in late 1986. By year's end, 100 Good Cents homes were under construction and two were already completed and certified. Over 50 company employees were trained to help sell the homebuilding program which will be marketed intensively in 1987.



## SOURCES OF ELECTRIC GENERATION\*



## SCE&G'S SALES OF NATURAL GAS BY CUSTOMER CLASS FOR 1986 (% of total therm sales)



**Nuclear Operations** V.C. Summer Nuclear Station was ranked among the top five nuclear plants nationwide in a key area of operating performance in 1986 by *Nuclear Week* magazine. The unit's capacity factor, the amount of electricity a plant actually produces compared to the maximum it can produce, was 92.4%. The average annual capacity factor for U.S. nuclear plants is about 60%.

One of the reasons for Summer Station's high capacity factor in 1986 was a longer fuel cycle, which eliminated the need for a refueling outage during the year. Summer Station was converted from a 12-month refueling cycle to an 18-month cycle in 1985. The next refueling outage is scheduled for March 1987 and is expected to last about two months.

The Nuclear Regulatory Commission (NRC) levied two fines of \$50,000 each against SCE&G for violations during 1986 of technical specifications at Summer Station. In both occurrences, SCE&G discovered and reported the violations to the NRC. Both of the violations are the lowest level for which a civil penalty is assessed, and the NRC determined that the events surrounding the fines were insignificant from a safety standpoint. However, extensive corrective actions were taken to prevent their recurrence.

In August, the Institute of Nuclear Power Operations (INPO) formally recognized Summer Station as a branch of the National Academy of Nuclear Training. INPO has fully accredited the operator training programs at the plant, signifying they meet the industry safety group's standard of excellence. The first 19 graduates of the accredited programs received their certificates during the ceremonies.

The Federal Emergency Management Agency also gave final approval in 1986 to Summer Station's emergency alert and notification system.

**Environmental Concerns** Acid rain continued to be a controversial issue nationally in 1986. Sixteen bills were introduced in Congress, but no legislation was enacted. SCE&G has always been a proponent of a clean environment and continues to support objective legislation that would confront the acid rain issue on a region-by-region basis. The purchase of low-sulphur coal enables SCE&G's fossil plants to maintain relatively low sulphur-dioxide emissions.

## NATURAL GAS OPERATIONS

**Sales and Customers** Total retail natural gas sales were 274.6 million therms in 1986, an increase of 3.0% over 1985. Residential and commercial sales were up 5.4% and 1.7%, respectively, while industrial sales increased 2.5%.

SCE&G serves approximately 192,800 natural gas customers in 72 cities and towns along its 5,399-mile distribution system. SCE&G purchases all of its natural gas from another SCANA subsidiary, South Carolina Pipeline Corporation.

**System Improvements** Work continued during the year on a \$30 million project to replace more than 600 miles of mains and service connections in the Columbia area. This replacement project is expected to be completed in 1989.

Another major project was completed in the Charleston area during 1986. A new five-mile gas main serving James Island will improve service to more than 8,000 existing customers and allow SCE&G to grow along with the island's rapidly expanding residential market. In Columbia, the Lucius Road propane air peak-shaving plant was rebuilt and its capacity more than doubled to assure greater amounts of supplemental gas supplies when needed.



SCE&G GAS OPERATIONS  
■ Natural Gas Service Area



*The renovation of the Lucius Road  
propane air plant has doubled its  
supplemental gas capability and  
increased reliability of gas delivery in  
metropolitan Columbia.*



## TRANSIT OPERATIONS

SCE&G buses traveled approximately 3.6 million miles and carried more than 8.6 million revenue passengers in Columbia and Charleston during 1986. At year-end 1986, SCE&G was operating 117 coaches on a combined route system totaling 295 miles.

In December, a new 56,000-square-foot facility for Transit Operations and Fleet Maintenance opened in Charleston. In July, a reduced fare program required by the Urban Mass Transportation Administration (UMTA) for the elderly and handicapped that began in Charleston was expanded to include the Columbia area as well.

Efforts continued during 1986 to cut losses in transit operations. SCE&G upgraded its fleet by buying and refurbishing 19 coaches which replaced older ones. Numerous route revisions were made for more economical operation. SCE&G also acquired two over-the-road coaches for its charter services. Continued expansion in this area could lead to increased transit revenues in years to come.

SCE&G received \$3.9 million in UMTA funds in 1986 as partial reimbursement for operating losses incurred in the Columbia area during 1981-83. With support from the involved municipalities, SCE&G will apply for an additional \$3.3 million in UMTA funds for the Columbia area. In early 1987, SCE&G accepted a \$1.2 million UMTA grant for the Charleston area.

SCE&G continues to work vigorously for the establishment of Regional Transportation Authorities. These publicly supported systems could reduce SCE&G's role in providing public transportation.

## INDUSTRIAL DEVELOPMENT

SCE&G was again a leader in industrial recruitment as a variety of new industries moved into South Carolina in 1986. Announced capital investment for new and expanded industrial facilities totaled approximately \$1.3 billion during the year. Of that amount, about 80% will occur within SCE&G's electric and natural gas service areas, resulting in approximately 7,700 new jobs.

In January 1986, Mack Trucks, Inc. announced it would relocate an assembly plant to Winnsboro, South Carolina. The Mack facility, a Pirelli fiber optic cable plant in Lexington, and the growth and expansion of research parks in Columbia and Charleston are indicators of a new level of opportunity for the state's workforce.

## CUSTOMER/COMMUNITY SERVICE PROGRAMS

Emphasis on community service programs was a key strategy again in 1986. The Customer Assistance Department helped nearly 22,000 needy customers secure \$1.63 million in financial aid from the appropriate local, state and federal agencies to help pay heating and cooling expenses.

More than 14,000 SCE&G customers contributed \$148,524 to help elderly persons and low-income families meet emergency heating needs through the Project SHARE program. Project SHARE is a voluntary donation program in which customers make a one-time contribution or authorize a pledged amount to be added to their monthly bills.

Also, a program to provide free firewood for the needy was expanded to include the Charleston area. Similar programs were already in place in the Columbia and Aiken/North Augusta areas. These programs join SCE&G with local government and community action organizations to provide the free fuel.

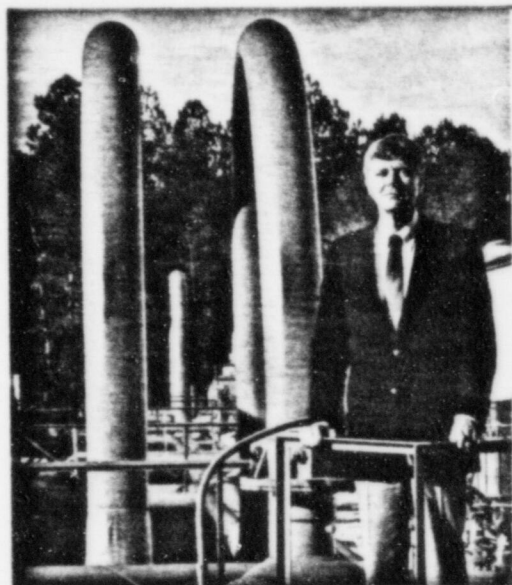


#### *Educational Services activities*

resulted in personal contact with almost 20,000 students and educators in the state. Programs are available on a variety of energy-related subjects. Young children enjoy learning about fossil fuels in the production of energy while older students often use SCE&G as a source of information for science projects.

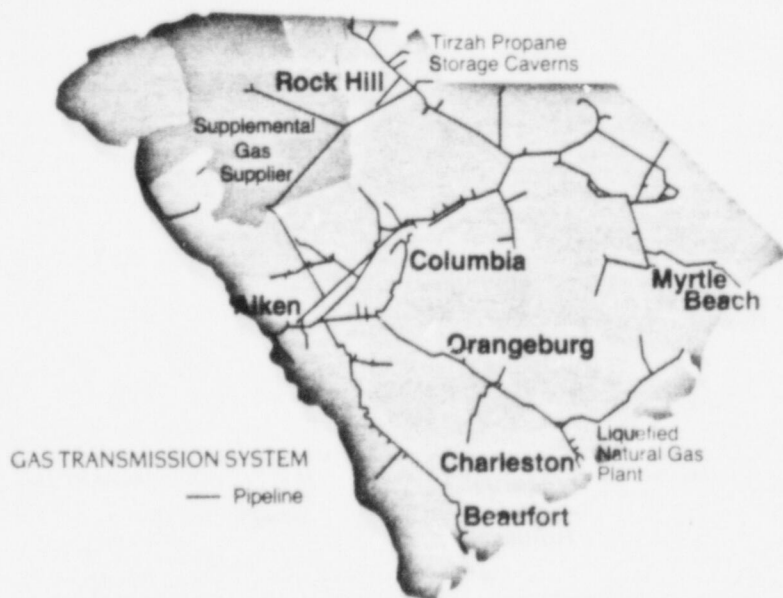
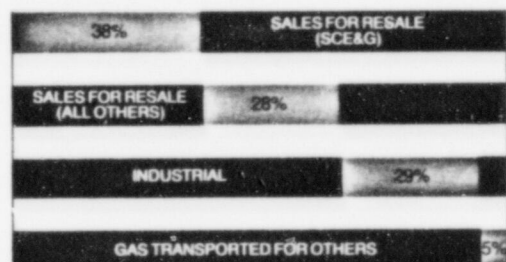


# South Carolina Pipeline Corporation



*Max Earwood*  
Max Earwood  
President

DELIVERIES OF NATURAL GAS  
BY SCPC DURING 1986  
(% of total MCF)



South Carolina Pipeline Corporation (SCPC) is an intrastate natural gas pipeline with 1,657 miles of line serving resale and industrial customers in all but two of the state's 46 counties. SCPC's largest customer is SCE&G. Other resale customers include municipalities and county gas authorities, as well as other gas utilities.

SCPC has two subsidiaries. South Carolina LNG Company, Inc., liquefies and stores up to one billion cubic feet of natural gas during periods of low usage. During peak demand periods, up to 60,000 MCF per day can be regasified to supplement pipeline supplies. Carolina Exploration Corporation is involved in joint-venture projects in the development and production of oil and gas reserves.

**Sales and Customers** Over the past year, natural gas companies faced intense competition for industrial customers from suppliers of other fuels, particularly No. 6 fuel oil, which was selling at its lowest price in years. Most industrial customers are equipped to use several types of fuel, allowing them to switch to the most economical energy source available. SCPC has remained competitive by increasing purchases of less expensive spot-market gas and reducing its profit margin. Because of changes in federal regulations, large customers also have the option of making purchases directly from producers at the well-head and having the gas transported. In these instances, SCPC contracts with the customer to provide transportation services.

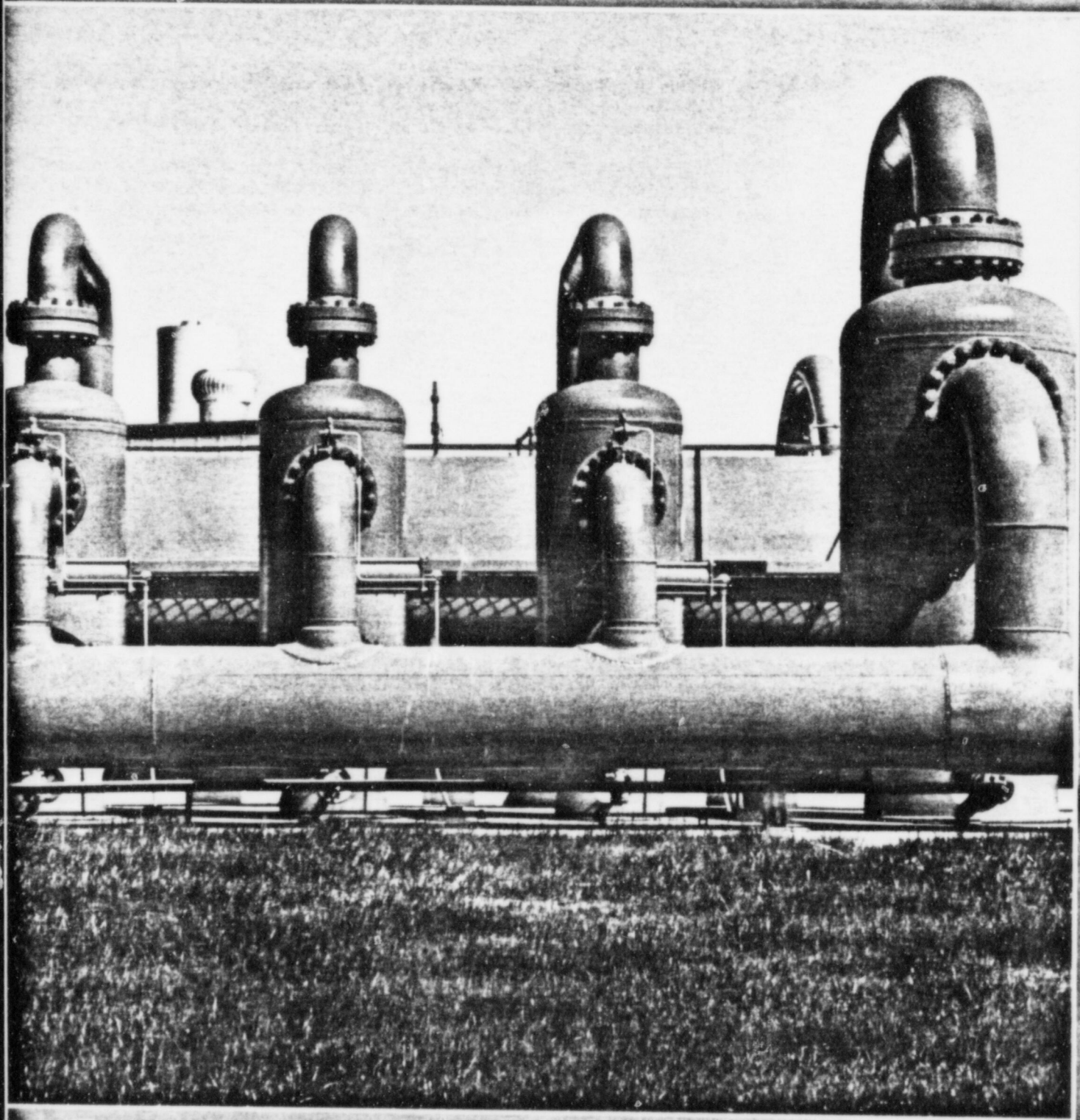
Total sales of natural gas in 1986 were 66.8 million MCF, a 3.4% increase over 1985. Industrial sales decreased by 7.1% while sales to resale customers increased 8.6%. In addition, the transportation of natural gas for resale customers and end-users totaled approximately 3.5 million MCF, more than double the 1985 level. At year-end 1986, SCPC was serving approximately 160 natural gas customers.

**Gas Supply** SCPC buys its natural gas under long-term contracts with Southern Natural Gas Company (Southern) and Transcontinental Gas Pipeline Corporation (Transco). Interconnections with these suppliers provide a reliable supply and allow flexibility in purchasing. SCPC's contract demand is 210,900 MCF per day with Southern and 29,300 MCF per day with Transco.

The total volume of natural gas purchased in 1986 for resale was approximately 66.5 million MCF compared with about 64.3 million MCF in 1985. The increased purchases were the result of greater customer demand and some non-traditional sales to regional natural gas authorities. The cost per MCF of natural gas purchased for resale was approximately \$3.24 in 1986, compared with about \$3.84 in 1985. This decline can be attributed to lower pipeline prices, a consequence of increased competition in the marketplace, and SCPC's ability to make substantial spot-market purchases at prices well below firm contract rates. These lower gas costs were passed along to customers.

SCPC's suppliers have not elected to operate under the provisions of the Federal Energy Regulatory Commission Order 436, issued in 1985, which would require nondiscriminatory transportation of natural gas. However, SCPC has been able to purchase and transport spot-market gas under various provisions of the Natural Gas Policy Act of 1978.

**System Improvements** Several steps were taken in 1986 to improve the overall efficiency of SCPC's transmission system. Certain backup equipment was added at the LNG plant to ensure its safety and reliability during periods of regasification. New fire protection systems were installed at the Columbia office and at the Transco delivery compressor station for added safety. Other system improvements included regulator upgradings and the installation of electronic monitoring, measurement and flow control equipment.



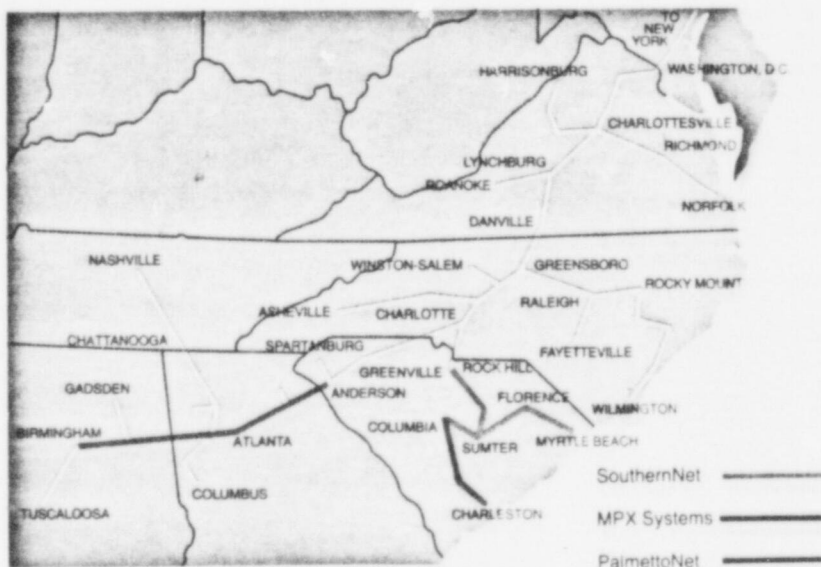
*South Carolina Pipeline sold over 66 billion cubic feet of natural gas in 1986. The compressor station in Aiken has created more flexibility in purchases from suppliers and in the delivery of natural gas.*



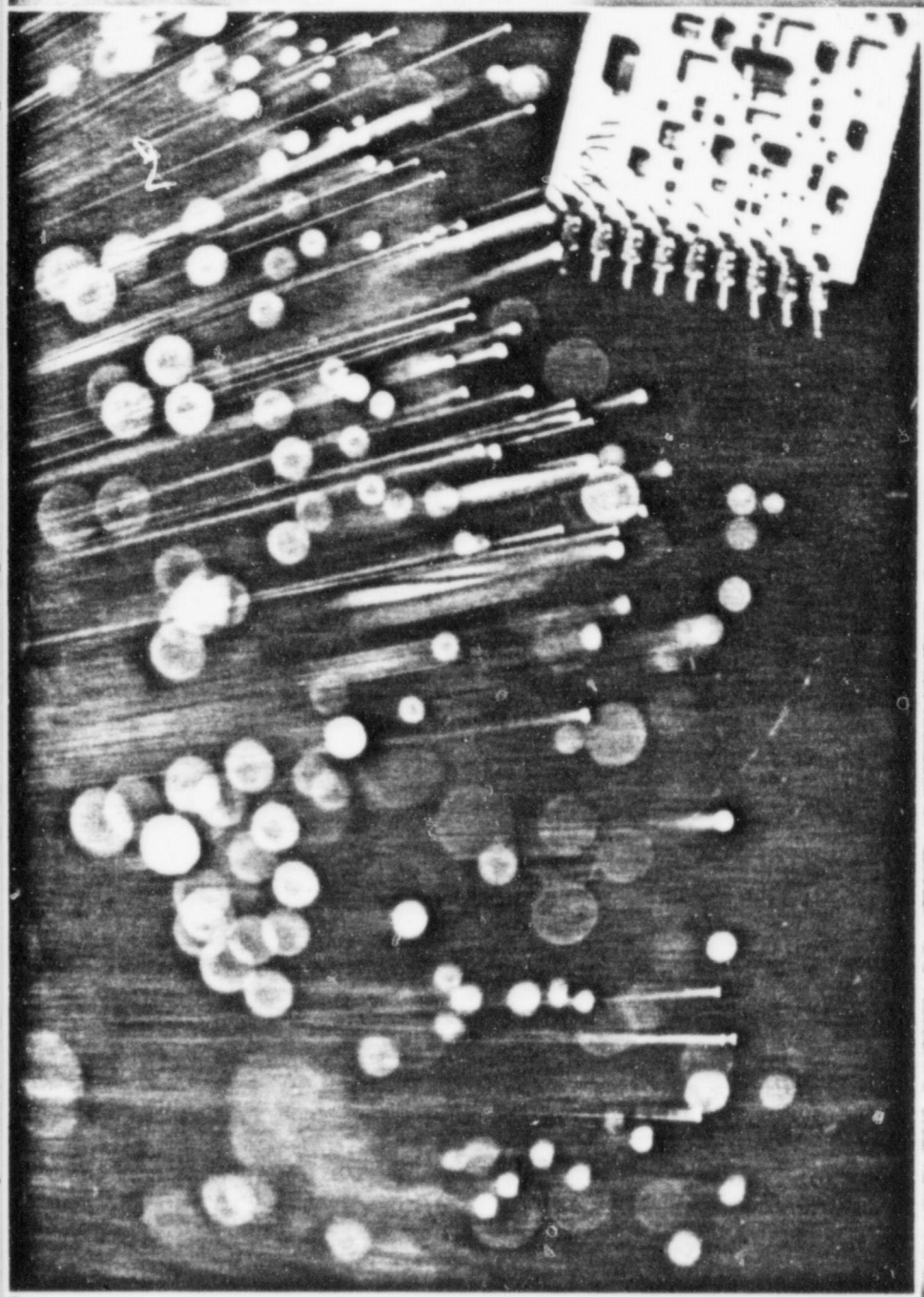
Lawrence M. Gressette, Jr.  
President

In 1985, MPX installed a 129-mile fiber optic line from Columbia to Charleston. Two new projects in which MPX is involved are joint ventures with Southern Company Services. In August 1986, work was completed on a 125-mile overhead fi-

Both lines are part of SouthernNet's link in the National Telecommunications Network (NTN). MPX has a 10.2% interest in SouthernNet, an interstate carrier that provides telecommunications services from Washington, D.C. to seven southeastern states.

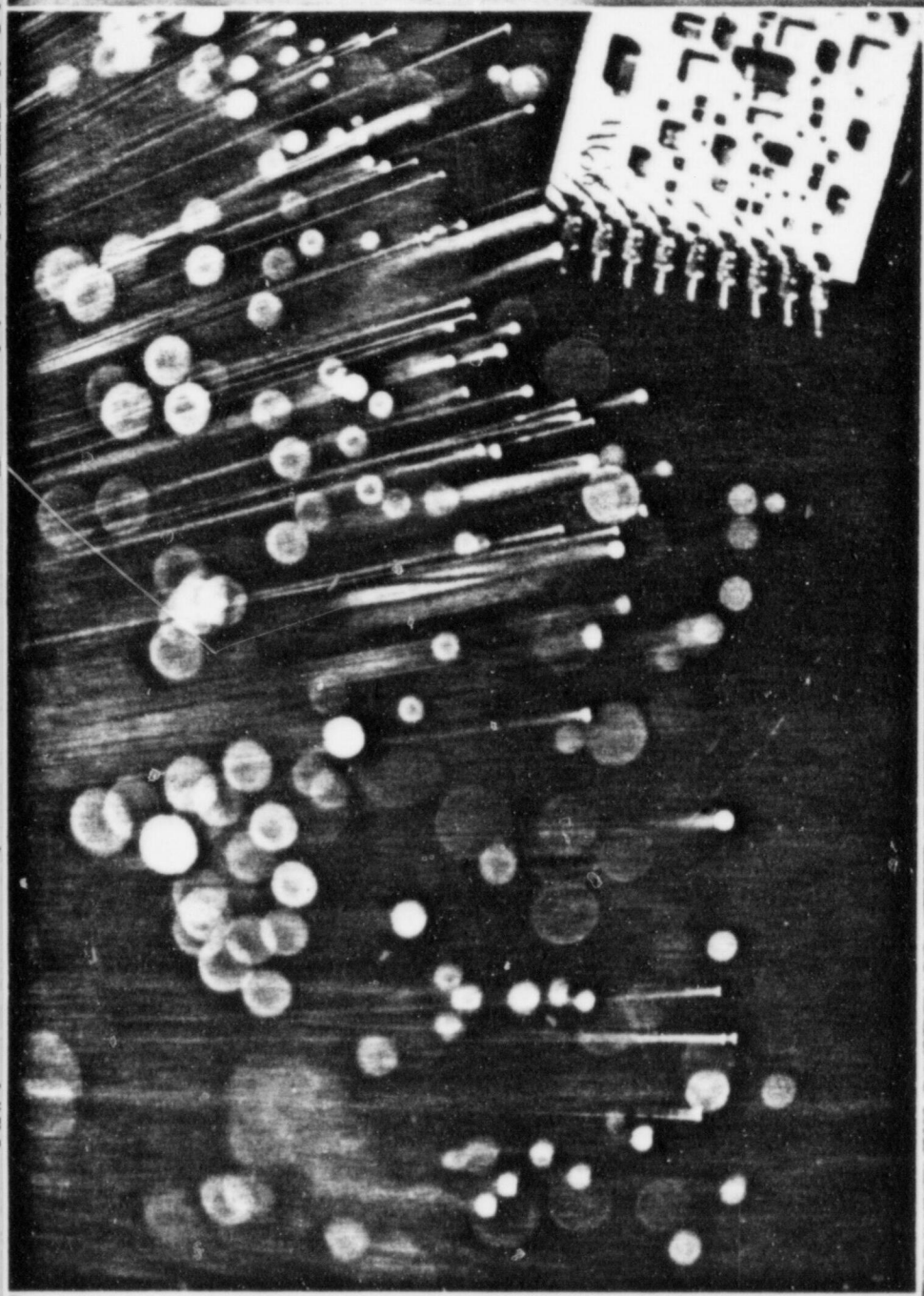


National Telecommunications Network (NTN) is a joint venture with other carriers to provide nationwide fiber optic-based telecommunication service.



Transmission of voice and data by fiber optic cable is considered to be superior to conventional copper wire and microwave technology due to its speed, expandable capacity and clarity of sound and picture. MPX Systems is a leader in the development and use of fiber optics in the utility industry.





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## South Carolina Real Estate Development Company, Inc.



*J.W. Wedding*

J.W. Wedding  
President

South Carolina Real Estate Development Company, Inc. (SCRED) is actively engaged in the acquisition and development of strategically located properties. Many of SCRED's projects can provide beneficial results for the other SCANA companies.

In December 1986, the S.C. Research Authority selected SCRED to develop a \$12 million facility as part of the U.S. Navy's Rapid Acquisition of Manufactured Parts (RAMP) program. Primesouth, Inc., another SCANA subsidiary, will construct the facility.

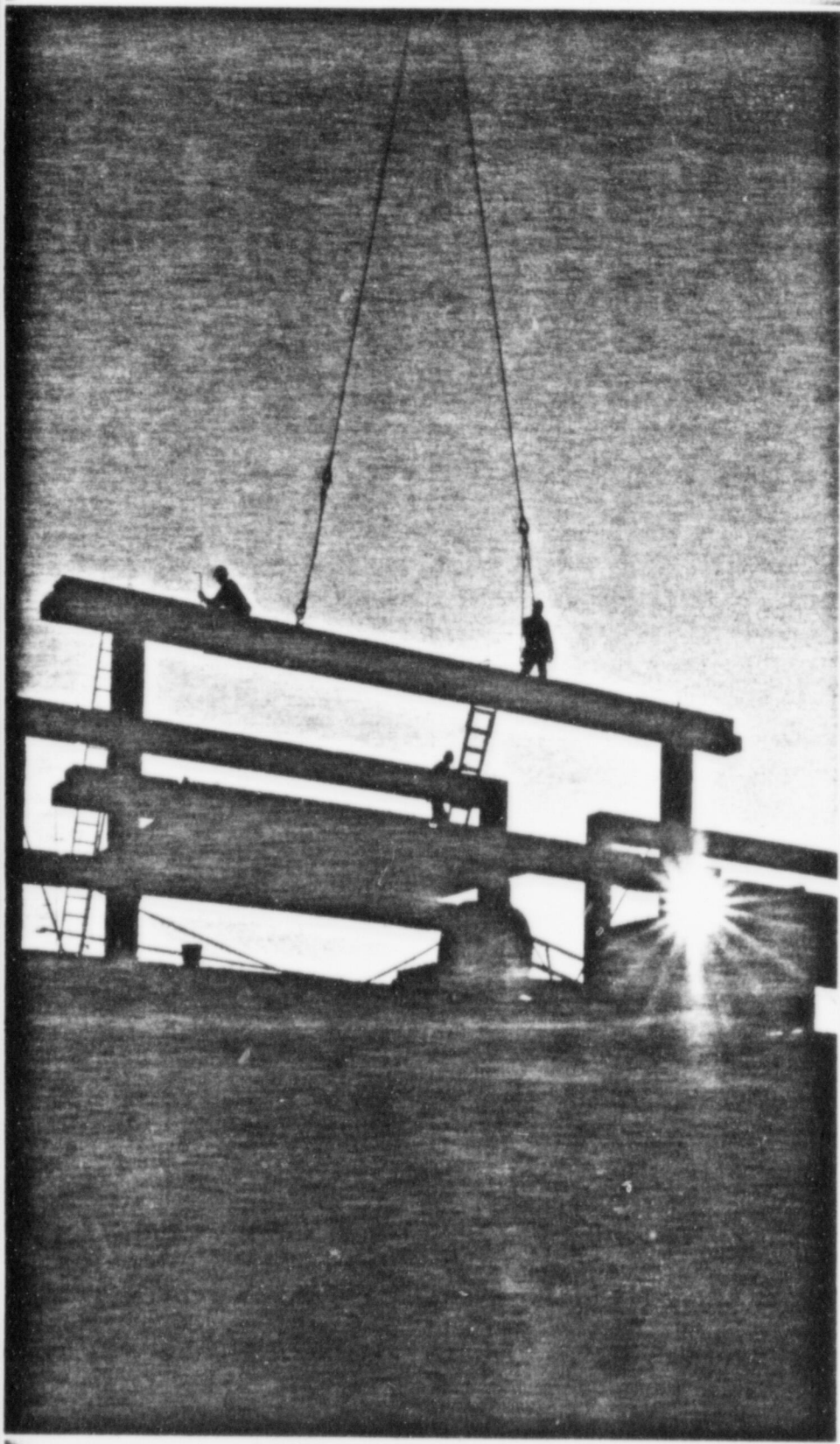
The RAMP program will involve a consortium of leading business groups and research laboratories exploring the use of computers and robotics to manufacture sophisticated replacement parts for the U.S. fleet on a timely basis, eliminating the need for large parts inventories. The selection of South Carolina as the site for this federally-funded research project is considered a coup for the state and could place South Carolina in a position of national leadership in this new manufacturing technology. This aggressive approach toward economic development will provide new jobs, protect present jobs and make possible the attraction of important new industries to the state.

SCRED is currently involved in 15 additional projects — seven independently and eight as a joint-venture partner.

Work has been completed on the first phase of a business park near Charleston. A neighborhood shopping center, a residential subdivision and a 58-acre commercial site are under development in the Columbia area. In the planning stages are a mixed-use development and resort-style residential area at Lake Murray near Columbia and a residential subdivision near Lexington, South Carolina.

Other joint-venture projects include two residential developments near Columbia and an office and industrial park near Charleston. Additional commercial joint ventures are being planned.





SCEDG will be a major tenant in  
Overlook Business Centre upon  
completion of a \$5 million meter  
testing laboratory. The 55-acre  
business park, located at Inter-  
states 26 and 326 near Columbia,  
is being developed by SCANA  
subsidiary, South Carolina Real  
Estate Development Company.

## Primesouth, Inc.



E.H. Crews, Jr.  
President

Building on SCE&G's more than 30 years' experience in construction and heavy equipment maintenance, SCANA's newest subsidiary, Primesouth, Inc., began operations January 1, 1987.

SCE&G phased out its construction department and transferred its 300 construction employees to Primesouth, a full-service organization providing design coordination, construction and construction management services.

Ground was broken in February 1987 for Primesouth's first major project, a 140,500-square-foot facility at Charleston

International Airport being developed by SCRED for the U.S. Navy and the S.C. Research Authority. The RAMP facility will consist of an office building and two high-technology manufacturing and test centers. Completion of the project is scheduled for July 1988.

Primesouth will continue to pursue a variety of commercial and industrial projects and limit its construction activities to the Southeast. Primesouth will also seek industrial maintenance contracts in areas of its expertise such as boiler and condenser repairs.

## Other Subsidiary Operations

### SCANA Software Services, Inc.

SCANA Software Services, Inc., which began operations June 1, 1986, is engaged in the development and marketing of computer-centered information systems technology primarily for utility-related industrial clients. Initially, major systems being marketed include a Distribution Construction Information System, a Fleet Maintenance System, and a Nuclear Education and Training System. Software, hardware, software maintenance, customization services and a wide range of professional consulting and programming services are also available.

### Carolane, Inc.

Carolane, Inc. purchases and distributes propane to areas beyond SCE&G's natural gas mains. In 1986, it sold approximately five million gallons of propane and had more than 4,400 residential, commercial and industrial customers at year-end.

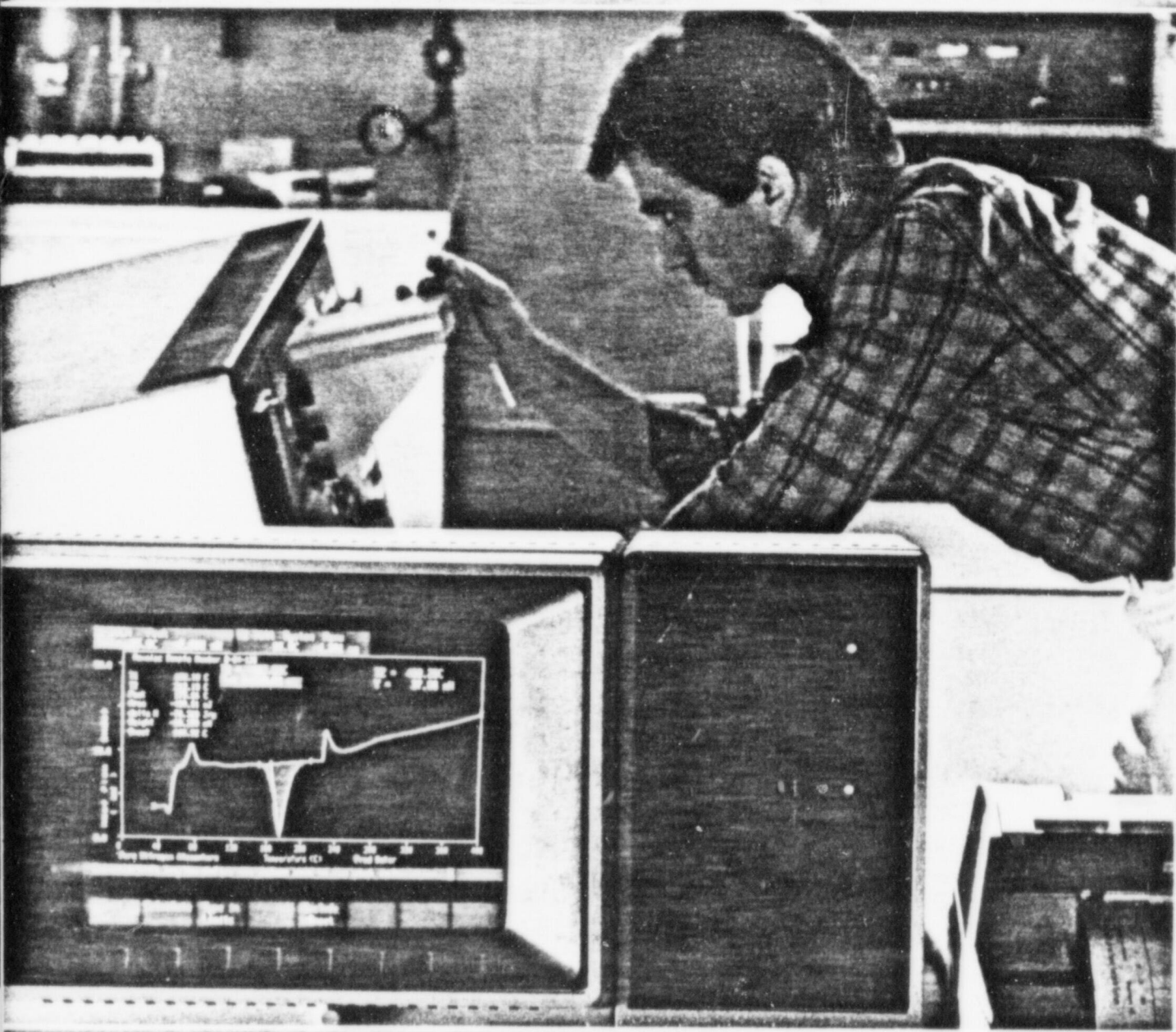
### Carolina Propane Storage Corporation

Carolina Propane Storage Corporation owns a 50% joint-venture interest together with Transco Energy Company in an 80-million-gallon underground propane storage cavern near York, South Carolina. The cavern leases storage space to industries, utilities and propane suppliers. A joint-venture agreement with another subsidiary of Transco will allow for the expansion of the cavern's markets throughout the Southeast.

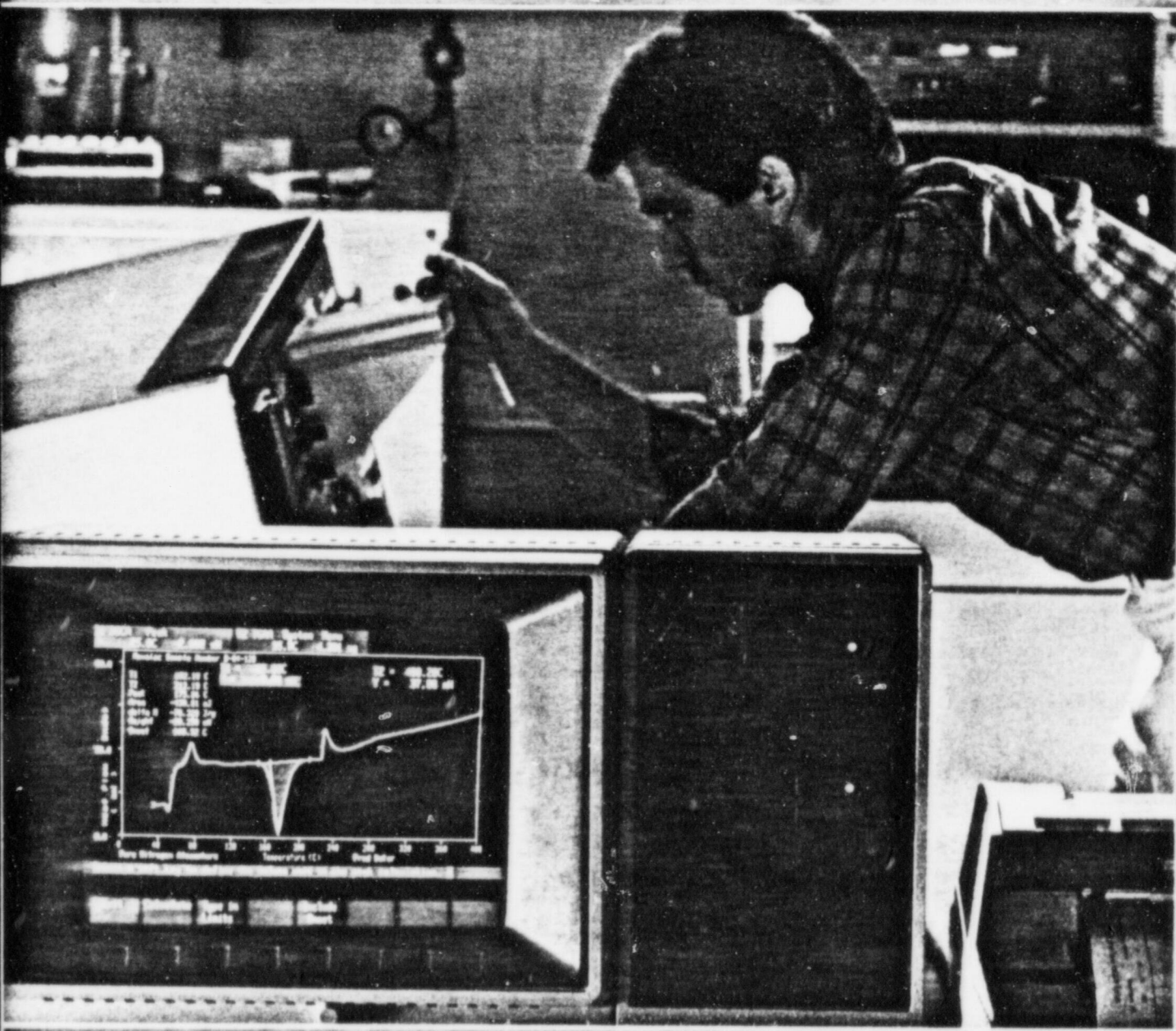
### Carolina LPG Corporation

Carolina LPG Corporation, in a joint venture with Transco, operates a 62-mile, six-inch propane pipeline that connects the cavern facility with Dixie Pipeline Company near Bethune, South Carolina. This line transports propane to industrial customers along its route and to Dixie Pipeline Company for distribution to customers along its system. New Federal Energy Regulatory Commission tariffs that went into effect October 1, 1986 substantially reduced per-barrel shipping costs and should spur additional business opportunities.





SCANA Software Services is taking advantage of years of experience in computer technology and program development gained through operations at SCE&G. This SCANA subsidiary is developing and aggressively marketing information systems technology designed to improve the productivity and efficiency of its clients.



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# SCANA Corporation

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## DIRECTORS

J.K. Addy<sup>1,4</sup>

President, Addy Dodge, Inc.  
Lexington, South Carolina

W.B. Bookhart, Jr.<sup>3,5</sup>

Partner, W.B. Bookhart Farms  
Ellenore, South Carolina

W.R. Bruce<sup>3,6</sup>

Retired Chairman and  
Chief Executive Officer  
The Seibels Bruce Group, Inc.  
Columbia, South Carolina

J.B. Edwards, DMD<sup>4,7</sup>

President  
Medical University of South Carolina  
Charleston, South Carolina

J.B. Guess, III<sup>3,6</sup>

Owner, Edisto Farms  
Denmark, South Carolina

B.A. Hagood<sup>4,5</sup>

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

J.F. Hassell, Jr.<sup>1,5</sup>

Retired Chairman and  
Chief Executive Officer  
Pre-Stress Concrete Company, Inc.  
Charleston, South Carolina

W.H. Hipp<sup>4,5</sup>

President and Chief Executive Officer  
The Liberty Corporation  
Greenville, South Carolina

Avram Kronsberg<sup>2,3</sup>

President, Harrison & Co., Inc.  
Charleston, South Carolina

J.H. Lumpkin<sup>6,7</sup>

Of Counsel to The McNair Firm  
Columbia, South Carolina

F.C. McMaster<sup>1,7</sup>

President and Manager  
Winnsboro Petroleum Company  
Winnsboro, South Carolina

E.W. Pike, Jr.<sup>1,2</sup>

President, Colonial Development Co.  
Beaufort, South Carolina

Henry Ponder, Ph.D.<sup>3,5,6</sup>

President, Fisk University  
Nashville, Tennessee

J.B. Rhodes<sup>2,6</sup>

President and Chief Executive Officer  
Rhodes Oil Company, Inc.  
Walterboro, South Carolina

J.E. Schachte, Jr.<sup>1,2</sup>

Real Estate and Insurance Broker  
Charleston, South Carolina

V.C. Summer<sup>5,7</sup>

Chairman of the Board Emeritus  
Columbia, South Carolina

E.C. Wall, Jr.<sup>1,2</sup>

President, Canal Industries  
Conway, South Carolina

John A. Warren<sup>1,2,4,5,7</sup>

Chairman and  
Chief Executive Officer  
Columbia, South Carolina

## Directors Emeriti

K.W. French

F.M. Hipp

A.C. Mustard

John C.B. Smith

W.H. Taylor

A.M. Williams

<sup>1</sup> Member of Executive Committee

<sup>2</sup> Member of Management Development and Compensation Committee

<sup>3</sup> Member of Audit Committee

<sup>4</sup> Member of Corporate Responsibility and Nominating Committee

<sup>5</sup> Member of Long Range Planning Committee

<sup>6</sup> Member of Investment Committee

<sup>7</sup> Member of Nuclear Oversight Committee

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## OFFICERS

John A. Warren

Chairman and  
Chief Executive Officer

L.M. Gressette, Jr.

President

T.C. Nichols, Jr.

Executive Vice President

E.H. Crews, Jr. (1)

Vice President

Max Earwood

Vice President

Cathy B. Novinger

Vice President

W.B. Timmerman

Vice President & Treasurer

R.W. Stedman

Vice President & Controller

Barbara D. Blair (2)

Secretary

Harriett M. Gardner

Assistant Secretary

E.C. Roberts

Assistant Secretary

(1) Retired effective 12/31/86

(2) Elected 1/28/87

## SOUTH CAROLINA ELECTRIC & GAS COMPANY

### **Chairman and Chief Executive Officer**

John A. Warren (1)

### **President and Chief Operating Officer**

T.C. Nichols, Jr. (2)

### **Executive Vice Presidents**

L.M. Gressette, Jr. (3)  
Legal, Finance, Governmental  
and Regulatory Affairs

E.H. Crews, Jr. (4)  
Power Operations

### **Senior Vice Presidents**

O.W. Dixon, Jr.  
Nuclear Power, Construction  
and Production Engineering

Cathy B. Novinger  
Administration

C.L. Rye  
Operations Support  
and Transportation

B.M. Smith, Jr.  
Corporate and Industrial  
Development

W.B. Timmerman  
Finance

J.H. Young, Jr.  
Power Supply

### **Vice Presidents**

G.J. Bullwinkel, Jr.  
Customer Relations—  
Southern Division

V.R. Coward, Jr.  
Support Services

G.C. Croft, Jr.  
Transmission and  
Distribution Engineering

Max Earwood (5)  
Gas Distribution

R.D. Hazel  
Corporate Communications  
and Planning

J. Kinloch  
Transit and Fleet  
Maintenance

C.B. McFadden  
Personnel and Corporate  
Services

S.C. McMeekin, Jr.  
Customer Relations—  
Northern Division

D.A. Nauman  
Nuclear Operations

E.C. Roberts  
Legal Counsel and  
Assistant Secretary

Patricia T. Smith  
Governmental and  
Regulatory Affairs

R.W. Stedman  
Controller

J.W. Wedding (6)  
Utility Property  
and Facilities

### **Assistant Vice Presidents**

W.A. Darby  
Gas Operations

E.F. Frick  
Auditing

D.C. McNamara  
Marketing

W.E. Moore  
Production Engineering

### **Other Officers**

Barbara D. Blair (7)  
Secretary

B.T. Horton, Jr.  
Treasurer

J.G. Black, II  
Assistant Treasurer

Harriett M. Gardner  
Assistant Secretary

## SOUTH CAROLINA PIPELINE CORPORATION

Max Earwood  
President

W.A. Darby  
Vice President

R.M. Kightlinger  
Vice President

B.J. MacInnis  
Vice President

W.B. Timmerman  
Vice President

R.W. Stedman  
Controller

Barbara D. Blair (7)  
Secretary

B.T. Horton, Jr.  
Treasurer

E.C. Roberts  
Assistant Secretary

(1) Also Chairman and Chief Executive Officer of all other subsidiary companies

(2) Also President of South Carolina Generating Company, Inc.

(3) Also President of MPX Systems, Inc., South Carolina Fuel Company, Inc. and SCANA Software Services, Inc.

(4) Retired effective 12/31/86; elected President of Primesouth, Inc. effective 1/1/87

(5) Also President of South Carolina Pipeline Corporation, Carolina Exploration Corporation, South Carolina LNG Company, Inc., Carolina LPG Corporation, Carolina Propane Storage Corporation and Carotane, Inc.

(6) Also President of South Carolina Real Estate Development Company, Inc.

(7) Elected 1/28/87



## FINANCIALS

SCE&G financial officers, left to

right: Robert W. Stedman, Vice

President and Controller; B. Tate

Horton, Jr., Treasurer; and William

B. Timmerman, Senior Vice

President/Finance.

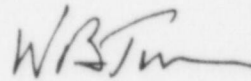


The Management of SCANA Corporation (the Company) is responsible for the preparation and integrity of the financial data included in the accompanying Consolidated Financial Statements. These statements have been prepared in conformity with generally accepted accounting principles as applicable. In situations that prevent exact accounting measurements, management has used informed judgments and estimates. Financial information presented elsewhere in this Annual Report is consistent with these financial statements.

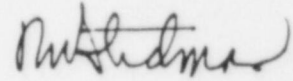
The Company maintains and relies upon a system of internal accounting controls which is designed to provide reasonable assurance that all transactions are properly recorded in the books and records and that assets are protected from unauthorized use. The degree of internal accounting control is based upon the determination of the optimum balance between the cost incurred in maintaining a system of internal controls and the benefits to be derived. The system of internal accounting controls is supported by written policies and guidelines and is complemented by the selection, training and development of professional financial managers and by a staff of internal auditors who conduct comprehensive internal audits.

The Board of Directors, through an Audit Committee composed of nonemployee directors, provides oversight for the preparation of these financial statements. The Audit Committee meets periodically with internal and independent auditors and representatives of management to review their activities and responsibilities. The internal and independent auditors have full and free access to the Audit Committee to discuss internal accounting control, auditing and financial reporting matters.

The independent certified public accounting firm of Deloitte Haskins & Sells is engaged to examine, in accordance with generally accepted auditing standards, and to report as to the fair presentation of Management's Consolidated Financial Statements and their opinion appears below.



W. B. Timmerman  
Vice President & Treasurer



R. W. Stedman  
Vice President & Controller

## Opinion of Independent Certified Public Accountants

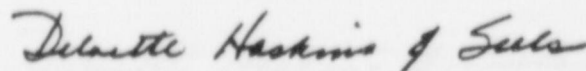
**Deloitte  
Haskins + Sells**

Suite 820 1426 Main Street  
Post Office Drawer 7128  
Columbia, South Carolina 29202-7128

### SCANA CORPORATION

We have examined the Consolidated Balance Sheets and Consolidated Statements of Capitalization of SCANA Corporation and consolidated subsidiaries ("Companies") as of December 31, 1986 and 1985 and the related Consolidated Statements of Income and Retained Earnings and of Sources of Funds for Gross Property Additions for each of the three years in the period ended December 31, 1986. 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, such Consolidated Financial Statements present fairly the consolidated financial position of the Companies at December 31, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.



February 6, 1987  
(except for Note 11, as to which the date is February 18, 1987)



## Consolidated Balance Sheets

December 31,	1986	1985
<b>ASSETS</b>		
(Thousands of Dollars)		
<b>Utility Plant</b> (Notes 1, 2, 3 and 4):		
Electric	\$ 2,475,332	\$ 2,417,565
Gas	277,292	251,686
Transit	4,188	4,877
Common	23,622	18,178
Total	2,780,434	2,692,306
Less accumulated depreciation and amortization	722,996	644,975
Total	2,057,438	2,047,331
Construction work in progress	92,379	65,402
Nuclear fuel, net of accumulated amortization	51,535	65,266
Acquisition adjustment — gas, net of accumulated amortization	35,146	36,143
Utility Plant, Net	2,236,498	2,214,142
<b>Other Property and Investments:</b>		
Nonutility property (substantially at cost)	30,331	19,169
Investments (Note 1)	19,213	17,989
Total Other Property and Investments	49,544	37,158
<b>Current Assets:</b>		
Cash, temporary cash investments and special deposits (Note 8)	10,913	48,683
Receivables	107,078	105,949
Inventories (at average cost):		
Fuel (Note 3)	54,768	48,156
Materials and supplies	18,433	13,197
Prepayments	15,323	13,222
Total Current Assets	206,515	229,207
<b>Deferred Debits:</b>		
Unamortized debt expense	5,474	6,513
Accumulated deferred income taxes (Notes 1 and 7)	11,208	1,615
Deferred return on plant investment (Notes 1 and 2)	36,395	23,945
Decommissioning fund (Note 1)	5,128	3,182
Other	24,570	27,937
Total Deferred Debits	82,775	63,192
<b>Total</b>	<b>\$ 2,575,332</b>	<b>\$ 2,543,699</b>

See Notes to Consolidated Financial Statements

December 31,	1986	1985
<b>CAPITALIZATION (See Consolidated Statements of Capitalization)</b>	(Thousands of Dollars)	
<b>Stockholders' Investment:</b>		
Common Equity	\$ 836,913	\$ 806,155
Preferred Stock (Not Subject to Purchase or Sinking Funds)	26,029	26,262
Total Stockholders' Investment	862,942	832,417
<b>Preferred Stock (Subject to Purchase or Sinking Funds)</b>	117,542	152,514
<b>Long-Term Debt, Net</b>	745,451	785,021
Total Capitalization	1,725,935	1,769,952
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Short-term borrowings (Note 8)	80,576	2,388
Current portion of long-term debt, net (Note 3)	21,930	90,348
Accounts payable	82,068	86,089
Customer deposits	13,417	11,441
Taxes accrued	45,836	26,813
Interest accrued	12,147	21,183
Dividends declared	25,966	25,989
Other	3,715	5,053
Total Current Liabilities	285,655	269,304
<b>Deferred Credits:</b>		
Accumulated deferred investment tax credits (Note 1)	119,766	129,359
Accumulated deferred income taxes (Note 1)	388,789	343,998
Accumulated reserve for decommissioning (Note 1)	5,128	3,182
Other	50,059	27,904
Total Deferred Credits	563,742	504,443
<b>Commitments and Contingencies (Note 9)</b>	—	—
<b>Total</b>	<b>\$ 2,575,332</b>	<b>\$ 2,543,699</b>

See Notes to Consolidated Financial Statements.



# Consolidated Statements of Income and Retained Earnings

For the Years Ended December 31,	1986	1985	1984
	(Thousands of Dollars except per share amounts)		
	(Note 1)		
<b>Operating Revenues</b> (Notes 1 and 2):			
Electric	\$ 809,488	\$ 787,796	\$ 746,745
Gas	289,429	318,856	378,491
Transit	3,119	3,689	3,178
Total Operating Revenues	1,102,036	1,110,341	1,128,414
<b>Operating Expenses:</b>			
Fuel used in electric generation	216,076	229,249	223,768
Power purchased, net	(2,823)	(8,821)	2,721
Gas purchased for resale	215,928	246,760	289,212
Other operation	155,588	143,016	132,108
Maintenance	56,864	60,836	52,619
Depreciation and amortization (Note 1)	90,627	86,899	74,914
Income taxes (Notes 1 and 7)	119,108	105,783	108,768
Other taxes	51,952	49,021	45,008
Total Operating Expenses	903,320	912,743	929,118
<b>Operating Income</b>	198,716	197,598	199,296
<b>Other Income</b> (Note 1):			
Allowance for equity funds used during construction	1,264	1,086	2,885
Deferred return on plant investment (Note 2)	12,450	12,881	11,064
Other income (loss), net of income taxes	(3,889)	1,754	3,698
Total Other Income	9,825	15,721	17,647
<b>Income Before Interest Charges and Preferred Stock Dividends</b>	208,541	213,319	216,943
<b>Interest Charges (Credits):</b>			
Interest on long-term debt, net	68,180	83,817	85,679
Other interest expense	5,771	1,789	3,865
Allowance for borrowed funds used during construction (Note 1)	(2,017)	(2,388)	(11,296)
Total Interest Charges, Net	71,934	83,218	78,248
<b>Preferred Stock Cash Dividends of Subsidiary</b> (At stated rates)	14,443	16,541	16,877
<b>Net Income</b>	122,164	113,560	121,818
<b>Retained Earnings at Beginning of Year</b>	230,549	202,988	162,981
<b>Common Stock Cash Dividends Declared</b> (Note 5)	(90,263)	(87,040)	(81,811)
<b>Other Capital Stock Transactions, Net</b>	221	1,041	—
<b>Retained Earnings at End of Year</b>	\$ 262,671	\$ 230,549	\$ 202,988
<b>Earnings Available for Common Stock</b>	\$ 122,164	\$ 113,560	\$ 121,818
<b>Weighted Average Number of Common Shares</b>			
Outstanding (Thousands)	40,296	40,296	39,900
<b>Earnings Per Share of Common Stock</b>	\$ 3.03	\$ 2.82	\$ 3.05

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Sources of Funds for Gross Property Additions

For the Years Ended December 31,	1986	1985	1984
<b>SOURCES OF FUNDS</b>	(Thousands of Dollars)		
<b>Internally Generated:</b>			
Net income	\$ 122,164	\$ 113,560	\$ 121,818
Charges (credits) to income not requiring (providing) funds:			
Depreciation and amortization	90,627	86,899	74,914
Amortization of nuclear fuel	30,529	22,612	19,029
Deferred income taxes, net	33,635	42,497	92,801
Deferred investment tax credits, net	(9,593)	821	9,231
Allowance for funds used during construction	(3,281)	(3,474)	(14,181)
Deferred return on plant investment	(12,450)	(12,881)	(11,064)
Other, net	2,020	1,444	2,853
Funds provided from operations	253,651	251,478	295,401
Deduct cash dividends declared on common stock	90,263	87,040	81,811
Internally Generated Funds, Net	163,388	164,438	213,590
<b>External Financing:</b>			
Common stock issued	—	—	27,954
Bank note sold	—	—	81,500
Pollution control bonds sold	1,100	5,500	92,850
Increase (decrease) in fuel financings, net	(19,813)	(8,256)	18,041
Reduction of long-term debt	(89,459)	(44,966)	(112,961)
Retirement of preferred stock	(35,205)	(4,275)	(3,815)
Increase in short-term borrowings	78,188	1,915	315
Funds from External Financing	(65,189)	(50,082)	103,884
<b>Other Sources (Uses):</b>			
Decrease in working capital, excluding short-term borrowings and current portion of long-term debt	29,273	15,048	17,793
Other changes in noncurrent balance sheet items, net	13,424	(4,371)	(65,929)
Other Sources (Uses)	42,697	10,677	(48,136)
<b>Funds for Property Additions</b>	<b>140,896</b>	<b>125,033</b>	<b>269,338</b>
<b>Allowance for Funds Used During Construction</b>	<b>3,281</b>	<b>3,474</b>	<b>14,181</b>
<b>Gross Property Additions</b>	<b>\$ 144,177</b>	<b>\$ 128,507</b>	<b>\$ 283,519</b>

See Notes to Consolidated Financial Statements



# Consolidated Statements of Capitalization

December 31,	1986	1985
<b>Common Equity</b> (Note 5):	(Thousands of Dollars)	
Common stock, no par value, authorized 75,000,000 shares, issued and outstanding, 1986 and 1985 - 40,296,147 shares	\$574,242	\$575,606
Retained earnings	262,671	230,549
<b>Total Common Equity</b>	<b>836,913</b>	<b>806,155</b>

## South Carolina Electric & Gas Company:

### Cumulative Preferred Stock (Not Subject to Purchase or Sinking Funds):

		Shares Outstanding		Redemption Price				
	Series	1986	1985	Current	Through	Eventual Minimum		
\$100 Par	8.40%	197,668	200,000	105.22	11-30-87	100.00	19,767	20,000
\$50 Par	5.00%	125,234	125,234	52.50	—	52.50	6,262	6,262
<b>Total Preferred Stock (Not Subject to Purchase or Sinking Funds)</b>							<b>26,029</b>	<b>1%</b>

## South Carolina Electric & Gas Company:

### Cumulative Preferred Stock (Subject to Purchase or Sinking Funds) (Note 6):

\$100 Par Value — Authorized 1,550,000 shares

		Shares Outstanding		Redemption Price				
	Series	1986	1985	Current	Through	Eventual Minimum		
7.70%		113,894	116,900	103.85	6-30-87	101.00	11,389	11,690
8.12%		162,086	167,150	102.03	—	102.03	16,209	16,715
13.88%		250,000	250,000	113.88	6-30-87	100.00	25,000	25,000
10.75%		—	135,000	—	—	—	—	13,500
11.08%		—	200,000	—	—	—	—	20,000
		<b>525,980</b>	<b>869,050</b>					

\$50 Par Value — Authorized, 1986 — 1,728,786 shares;

1985 — 1,741,486 shares

		Shares Outstanding		Redemption Price				
	Series	1986	1985	Current	Through	Eventual Minimum		
4.50%		32,000	33,600	51.00	—	51.00	1,600	1,680
4.60%		14,334	15,834	50.50	—	50.50	717	792
4.60% (A)		44,052	46,052	51.00	—	51.00	2,202	2,302
4.60% (B)		105,400	108,800	50.50	—	50.50	5,270	5,440
5.125%		81,000	82,000	51.00	—	51.00	4,050	4,100
6.00%		112,000	115,200	50.50	—	50.50	5,600	5,760
8.00%		300,000	300,000	51.00	1-30-87	50.00	15,000	15,000
8.72%		365,400	365,400	53.00	12-31-88	50.00	18,270	18,270
9.40%		244,692	245,292	51.175	—	51.175	12,235	12,265
		<b>1,298,878</b>	<b>1,312,178</b>					

<b>Total Preferred Stock (Subject to Purchase or Sinking Funds)</b>	<b>117,542</b>	<b>7%</b>	<b>152,514</b>	<b>9%</b>
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See Notes to Consolidated Financial Statements.

December 31,

1986

1985

**Long-Term Debt** (Notes 3, 4 and 11):

(Thousands of Dollars)

South Carolina Electric &amp; Gas Company:

First and Refunding Mortgage Bonds:

Series	Year of Maturity		
14-3/8%	1986	—	15,000
15-5/8%	1987	—	8,334
5-1/2%	1987	6,176	6,176
4-7/8%	1988	10,000	10,000
10-1/2%	1990	8,400	9,000
5%	1990	10,000	10,000
5%	1991	8,000	8,000
4-7/8%	1995	16,000	16,000
5.45%	1996	15,000	15,000
6%	1997	15,000	15,000
6-1/2%	1998	20,000	20,000
8%	1999	35,000	35,000
9-1/8%	1999	15,000	15,000
8%	2001	35,000	35,000
7-1/4%	2002	30,000	30,000
9-1/8%	2006	50,000	50,000
8.40%	2006	50,000	50,000
8-3/8%	2007	30,000	30,000
8.90%	2008	30,000	30,000
10-1/8%	2009	35,000	35,000
9-7/8%	2009	50,000	50,000
12.15%	2010	35,890	50,000

Pollution Control Facilities Revenue Bonds:

4-1/2% Series, bearing interest at 75% of applicable prime rate, due 1987	1,031	2,062
5.95% Series, due 2003	7,285	7,380
Fairfield County Series 1984, due 2014 (variable rate — 5.5% through 8/31/87)	57,000	57,000
Richland County, due 2014 (variable rate — 5.5% through 8/31/87)	5,500	5,500
Fairfield County Series 1986, due 2014 (variable rate — 4.875% at 12/31/86)	1,100	—
Consolidated Mortgage Gold Bonds 5% Series, due 1999 (noncallable)	949	977
Lease Obligation, 5-3/4%, due 1997	240	255

South Carolina Generating Company, Inc.:

Berkeley County Pollution Control Facilities Revenue Bonds, due 2014 (variable rate — 4.55% through 8/31/87)	35,850	35,850
Bank Note, due 1988 (variable rate — 6.4375% at 12/31/86)	78,500	81,500

South Carolina LNG Company, Inc.:

10-1/2% Series First Mortgage Bonds, due 1990	4,600	5,290
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South Carolina Fuel Company, Inc.:

Nuclear fuel liability	52,991	65,096
Fossil fuel liability	17,083	24,791

South Carolina Electric &amp; Gas Finance, N.V.:

15-1/2% Guaranteed Notes, due 1989	—	60,000
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South Carolina Pipeline Corporation:

6% Series A First Mortgage Bonds, due 1988	1,319	1,963
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South Carolina Real Estate Development Company, Inc.:

Notes, due 1986-1991 (at various rates)	77	99
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Total	767,991		890,273	
Less — Long-term debt maturities, including sinking fund requirements	21,930		30,348	
Bonds called for early redemption	—		74,110	
Unamortized discount	610		794	

**Total Long-Term Debt** 745,451 43% 785,021 44%**Total Capitalization** \$1,725,935 100% \$1,769,952 100%

See Notes to Consolidated Financial Statements.



# Notes to Consolidated Financial Statements

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### A. Organization and Principles of Consolidation

SCANA Corporation (the Company), a South Carolina corporation was organized in 1984 by South Carolina Electric & Gas Company (SCE&G) and acquired all of the issued and outstanding common stock of SCE&G under a Plan of Exchange effective December 31, 1984, whereby the holders of the common stock of SCE&G automatically became the holders of all the outstanding shares of common stock of the Company on a share-for-share basis. The Preferred Stock of SCE&G continues to be held by nonaffiliated parties. The Company is a public utility holding company within the meaning of the Public Utility Holding Company Act of 1935, but is exempt from registration under such Act.

The accompanying Consolidated Financial Statements reflect the consolidation of the accounts of the Company and its wholly-owned subsidiaries.

#### Regulated utilities

South Carolina Electric & Gas Company  
South Carolina Generating Company, Inc. (GENCO)  
South Carolina Pipeline Corporation (Pipeline Corporation)  
which wholly-owns South Carolina LNG Company, Inc. and  
Carolina Exploration Corporation  
South Carolina Fuel Company, Inc.

#### Non-regulated businesses

Carolina LPG Corporation  
Carolina Propane Storage Corporation  
Carotane, Inc.  
South Carolina Real Estate Development Company, Inc.  
MPX Systems, Inc.  
SCANA Software Services, Inc.  
Primesouth, Inc.  
South Carolina Electric & Gas Finance, N.V. (Finance, N.V.)

During 1986, Finance, N.V., which had obtained funds outside the United States for use in financing the activities of SCE&G and Pipeline Corporation, was dissolved and liquidated (see Note 3).

Investments in joint ventures are reported using the equity method of accounting. Significant intercompany transactions have been eliminated in consolidation.

### B. System of Accounts

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

### C. Utility Plant

Utility plant is stated substantially at original cost. The costs 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 generally charged, along with the cost of removal, less salvage, to accumulated depreciation. The costs of repairs, replacements and renewals of items of property determined to be less than a unit of property are charged to maintenance expense.

SCE&G, operator of the V. C. Summer Nuclear Station (Summer Station), and the South Carolina Public Service Authority (a public corporation of the State of South Carolina) are joint owners of Summer Station in the proportions of two-thirds and one-third, respectively. The parties share the costs of operating the plant and in energy output in these proportions. The total cost of the construction of Summer Station was approximately \$1.3 billion, or about \$1,461 per kilowatt, of which SCE&G's share was approximately \$877 million. Accumulated depreciation associated with SCE&G's share of Summer Station was approximately \$96.1 million and \$62.2 million as of December 31, 1986 and 1985, respectively. SCE&G's share of the direct expenses associated with operating Summer Station is included in the Company's "Other operation" and "Maintenance" expenses.

### D. Allowance for Funds Used During Construction

Allowance for funds used during construction (AFC), a noncash item, reflects the period cost of capital devoted to plant under construction. This accounting practice results in the inclusion, as a component of construction cost (construction work in progress), of the costs of debt and equity capital dedicated to construction investment. AFC will ultimately be included in rate base investment in establishing rates for utility services. The Company's regulated subsidiaries calculated AFC using the following rates:

	1986	1985	1984
SCE&G	6.3%	9.5%	6.5%
GENCO	5.3%	5.7%	—
Pipeline Corporation	8.6%	9.5%	6.5%

These rates do not exceed the maximum allowable rate as calculated under FERC Order No. 561. Interest on nuclear fuel is capitalized at the actual interest amount.

### E. Deferred Return on Plant Investment

Carrying costs (including equity return) associated with approximately \$114.8 million (\$104.4 million at December 31, 1986) of production investment, net of accumulated depreciation, associated with 400 MW of electric generating capacity removed from rate base are being deferred at SCE&G's approved overall rate of return of 11.74% for recovery over some future period pursuant to a March 2, 1984 PSC rate order (see Note 2B).

In December 1985, the Financial Accounting Standards Board (FASB) issued an exposure draft which would amend Statement No. 71 "Accounting for the Effects of Certain Types of Regulation" to include certain criteria for recognizing deferrals of current operating costs, including carrying costs, associated with investments in operating utility plant.

In December 1986, the FASB issued Statement No. 90, "Regulated Enterprises: Accounting for Abandonments and Disallowances of Plant Costs". This Statement, which addresses certain aspects of the FASB's earlier exposure draft, does not specifically address accounting recognition of deferrals associated with investments in operating utility plant. The FASB has indicated that it will continue to consider this aspect of the December 1985 exposure draft.

The future recovery of SCE&G's deferred return on plant investment as set forth in the PSC's March 2, 1984 rate order or as proposed in SCE&G's Application dated January 30, 1987 (see Note 2B) may not meet the criteria proposed in the December 1985 exposure draft. If the FASB were to adopt such criteria in their current form, and absent the necessary modification of the March 2, 1984 rate order, the Company could be required for accounting purposes to restate its financial statements in order to eliminate the deferred return on plant investment. The effect of such restatement would be to reduce reported earnings per share for 1986, 1985 and 1984 by 31c, 32c and 28c, respectively. It is uncertain if the FASB will issue a final statement that specifically addresses deferral of costs associated with operating utility plant and what, if any, criteria will be established for accounting recognition of such deferrals.

## F. Depreciation and Amortization

Provisions for depreciation are recorded using the straight-line method for financial reporting purposes and are based on the estimated service lives of the various classes of property. The composite weighted-average depreciation rates were 3.38%, 3.35% and 3.41% for 1986, 1985 and 1984.

Nuclear fuel amortization, which is included in "Fuel used in electric generation" and is recovered through SCE&G's cost of fuel, is recorded using the units-of-production method. Provisions for amortization of nuclear fuel include amounts necessary to satisfy obligations to the United States Department of Energy under a contract for disposal of spent nuclear fuel.

The acquisition adjustment relating to the purchase of certain gas properties in 1982 is being amortized over a forty-year period using the straight-line method.

## G. Nuclear Decommissioning

Decommissioning of Summer Station is projected to commence in the year 2014, and the expenditures (on a before-tax basis) related to decommissioning activities are currently estimated to be approximately \$211 million (in 2014 dollars). SCE&G is providing for estimated decommissioning costs over the life of Summer Station and has established a reserve for this purpose. SCE&G is presently funding the reserve with amounts collected through electric rates (approximately \$83 million annually, net of taxes), and intends for the fund, including earnings, to provide for all eventual decommissioning expenditures on an after-tax basis.

## H. Income Taxes

The Company and its subsidiaries file consolidated Federal and State income tax returns. Income taxes are allocated to all subsidiaries based on their contributions to consolidated taxable income.

The Company provides deferred income taxes for substantially all timing differences, principally accelerated depreciation, except for certain basis differences arising prior to 1981. Deferred income tax provisions are included in income currently with corresponding credits or charges to accumulated deferred income taxes. Deferred income taxes are credited or charged to income in appropriate amounts when subsequent income tax liabilities are greater or less as a result of this practice.

Investment tax credits on eligible property are generally deferred and amortized over the useful lives of the respective assets.

## I. Pension Expense

The Company has a noncontributory defined benefit plan covering all employees of its subsidiaries. The Company's policy is to fund pension costs accrued. Total pension expense, including the amortization of unfunded prior service cost over a ten-year period, for 1986, 1985 and 1984 was approximately \$10.4 million, \$8.3 million and \$12.9 million, respectively. The decreases in 1986 and 1985 pension expense compared to 1984 are largely attributable to the dedication of certain plan assets to satisfy future retirement benefit obligations to all employees retired prior to June 1983, with a resulting decrease in the unfunded prior service cost obligation.

The actuarial present value of accumulated plan benefits and plan net assets as of the most recent benefit information date are as follows:

	January 1,	
	1986	1985
	(Millions of Dollars)	
Actuarial present value of accumulated plan benefits:		
Vested	\$ 80.2	\$ 68.5
Nonvested	7.4	6.6
Retirees (Prior to June 1983)	45.5	50.2
Total	\$133.1	\$125.3
Net assets available for benefits	\$134.9	\$107.9

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% for 1986 and 1985, except for dedicated assets (Retirees prior to June 1983) which are valued at 11%.

In December 1985, the FASB issued Statement No. 87, "Employers' Accounting for Pensions". Statement No. 87, which is generally effective for fiscal years beginning after December 15, 1986, requires the use of a standardized method of measuring net periodic pension expense. Upon adoption of this Statement, certain changes will be required in actuarial assumptions and the manner in which net periodic pension expense is measured. The Company has chosen not to apply the provisions of the Statement prior to its effective date. The Company does not believe that application of Statement No. 87 in 1987 will have a significant effect on its results of operations or financial position.

## J. Revenue Recognition

Customers' meters are read and bills are rendered on a monthly cycle basis. Base 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 accrued and recorded in the month during which the customers' meters are read rather than when the revenue is billed.

Projected fuel costs for electric generation are collected through the fuel component in retail electric rates, as established by the PSC during semiannual fuel cost hearings. Any differences between actual and projected fuel costs are deferred and included when estimating the fuel cost component during the next semiannual fuel cost hearing. At December 31, 1986, SCE&G had collected approximately \$16 million through the electric fuel clause component, which is included in "Deferred Credits - Other".

## K. Debt Premium, Discount and Expense

Long-term debt premium, discount and expense are being amortized as components of "Interest on long-term debt, net" over the terms of the respective debt issues.

## L. Reclassifications

Certain amounts in the financial statements of prior years have been reclassified to conform with 1986 classifications.



## 2. RATE MATTERS:

**A.** On December 22, 1986, SCE&G filed with the PSC a report which described the anticipated income tax savings associated with the Tax Reform Act of 1986 based on the results of operations for the year ended December 31, 1985. On January 15, 1987, the PSC directed SCE&G to reduce its retail electric rates approximately \$25 million annually, or 3%. On January 19, 1987, SCE&G filed revised retail electric rate schedules with the PSC which were subsequently approved by an order dated January 29, 1987. The revised rates were placed into effect with the first billing cycle in February 1987.

**B.** As part of a March 2, 1984 order, the PSC removed from rate base approximately \$114.8 million, (\$104.4 million at December 31, 1986) of average production investment, net of accumulated depreciation, associated with 400 MW of electric generating capacity. However, the order allowed carrying costs, computed on the basis of the approved overall rate of return (11.74%), associated with the removed investment to be deferred and recovered over some future period. The order also allowed the recovery, currently through rates, of all operating expenses, including depreciation and property taxes, associated with the 400 MW of electric generating capacity.

On January 30, 1987, SCE&G filed an Application with the PSC for approval to restore to its rate base, effective July 1, 1987, the 400 MW of electric generating capacity previously removed and to also include the associated accumulated deferred carrying costs. SCE&G also requested that accumulated deferred carrying costs (\$36.4 million at December 31, 1986) be amortized over a ten-year period commencing July 1, 1987. There has been no action by the PSC in response to SCE&G's Application. (See Note 1E.)

**C.** As a result of a PSC order dated March 2, 1984, SCE&G recorded approximately \$15 million (20¢ per share, of which 14¢ and 4¢ relate to amounts billed in 1983 and 1982, respectively) as nonrecurring electric revenues in March 1984.

**D.** On October 28, 1985, the South Carolina Supreme Court upheld a circuit court ruling that allows the State Consumer Advocate to appeal approximately \$34 million of the March 2, 1984 order of the PSC granting SCE&G approximately \$132.6 million annually in increased retail electric rates. While the outcome of this matter is uncertain, the Company believes the probability of any significant change in the rate order is unlikely and accordingly, has not recorded any provision for refunds.

**E.** On December 26, 1984, GENCO filed with the FERC a cost of service formula rate for the sale of power and energy to SCE&G. Under a contract with GENCO, SCE&G purchases all of the electric power generated by the A. M. Williams Station, which is owned by GENCO. During October 1985, a partial settlement was reached prior to a formal hearing on the remaining issues before an Administrative Law Judge. On February 20, 1986, the Administrative Law Judge issued an initial decision on the remaining issues. Briefs on exceptions to the Administrative Law Judge's decision have been filed with the FERC. The Company believes that the outcome of the proceedings will not have any significant effect on the Company's consolidated financial statements.

## 3. LONG-TERM DEBT (See Note 11):

The Fairfield County Series 1984 (Annual tender – \$57 million, due September 1, 2014), Richland County (Annual tender – \$5.5 million, due September 1, 2014) and Fairfield County Series 1986 (Annual tender – \$1.1 million, due September 1, 2014) Pollution Control Facilities Revenue Bonds are secured by like principal amounts of SCE&G's First and Refunding Mortgage Bonds. The Fairfield County Series 1984 and Richland County Bonds bear interest at the rate of 5.5% per annum through August 31, 1987. The Fairfield County Series 1986 Bonds bear interest at a rate equal to 65% of a prime rate but not more than 15% per annum through August 31, 1987 (4.875% at December 31, 1986).

The Berkeley County Pollution Control Facilities Revenue Bonds (Annual tender – \$35,850,000, due October 1, 2014) are secured by an irrevocable letter of credit expiring in 1991. The Bonds bear interest at the rate of 4.55% per annum through September 30, 1987.

After the interest rate periods described above, the Bonds will bear interest at a rate, which will be set between 80% and 120% of an index rate based on one-year yield evaluations of comparable tax-exempt obligations, or 65% of one-year yield evaluations of U. S. Treasury Bonds at par, but, in any case, not more than 15% per annum. The interest rate shall be adjusted annually or become fixed until maturity. These Bonds also provide that the holders may require the Bonds to be purchased at par upon each annual adjustment of the interest rate or at the time the interest rate becomes fixed until maturity. If the Bonds are tendered by the holders, the Company intends to reoffer the Bonds to the public. Due to the irrevocable letter of credit for the Berkeley County Bonds and provisions of the Fairfield County Series 1984, Richland County, Fairfield County Series 1986 and Berkeley County Bond Indentures, which permit the Company to purchase the Bonds in lieu of redemption and resell them, and to substitute other security arrangements, the Bonds are classified as long-term debt.

On January 22, 1986, the Company's Board of Directors authorized the early redemption of the entire \$60 million principal amount outstanding of the 15-1/2% Guaranteed Notes of Finance, N.V., due 1989. The Notes were redeemed on April 15, 1986 at a price of 101% of par value.

On February 20, 1986, SCE&G redeemed at par, prior to maturity, \$14,110,000 principal amount of its 12.15% Series First and Refunding Mortgage Bonds due 2010. Restricted cash totaling \$14.11 million was on deposit with the Trustee at December 31, 1985, and was available for redemption of bonds. The note repayment, bond redemption and the restricted cash at December 31, 1985 was reflected in "Current portion of long-term debt, net," as follows:

	Thousands of Dollars
Long-term debt maturities, including sinking fund requirements	\$ 30,348
Note repayment and bond redemption	74,110
Total	104,458
Less restricted cash deposit	14,110
Current portion of long-term debt, net	\$ 90,348

The annual amounts of long-term debt maturities, including the amounts due under nuclear and fossil fuel agreements (see Note 4), and sinking fund requirements for the calendar years 1987 through 1991 are summarized as follows:

Year	Amount	Year	Amount
(Thousands of Dollars)			
1987	\$21,930	1990	\$27,334
1988	97,403	1991	17,533
1989	81,258		

Approximately \$9.2 million of the current portion of long-term debt for 1987 may be satisfied by either deposit and cancellation of bonds issued upon the basis of property additions or bond retirement credits, or by deposit of cash with the Trustee.

Substantially all utility plant and fuel inventories are pledged as collateral in connection with long-term debt.

#### 4. FUEL FINANCINGS:

Nuclear and fossil fuel inventories are financed through the issuance of short-term commercial paper. These short-term borrowings are supported by irrevocable bank lines of credit which expire in 1989. Accordingly, the amounts outstanding have been included in long-term debt. The bank lines provide for maximum amounts (\$75 million related to nuclear fuel and \$25 million related to fossil fuel) that may be outstanding at any time.

At December 31, 1986, the amount outstanding for nuclear fuel was approximately \$53.0 million at a weighted average interest rate of 6.88% and the amount outstanding for fossil fuel was approximately \$17.1 million at a weighted average interest rate of 6.35%.

#### 5. STOCKHOLDERS' INVESTMENT (Including Preferred Stock Not Subject to Purchase or Sinking Funds):

The changes in "Common Stock", without par value, during 1986, 1985 and 1984 are summarized as follows:

	Number of Shares	Thousands of Dollars
Balance January 1, 1984	38,727,652	\$546,927
Additional Shares issued:		
Stock Purchase-Savings Program for Employees	211,915	3,829
Employee Stock Ownership Plan	9,012	170
Dividend Reinvestment and Stock Purchase Plan	1,348,709	23,973
Other	(1,141)	364
Balance December 31, 1984	40,296,147	575,263
Other		343
<b>Balance December 31, 1985</b>	<b>40,296,147</b>	<b>575,606</b>
Other		(1,364)
<b>Balance December 31, 1986</b>	<b>40,296,147</b>	<b>\$574,242</b>

In May 1984, the Trustee for the Company's employee stock benefit plans began purchasing previously issued and outstanding shares of the Company's common stock in the open market. Commencing with the January 1, 1985 dividend payment, an independent agent for the Company's Dividend Reinvestment and Stock Purchase Plan began purchasing shares in the open market. Prior to the above dates for each Plan, all shares purchased pursuant to each Plan were shares originally issued for that purpose.

The Restated Articles of Incorporation of the Company do not limit the dividends that may be payable on its common stock. However, the Restated Articles of Incorporation of SCE&G and the indentures underlying certain of its bond issues contain provisions that limit the payment of cash dividends on common stock. Accordingly, \$231.8 million of consolidated retained earnings were not restricted as to payment of cash dividends on common stock at December 31, 1986.

Cash dividends on common stock were declared at an annual rate per share of \$2.24, \$2.16 and \$2.05 for 1986, 1985 and 1984, respectively.

During 1986, SCE&G redeemed 2,332 shares of its 8.40% cumulative preferred stock, \$100 par value.

#### 6. PREFERRED STOCK (Subject to Purchase or Sinking Funds):

The call premium of the respective series of preferred stock in no case exceeds the amount of the annual dividend. Retirements under sinking fund requirements are at par values.

At any time when dividends have not been paid in full or declared and set apart for payment on all series of preferred stock, SCE&G may not redeem any shares of preferred stock (unless all shares of preferred stock then outstanding are redeemed) or purchase or otherwise acquire for value any shares of preferred stock except in accordance with an offer made to all holders of preferred stock. SCE&G may not redeem any shares of preferred stock (unless all shares of preferred stock then outstanding are redeemed) or purchase or otherwise acquire for value any shares of preferred stock except out of monies set aside as purchase funds or sinking funds for one or more series of preferred stock, at any time when it is in default under the provisions of the purchase fund or sinking fund for any series of preferred stock.

On May 27, 1986, SCE&G's Board of Directors called for the redemption of all the issued and outstanding shares of two series of that company's cumulative preferred stock. In July 1986, all 135,000 shares outstanding of the 10-3/4% Series, \$100 par value were redeemed at a price of 104.84%, and all 200,000 shares outstanding of the 11.08% Series, \$100 par value were redeemed at a price of 108%.

The aggregate annual amounts of purchase fund or sinking fund requirements for preferred stock for the years 1987 through 1991 are summarized as follows:

Year	Amount	Year	Amount
(Thousands of Dollars)			
1987	\$ 5,298	1990	\$ 7,515
1988	12,515	1991	7,515
1989	14,515		

The changes in "Preferred Stock (Subject to Purchase or Sinking Funds)" during 1986, 1985 and 1984 are summarized as follows:

	Number of Shares	Thousands of Dollars
Balance January 1, 1984	2,302,086	\$160,604
Shares Redeemed:		
\$100 par value	(20,400)	(2,040)
50 par value	(35,500)	(1,775)
Balance December 31, 1984	2,246,186	156,789
Shares Redeemed:		
\$100 par value	(20,550)	(2,055)
50 par value	(44,408)	(2,220)
<b>Balance December 31, 1985</b>	<b>2,181,228</b>	<b>152,514</b>
Shares Redeemed:		
\$100 par value	(343,070)	(34,307)
50 par value	(13,300)	(665)
<b>Balance December 31, 1986</b>	<b>1,824,858</b>	<b>\$117,542</b>



## 7. INCOME TAXES:

Total income tax expense for 1986, 1985 and 1984 is as follows:

	1986	1985	1984
	(Thousands of Dollars)		
Current income taxes:			
Federal	\$ 82,637	\$ 57,680	\$ 5,767
State	9,845	8,687	4,053
Foreign	(177)	674	600
Total current taxes	92,305	67,041	10,420
Deferred taxes, net:			
Federal	28,257	37,289	82,466
State	5,378	5,208	10,335
Total deferred taxes	33,635	42,497	92,801
Investment tax credits:			
Deferred	(1,486)	6,887	15,404
Amortization of amounts deferred (credit)	(8,107)	(6,065)	(6,173)
Other	500	694	694
Total investment tax credits	(9,093)	1,516	9,925
Total income tax expense	\$116,847	\$111,054	\$113,146

Total income taxes differ from amounts computed by applying the statutory Federal income tax rate of 46% to pre-tax income as follows:

	1986	1985	1984
	(Thousands of Dollars)		
Net income	\$122,164	\$113,560	\$121,818
Total income tax expense:			
Charged to operating expenses	119,108	105,783	108,768
Charged to other income	(2,261)	5,271	4,378
Preferred stock dividends	14,443	16,541	16,877
Total pre-tax income	\$253,454	\$241,155	\$251,841
Income taxes on above at statutory Federal income tax rate	\$116,589	\$110,931	\$115,847
Increases (decreases) attributable to:			
Allowance for funds used during construction (excluding nuclear fuel)	(1,053)	(707)	(5,104)
Deferred return on plant investment	(5,727)	(5,925)	(5,089)
Depreciation differences	5,309	5,325	5,454
Amortization of investment tax credits	(8,107)	(6,065)	(6,173)
State income taxes (less Federal income tax effect)	8,220	7,503	7,770
Amortization of acquisition adjustment	460	460	460
Other differences, net	1,156	(468)	(19)
Total income tax expense	\$116,847	\$111,054	\$113,146

"Total provision for deferred taxes, net" results from timing differences in recognition of the following items:

	1986	1985	1984
	(Thousands of Dollars)		
Charged to expenses:			
Accelerated depreciation and amortization	\$40,367	\$46,084	\$55,227
Litigated revenues	—	—	37,684
Deferred fuel revenue	(4,616)	(801)	249
Other, net	(2,116)	(2,786)	(359)
Total provision for deferred income taxes, net	\$33,635	\$42,497	\$92,801

The Company's Federal income tax returns have been examined by the Internal Revenue Service through 1981 and have been closed through 1980. A final report has been received for 1981 and all issues resolved, except those pertaining to Investment Tax Credits generated in 1982 and carried back to 1981.

The Internal Revenue Service is currently examining the consolidated Federal income tax returns of SCANA and SCE&G for 1982 through 1984. No report relating to the present examination has been received. However, the Company does not anticipate any significant effect on its results of operations or financial position.

At December 31, 1986, the cumulative net amount of income tax timing differences on which deferred taxes have not been provided totaled approximately \$110 million.

## 8. SHORT-TERM BORROWINGS:

The Company pays fees to banks as compensation for its lines of credit. Bank loans are for 270 days or less. Details of lines of credit and short-term borrowings at December 31, 1986, 1985 and 1984 and for the years then ended are as follows:

	December 31,		
	1986	1985	1984
	(Dollars in Millions)		
Lines of credit at year-end	\$133.2	\$87.9	\$81.3
Borrowings against credit line at year-end	\$ 2.25	\$ 2.25	—
Average bank balances during the year	\$ 3.5	\$ 3.1	\$ 5.0
Short-term borrowings (including commercial paper) during the year:			
Maximum outstanding	\$111.2	\$ 4.5	\$29.4
Average outstanding	\$ 45.7	\$ 1.1	\$ 2.5
Weighted daily average interest rates:			
Bank loans	7.40%	8.527%	—
Commercial paper	6.36%	—	11.35%
Short-term borrowings outstanding at year-end:			
Bank loans	\$ 2.25	\$ 2.25	—
Weighted average interest rate	6.25%	8.57%	—
Commercial paper	\$ 78.2	—	—
Weighted average interest rate	6.67%	—	—
Other	\$ .13	\$ .14	\$ .5
Weighted average interest rate	9.50%	9.50%	11.22%

## 9. COMMITMENTS AND CONTINGENCIES:

### A. Leases

The Company leases certain equipment, office furniture and an office building used for its corporate headquarters under long-term, operating leases with lease terms (excluding various renewal options) expiring in 1996, 1991 and 2009, respectively.

In connection with the office building lease, dated October 1984, the Company may be required to purchase a 10% Note and Mortgage on the building in the amount of \$44 million in 1989. The Company pays, as additional rent, any amount by which a current index rate (8.685% at December 31, 1986) exceeds the 10% Note and Mortgage rate. Also, the Company is reimbursed any amount by which the 10% Note and Mortgage rate exceeds the current index rate.

Total rent expense was approximately \$4.4 million, \$5.0 million and \$2.0 million for 1986, 1985 and 1984, respectively.

Future minimum rental payments as of December 31, 1986 are as follows:

Year	Amount	Year	Amount
	(Thousands of Dollars)		
1987	\$4,850	1990	\$ 7,124
1988	5,029	1991	5,820
1989	6,935	1992-2009	117,381

### B. Nuclear Insurance

The Price-Anderson Indemnification Act (the Act) currently limits the liability for third-party claims related to an accident at a utility's nuclear generating facility to \$695 million per accident. The Act provides that all owners of nuclear reactors may be assessed up to \$5 million per reactor owned for each nuclear accident occurring at any reactor in the United States with a limit of two assessments per year (a retroactive premium). The Company's maximum exposure, based on its two-thirds ownership of Summer Station, would be approximately \$6.7 million per year under this legislation.

The Act is scheduled to expire in August 1987 and Congress is considering several proposals to amend the present Act. The Company is unable to predict what actions Congress may ultimately take and what effects such actions may have on the Company's potential liability.

The Company currently maintains policies with Nuclear Electric Insurance Limited (NEIL) and American Nuclear Insurers (ANI) providing combined property and decontamination insurance coverage of \$695 million for any losses in excess of \$500 million pursuant to existing primary coverages (with ANI) on Summer Station. The Company pays annual premiums and, in addition, could be assessed a retroactive premium not to exceed 7-1/2 times its annual premium, in the event of property damage loss to any nuclear generating facilities covered by NEIL. Based on the current annual premium, this retroactive premium would be approximately \$5.5 million.

To the extent that insurable claims for property damage, decontamination, repair and replacement and other costs and expenses arising from a nuclear incident at Summer Station exceed the policy limits of insurance, or to the extent such insurance becomes unavailable in the future, and to the extent that the Company's rates would not recover the cost of any purchased replacement power, the Company retains the risk of loss as a self-insurer. The Company has no reason to anticipate a serious nuclear incident at Summer Station. If such an incident were to occur, it could have a materially adverse impact on the Company's financial position.

## 10. SEGMENT OF BUSINESS INFORMATION:

Segment information at December 31, 1986, 1985 and 1984 and for the years then ended is as follows:

	1986			
	Electric	Gas	Transit	Total
	(Thousands of Dollars)			
Operating revenues	\$ 809,488	\$289,429	\$ 3,119	\$1,102,036
Operating expenses, excluding depreciation and amortization	544,067	261,712	6,914	812,693
Depreciation and amortization	80,825	9,557	245	90,627
Total operating expenses	624,892	271,269	7,159	903,320
Operating income (loss)	\$ 184,596	\$ 18,160	\$(4,040)	198,716
Add — Other income, net				9,825
Less — Interest charges				71,934
— Preferred stock dividends				14,443
Net income				\$ 122,164
Capital expenditures:				
Identifiable	\$ 110,249	\$ 20,981	\$ 247	\$ 131,477
Utilized for overall Company operations				12,700
Total				\$ 144,177
Identifiable assets at December 31, 1986:				
Utility plant, net	\$1,988,769	\$214,299	\$ 1,778	\$2,204,846
Inventories	62,930	6,845	320	70,095
Total	\$2,051,699	\$221,144	\$ 2,098	2,274,941
Assets utilized for overall Company operations				300,391
Total assets				\$2,575,332



1985				
	Electric	Gas	Transit	Total
(Thousands of Dollars)				
Operating revenues	\$ 787,796	\$318,856	\$ 3,689	\$1,110,341
Operating expenses, excluding depreciation and amortization	528,773	289,868	7,203	825,844
Depreciation and amortization	77,658	9,033	208	86,899
Total operating expenses	606,431	298,901	7,411	912,743
Operating income (loss)	\$ 181,365	\$ 19,955	\$(3,722)	197,598
Add — Other income, net				15,721
Less — Interest charges				83,218
— Preferred stock dividends				16,541
Net income				\$ 113,560
Capital expenditures:				
Identifiable	\$ 97,525	\$ 24,091	\$ 609	\$ 122,225
Utilized for overall Company operations				6,282
Total				\$ 128,507
Identifiable assets at December 31, 1985:				
Utility plant, net	\$1,988,372	\$203,060	\$ 2,159	\$2,193,591
Inventories	51,356	7,337	298	58,991
Total	\$2,039,728	\$210,397	\$ 2,457	2,252,582
Assets utilized for overall Company operations				291,117
Total assets				\$2,543,699

1984				
	Electric	Gas	Transit	Total
(Thousands of Dollars)				
Operating revenues	\$ 746,745	\$378,491	\$ 3,178	\$1,128,414
Operating expenses, excluding depreciation and amortization	506,747	341,692	5,765	854,204
Depreciation and amortization	67,173	7,544	197	74,914
Total operating expenses	573,920	349,236	5,962	929,118
Operating income (loss)	\$ 172,825	\$ 29,255	\$(2,784)	199,296
Add — Other income, net				17,647
Less — Interest charges				78,248
— Preferred stock dividends				16,877
Net income				\$ 121,818
Capital expenditures:				
Identifiable	\$ 259,208	\$ 20,402	\$ 504	\$ 280,114
Utilized for overall Company operations				3,405
Total				\$ 283,519
Identifiable assets at December 31, 1984:				
Utility plant, net	\$1,992,206	\$180,077	\$ 1,820	\$2,182,103
Inventories	40,227	7,783	281	48,291
Total	\$2,032,433	\$195,860	\$ 2,101	2,230,394
Assets utilized for overall Company operations				269,300
Total assets				\$2,499,694

## 11. SUBSEQUENT EVENTS:

On February 9, 1987, the State Consumer Advocate petitioned the PSC to require SCE&G to make additional reductions in its retail electric rates based on data for the year 1986 to reflect the reduction of tax expense resulting from provisions of the Tax Reform Act of 1986. The reductions previously authorized by the PSC in January 1987 were based on the results of operations for the year ended December 31, 1985 (see Note 2A). The Company intends to file the updated data as soon as it becomes available. The State Consumer Advocate also requested that the PSC, after opportunity for hearing, issue its rule to show cause why the PSC should not order a reduction in the Company's authorized rate of return on equity, cost of debt, cost of preferred stock, and overall authorized rate of return. The Company cannot presently predict whether the PSC will issue its rule to show cause concerning the rate of return.

On February 18, 1987, SCE&G issued and sold \$100,000,000 principal amount of First and Refunding Mortgage Bonds 8-3/4% Series due February 1, 2017. These bonds are part of \$200,000,000 principal amount of SCE&G's First and Refunding Mortgage Bonds registered under the Securities Act of 1933, pursuant to Rule 415, under a Registration Statement which is effective July 1986 through July 1988.

## 12. QUARTERLY FINANCIAL DATA (Unaudited):

	1986				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual
Total operating revenues (000)	\$301,445	\$247,363	\$289,857	\$263,371	\$1,102,036
Operating income (000)	56,010	40,546	62,920	39,240	198,716
Net income (000)	34,343	23,922	41,942	21,957	122,164
Earnings per share of common stock as reported	.85	.59	1.04	.55	3.03

	1985				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual
Total operating revenues (000)	\$311,440	\$251,487	\$282,733	\$264,681	\$1,110,341
Operating income (000)	54,767	45,938	60,788	36,105	197,598
Net income (000)	32,064	24,106	39,835	17,555	113,560
Earnings per share of common stock as reported	.80	.60	.99	.43	2.82

## Common Stock Information

	1986				1985			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
<b>Price Range: (a)</b>								
High	39-7/8	42-7/8	36-3/4	33-1/4	28	28-1/8	28	23-7/8
Low	36	34-1/2	31-1/4	27-1/8	23-7/8	23-3/8	23-7/8	22-1/8

### Dividends Per Share:

1986	Amount	Date Declared	Date Paid
First Quarter	\$ .56	January 22, 1986	April 1, 1986
Second Quarter	.56	April 23, 1986	July 1, 1986
Third Quarter	.56	July 23, 1986	October 1, 1986
Fourth Quarter	.56	October 22, 1986	January 1, 1987
1985	Amount	Date Declared	Date Paid
First Quarter	\$ .54	January 23, 1985	April 1, 1985
Second Quarter	.54	April 24, 1985	July 1, 1985
Third Quarter	.54	July 24, 1985	October 1, 1985
Fourth Quarter	.54	October 23, 1985	January 1, 1986

December 31,

	1986	1985
Number of common shares outstanding	40,296,147	40,296,147
Number of common stockholders of record	51,738	57,439

The principal market for SCANA common stock is the New York Stock Exchange (stock symbol-SCG).

(a) As reported on the New York Stock Exchange Composite Listing.



# Management's Discussion and Analysis of Financial Condition and Results of Operation

## LIQUIDITY AND CAPITAL RESOURCES

The capital needs of the Company arise primarily from the capital requirements of SCE&G's operations and construction program. Because rates for regulated services are based on historical cost amounts, to the extent inflation occurs and rates are not appropriately adjusted on a timely basis, the Company's regulated subsidiaries will not be allowed an opportunity to recover the costs of providing services. Therefore, the Company's future financial position and results of operations could be impacted by any future inflationary trends.

The ability of the Company's regulated subsidiaries to replace existing plant investment, as well as to expand to meet future demand, will likely depend upon its ability to attract the necessary financial capital on reasonable terms. The ability to attract such capital could, in turn, depend upon the subsidiaries' ability to obtain adequate and timely rate relief.

Continued growth in the Company's non-utility operations, along with future economic expansion throughout the utility service territory, could have a positive impact on total Company earnings.

The primary cash requirements for 1986 were, and as estimated for 1987 are, as follows:

	1987	1986
	(Thousands of Dollars)	
Construction expenditures, excluding allowance for funds used during construction (AFC)	\$156,790	<b>\$125,090</b>
Nuclear fuel expenditures	25,529	<b>15,806</b>
Maturing obligations, redemptions and sinking and purchase fund requirements	18,000	<b>144,477</b>
Total	\$200,319	<b>\$285,373</b>

During 1986, approximately 57.3% of total cash requirements were provided from internal sources as compared to 89.7% in 1985. External funds for 1986 were provided through the issuance of \$78.2 million short-term commercial paper and the sale of \$1.1 million in tax-exempt annual tender pollution control facilities revenue bonds.

The Company anticipates that 1987 cash requirements will be met primarily through internally generated funds, short-term borrowings and the sale of commercial paper. Actual 1987 construction and nuclear fuel expenditures may vary from the estimates set forth above due to factors such as inflation and economic conditions, regulation and legislation, rates of load growth, environmental protection standards and the cost and availability of capital.

On February 18, 1987, SCE&G sold \$100 million principal amount of First and Refunding Mortgage Bonds, 8-3/4% Series due February 1, 2017, for net proceeds of \$98,078,000. The net proceeds were used to repay a like amount of short-term indebtedness outstanding at the date of sale. Such short-term indebtedness had been incurred to prepay or pay at maturity long-term debt and to redeem preferred stock during 1986.

SCE&G presently has in effect a shelf registration statement under which it can issue an additional \$100 million of First and Refunding Mortgage Bonds. Whether additional securities will be sold and the timing and amount of such sales will depend primarily upon market conditions and other factors in existence at the time.

For information relating to operations of the Company's subsidiaries see 1986 Year In Review beginning on page 6.

## RESULTS OF OPERATIONS

### Earnings and Dividends

Earnings per share of common stock (based on the weighted average number of shares outstanding), the percent increase (decrease) from the previous year and the rate of return earned on common equity for the years 1984 through 1986 were as follows:

	1986	1985	1984
Earnings per share	<b>\$3.03</b>	\$2.82	\$3.05
Percent increase (decrease) in earnings per share	<b>7.4%</b>	(7.5%)	33.2%
Return earned on common equity (year-end)	<b>14.6%</b>	14.1%	15.7%

Earnings per share increased from 1985 primarily as a result of higher electric energy sales related to the 1986 summer heat wave, lower interest charges and reduced dividend requirements on preferred stock associated with the early redemption of two issues of SCE&G's preferred stock (see Note 6 of Notes to Consolidated Financial Statements).

The decrease in earnings per share for 1985 was primarily attributable to the recording of a nonrecurring gain of 20¢ per share in March 1984 (see Note 2C of Notes to Consolidated Financial Statements) and a decrease in AFC (see discussion below) and decreased sales of natural gas in 1985. In addition to the nonrecurring gain recorded in 1984, the increase in earnings per share during 1984 reflects various rate increases placed in effect during 1984 and 1983 and improved electric and natural gas sales.

AFC is a utility accounting practice whereby a portion of the cost of both equity and borrowed funds used to finance construction (which is shown on the balance sheet as construction work in progress) is capitalized. Both the equity and the debt portions of AFC, excluding nuclear fuel, are noncash items of nonoperating income which have the effect of increasing reported net income by their full amounts. AFC, excluding nuclear fuel, represented approximately 2% of Earnings Available for Common Stock in 1986 and 1985, decreasing from approximately 9% for 1984. The decline in AFC reflects a reduction in construction expenditures primarily relating to the V. C. Summer Nuclear Station completed and transferred to plant in service in 1984.

The Company also records carrying costs (including equity return) associated with the production investment, net of accumulated depreciation, relating to 400 MW of electric generating capacity removed from rate base as a result of a March 2, 1984 rate order of the PSC (see Notes 1E and 2B of Notes to Consolidated Financial Statements). Total carrying costs, a noncash item included under "Other Income" as "Deferred return on plant investment", are being deferred for recovery over some future period and represent approximately 10%, 11% and 9% of Earnings Available for Common Stock for the years 1986, 1985 and 1984, respectively.

In January 1987, the Company's Board of Directors raised the quarterly cash dividend on common stock to 58 cents per share from 56 cents per share. The increase, effective with the dividend payable on April 1, 1987, raised the indicated annual dividend rate to \$2.32 per share, up from \$2.24. The Company has increased the dividend rate on its common stock in 34 of the last 35 years.

## Operating Revenues

Revenues from the sale of electric energy increased \$21.7 million (2.8%) and \$41.0 million (5.5%) for 1986 and 1985, primarily as a result of increased kilowatt-hour consumption by residential and commercial customers. The increased consumption was largely due to the addition of 10,584 (3.1%) and 12,539 (3.8%) residential customers and 2,092 (4.4%) and 2,287 (5.0%) commercial customers during the respective periods. The increases in revenues were partially offset by revenue adjustments relating to changes in the cost of fuel, which is a component in electric base rates. If actual fuel costs are higher or lower than those projected, the differences are recorded as increases or decreases, respectively, in operating revenues.

On January 21, 1985, the Company established a record peak demand for electricity of 2,703 MW, surpassing the previous record of 2,700 MW set on August 22, 1983. During 1986, the Company's peak demand record was broken four times. Record peaks were set on January 27 and January 28 as a result of unusually cold temperatures. On July 8, 1986, in the midst of one of the state's worst heat waves in nearly a century, the record fell again and on July 9 the all-time peak demand of 2,853 MW was set.

Increases (decreases) in electric customers and megawatt-hour (MW) sales volume by classes of customers are presented in the following table:

Classification	Increase (Decrease) From Prior Year			
	Customers		Volume (MW)	
	1986	1985	1986	1985
Residential	10,584	12,539	434,464	113,424
Commercial	2,092	2,287	233,748	220,986
Industrial	(17)	(22)	31,956	53,536
Sales for Resale	(1)	1	(59,688)	39,544
Other	43	45	22,765	23,503
Total	12,701	14,850	663,245	450,993

Revenues from the sale of natural gas decreased \$29.4 million (9.2%) in 1986 and \$59.6 million (15.8%) in 1985. The decreases in revenues were primarily attributable to reductions in the cost of gas purchased from the Company's suppliers, which are passed along to customers through a purchased gas adjustment clause, and decreased unit sales to industrial customers. These unit sales decreases, approximately 7.7% and 13.1%, respectively, were mainly the result of increased competition from lower-priced alternative fuels used in certain industrial markets.

Increases (decreases) in gas customers and decatherm (DT) sales volume by classes of customers are presented in the following table:

Classification	Increase (Decrease) From Prior Year			
	Customers		Volume (DT)	
	1986	1985	1986	1985
Residential	1,442	1,148	487,447	(1,566,150)
Commercial	532	290	207,888	(743,252)
Industrial	(35)	9	(2,353,490)	(4,614,441)
Sales for Resale	—	11	4,124,761	(2,060,547)
Total	1,939	1,458	2,466,606	(8,984,390)

## Operating Expenses

Increases (decreases) in operating expenses, excluding taxes, are presented in the following table:

Classification	Increase (Decrease) From Prior Year	
	1986	1985
(Millions of Dollars)		
Fuel used in electric generation	\$ (13.2)	\$ 5.5
Power purchased, net	6.0	(11.5)
Gas purchased for resale	(30.8)	(42.5)
Other operation and maintenance	8.6	19.1
Depreciation and amortization	3.7	12.0
Total	\$ (25.7)	\$ (17.4)

The decrease in *Fuel used in electric generation* expense for 1986 was primarily attributable to a reduction in the average cost of fuel burned (\$1.45 versus \$1.63 per million BTU in 1986 and 1985, respectively), primarily attributable to nuclear fuel. The increase for 1985 was due primarily to increased generation as a result of greater customer demand. The increase in *Power purchased, net* for 1986 was largely due to decreased sales of electricity to other utilities. The decrease for 1985 results primarily from increased sales of electricity to other utilities. The decreases in *Gas purchased for resale* expense for 1986 and 1985 reflect reductions in the cost of gas purchased from the Company's suppliers. The decrease in 1985 was also partially attributable to an overall decrease in consumption of natural gas. *Other operation and maintenance* expenses for 1986 increased primarily because of the settlement of certain claims relating to injuries and damages and moderate increases in other administrative and general expenses, including pension expense (see Note 1-I of Notes to Consolidated Financial Statements). The increase for 1985 was largely due to additional operation and maintenance costs associated with the commercial operation of Summer Station, as well as increased electric distribution maintenance costs. Increases in *Depreciation and amortization* expense for 1986 and 1985 reflect additions to plant in service, including Summer Station and the Williams Station coal conversion in 1984.

## Interest Charges

Interest on long-term debt decreased \$15.6 million in 1986 and \$1.9 million in 1985 compared to the respective previous years. The decreases in 1986 and 1985 result primarily from redemption, prior to maturity, of \$14.11 million (12.15% Series, due 2010) principal amount of First and Refunding Mortgage Bonds in February 1986, \$60 million principal amount of the 15-1/2% Guaranteed Notes of South Carolina Electric & Gas Finance, N.V. in April 1986, \$66.25 million (16% Series, due 2011) and \$8.3 million (15-5/8% Series, due 1987) principal amount of First and Refunding Mortgage Bonds in March and May, 1985, respectively.

Other interest expense increased \$4.0 million in 1986 and decreased \$2.1 million in 1985 compared to the respective previous years. The increase in 1986 reflects the increase in short-term borrowings during the year. The decrease in 1985 was primarily the result of interest expense recorded in 1984 which was associated with litigated revenues that had been collected subject to refund.



## Selected Financial Data

For the Years Ended December 31,	1986	1985	1984	1983	1982	1981	1976
<b>STATEMENT OF INCOME DATA</b>	(Thousands of Dollars except statistics and per share amounts)						
Operating Revenues:							
Electric	\$ 809,488	\$ 787,796	\$ 746,745	\$ 634,127	\$ 574,113	\$ 555,716	\$ 275,892
Gas	289,429	318,856	378,491	337,282	266,389	188,167	71,948
Transit	3,119	3,689	3,178	3,242	2,603	2,429	1,996
Total Operating Revenues	1,102,036	1,110,341	1,128,414	974,651	843,105	746,312	349,836
Operating Expenses:							
Fuel used in electric generation	216,076	229,249	223,768	260,381	214,617	234,243	116,892
Gas purchased for resale	215,928	246,760	289,212	277,091	220,502	154,502	44,789
Other operation and maintenance	209,629	195,031	187,448	135,374	147,840	118,519	52,473
Depreciation and amortization	90,627	86,899	74,914	45,000	43,406	39,691	27,825
Taxes	171,060	154,804	153,776	106,932	77,033	89,049	48,724
Total Operating Expenses	903,320	912,743	929,118	824,778	703,398	636,004	290,703
Operating Income	198,716	197,598	199,296	149,873	139,707	110,308	59,133
Total Other Income	9,825	15,721	17,647	11,571	5,230	21,095	24,522
Income Before Interest Charges and Preferred Stock Dividends	208,541	213,319	216,943	161,444	144,937	131,403	83,655
Total Interest Charges, Net	71,934	83,218	78,248	57,506	57,121	55,520	39,839
Preferred Stock Cash Dividends of Subsidiary	14,443	16,541	16,877	17,186	16,371	14,245	9,169
Net Income	\$ 122,164	\$ 113,560	\$ 121,818	\$ 86,752	\$ 71,445	\$ 61,638	\$ 34,647
Weighted Average Number of Common Shares Outstanding (Thousands)	40,296	40,296	39,900	37,844	34,387	28,139	17,547
Earnings Per Share of Common Stock	\$3.03	\$2.82	\$3.05	\$2.29	\$2.08	\$2.19	\$1.97
Dividends Declared Per Share of Common Stock	\$2.24	\$2.16	\$2.05	\$2.00	\$1.92	\$1.82	\$1.52
Percent of Operating Income (Loss) Before Income Taxes:							
Electric	93	92	87	93	98	101	88
Gas	9	10	15	10	5	2	15
Transit	(2)	(2)	(2)	(3)	(3)	(3)	(3)

December 31,	1986	1985	1984	1983	1982	1981	1976
<b>BALANCE SHEET DATA</b>	<i>(Thousands of Dollars except statistics and per share amounts)</i>						
Gross Utility Plant	<b>\$2,959,494</b>	\$2,859,117	\$2,764,809	\$2,509,581	\$2,411,479	\$2,131,689	\$1,300,780
Total Assets	<b>\$2,575,332</b>	\$2,543,699	\$2,499,694	\$2,358,134	\$2,202,755	\$1,958,772	\$1,171,630
Total Capitalization	<b>\$1,725,935</b>	\$1,769,952	\$1,855,252	\$1,685,990	\$1,703,860	\$1,478,391	\$ 971,493
Common Shares Outstanding (Year-End)(Thousands)	<b>40,296</b>	40,296	40,296	38,728	36,526	29,690	17,834
Book Value Per Share of Common Stock (Year-End)	<b>\$20.77</b>	\$20.01	\$19.31	\$18.33	\$18.05	\$18.39	\$17.11
<b>OTHER STATISTICS</b>							
Electric:							
Customers (Year-End)	<b>406,511</b>	393,810	378,960	366,424	356,709	350,596	312,617
Sales (Million KWH)	<b>13,704</b>	13,041	12,590	12,063	11,490	11,763	10,318
Residential:							
Average annual use per customer (KWH)	<b>12,821</b>	11,992	12,061	12,009	11,712	12,183	11,320
Average annual rate per KWH	<b>\$0.759</b>	\$0.774	\$0.757	\$0.642	\$0.637	\$0.577	\$0.361
Generating Capability - Net MW (Year-End)	<b>3,890</b>	3,959	3,959	3,359	3,359	3,359	2,852
Territorial Peak Demand - Net MW	<b>2,853</b>	2,703	2,596	2,700	2,463	2,557	1,994
Gas:							
Customers (Year-End)	<b>192,941</b>	191,002	189,544	187,638	186,320	169,294	161,473
Sales (Thousand Therms)	<b>671,881</b>	647,215	737,059	671,429	590,257	493,305	490,830
Residential:							
Average annual use per customer (therms)	<b>548</b>	524	618	610	570	665	767
Average annual rate per therm	<b>\$.68</b>	\$ .67	\$ .69	\$ .65	\$ .56	\$ .49	\$ .23
Transit:							
Number of Coaches	<b>117</b>	122	123	112	104	104	96
Revenue Passengers Carried (Thousands)	<b>8,699</b>	9,032	9,658	9,744	10,720	10,820	8,915



## Corporate Headquarters

Palmetto Center  
1426 Main Street  
Columbia, SC  
Telephone: (803) 748-3000

## Mailing Address

SCANA Corporation  
Columbia, SC 29218

## Common and Preferred Stock Listings

The common stock of SCANA Corporation is listed and traded on the New York Stock Exchange. The ticker symbol is **SCG**. The corporate name **SCANA** is used in newspaper stock listings.

The 5% series cumulative preferred stock of SCE&G is also listed and traded on the New York Stock Exchange. The ticker symbol is **SAC Pr**; the newspaper listing is **SCrE pf**.

## Dividend Payment Dates

Quarterly dividends on common stock are normally payable on the first day of January, April, July and October to stockholders of record on the 10th day of the month preceding the payment date.

Dividends on SCE&G's preferred stock are paid quarterly on the same dates as the common stock dividends.

## Dividend Reinvestment Plan

SCANA offers a Dividend Reinvestment and Stock Purchase Plan to its common stockholders of record. A Prospectus, Authorization Form and return envelope are automatically mailed to all new stockholders. For further information or for questions about your reinvestment account, write to the Investor Relations Department (054) at the Company's mailing address.

## Stockholder Inquiries

Questions concerning dividend accounts or related stockholder matters should be directed in writing to the Investor Relations Department (054) at the Company's mailing address.

## Auditors

Deloitte Haskins & Sells  
Certified Public Accountants  
1426 Main Street, Suite 820  
Columbia, SC 29201

## Recordkeeping and Paying Agents

**Common Stock:**  
SCANA Corporation  
Stockholder Records Department (054)  
Columbia, SC 29218

## *SCE&G Preferred Stock:*

South Carolina National Bank  
Securities Transfer Services  
101 Greystone Boulevard  
Columbia, SC 29226

## Transfer Agents

### *Common Stock:*

South Carolina National Bank  
Securities Transfer Services  
101 Greystone Boulevard  
Columbia, SC 29226

Manufacturers Hanover Trust Company  
Stock Transfer Department - 8th Floor  
450 West 33rd Street  
New York, NY 10001

### *SCE&G Preferred Stock:*

South Carolina National Bank  
Securities Transfer Services  
101 Greystone Boulevard  
Columbia, SC 29226

The Chase Manhattan Bank, N.A.  
Stock Transfer Department  
P.O. Box 469, Washington Bridge Station  
New York, NY 10033

## Bond Trustee and Paying Agent

### *SCE&G First and Refunding*

#### *Mortgage Bonds:*

Manufacturer's Hanover Trust Company  
Corporate Trust Department - 10th Floor  
600 Fifth Avenue  
New York, New York 10020

## Investor Communications

Interim reports providing updated financial information and Company news are sent to stockholders with each dividend mailing. A copy of SCANA's Annual Report on Form 10-K (as filed with the Securities and Exchange Commission) and the Statistical Supplement to the 1986 Annual Report are available to stockholders and others without charge. Inquiries concerning activities of SCANA Corporation and requests for publications should be addressed to H. John Winn, III, Manager-Investor Services (054) at the Company's mailing address.

## Analyst's Contact

H. John Winn, III  
Manager-Investor Services  
Telephone: (803) 748-3240

## Investors' Association

For information about this organization's activities, write to Association of SCANA Investors, c/o Mr. Paul Quattlebaum, Jr., 63 East Bay Street, Charleston, SC 29401.

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