SOUTH CAROLINA ELECTRIC & GAS COMPANY

ANNUAL REPORT
1938
SOUTH CAROLINA ELECTRIC & GAS COMPANY

Directors

HERCULES B. ATKIN
FREDERICK S. BURROUGHS
NORMAN H. COIT

RALPH D. JENNISON
SANFORD J. MAGEE
LIVINGSTON D. WEST

Officers

R. D. JENNISON .......... President
N. H. COIT ............. Vice-President
H. B. ATKIN .......... Vice-President
L. F. PEARCE ........... Secretary
C. M. OYER .......... Treasurer
W. B. EDGAR .......... Comptroller

Principal Office

328 MAIN STREET, COLUMBIA, SOUTH CAROLINA

Neither this report, nor any statement contained herein, is furnished in connection with any offering of securities or for the purpose of promoting or influencing the sale or purchase of securities.
May 10, 1939.

To the Security Holders of

SOUTH CAROLINA ELECTRIC & GAS COMPANY:

We present herewith the annual report for 1938, which includes the customary information relating to the activities and policies of the Company. This year it has been thought desirable to add certain pertinent information included in reports to regulatory commissions. This type of information is also deemed of practical interest to some of the financial and advisory services and institutional investors.

Corporate Information

The Company was incorporated under the laws of the State of South Carolina on July 19, 1924 and was granted a perpetual charter. The annual meetings of security holders are held the third Wednesday in May at the principal office of the Company or at such other office of the Company in South Carolina as shall be stated in the notice of the meetings.

The Company is a part of the Associated Gas & Electric System. It is a direct and wholly-owned subsidiary of Southeastern Electric and Gas Company, which is a subsidiary of General Gas & Electric Corporation, a registered holding company. The Company has no subsidiaries of its own. All of the common stock (consisting of 43,294 shares) is owned by the parent Company, Southeastern Electric and Gas Company.

Results of Operations

Electric service is the principal phase of the Company's business. The general character of this service did not change during 1938.

The increase in the electric operating revenues during 1938 was due principally to sales to an associated electric company and to other non-associated electric companies.

The low water conditions which prevailed in the territory during the year were responsible for the increased sales to these electric companies. It is invariably necessary in times of low water for the hydro companies to purchase steam power to meet the requirements of their customers.
Residential and commercial electric revenues increased approximately $100,000 over the year 1937. The industrial revenue, however, fell off approximately $125,000 during the year.

The Parr Shoals steam power plant was operated during the year. This standby source of power produced approximately 150,000,000 kilowatt hours during the year, or 385% more energy than it produced in 1937, at an increase in the steam production expense of $361,942 for the year.

It is interesting to note that the balance after interest requirements only decreased $43,026 during the year, after a further increase of $100,283 in taxes, and an increase of $106,884 in the retirement provision.

The Company’s tax bill has now reached the staggering total of $611,055.32, which figure exceeds the total amount of annual interest paid to the Company’s bondholders. Taxes are over four times the amount paid to the preferred stockholders in 1938.

The Company, at present, is not paying any return to the equity interests on their holdings of the common and 7% preferred stock. However, dividends were paid on the $6 prior preferred stock throughout the year.

Rates

The Company has revised its electric and gas rates effective February 27, 1939, in cooperation with the State Public Service Commission. It is expected that the rates will save the customers approximately $200,000 a year on the basis of the present trend of sale prices and use. This adjustment will cause the sale price per kilowatt hour for residential customers to drop below the 4 cents per kilowatt hour which was the average price for residential customers based on the total revenues and total kilowatt hours sales in 1938. It may be of interest to the security holders to know that this Company’s sale prices and the average kilowatt hours sales to residential customers compare favorably with the neighboring territories in the Carolinas, in fact it is expected that the average kilowatt hours sales per residential customer will soon exceed 1,000 kilowatt hours.

General

On February 18, 1936, the Company and Lexington Water Power Company filed applications with the Federal Power Commission and The Public Service Commission of South Carolina for the approval of the purchase by the Company of all Lexington Water Power Company’s properties, franchises, etc. Dur-
ing 1938, the Company decided to abandon this proposed action due to the fact that the necessary Commission approval of these petitions could not be secured.

The Company has continued to maintain its investment in, and to avail itself of, the mutualized services of The Utility Management Corporation. The services include advice and assistance in connection with operating, engineering, financial, accounting, sales and purchasing matters.

We also present herewith a copy of the 1938 audit report of Haskins & Sells. This report includes the accountants' certificate, a balance sheet and statement of long-term debt at December 31, 1938, together with a statement of income for the years ended December 31, 1938 and 1937, and a statement of earned surplus for the year ended December 31, 1938. There is also included, for your information, a statement of comparative statistics for the years ended December 31, 1938 and 1937.

For the Board of Directors,

R. D. Jennison

President
South Carolina Electric & Gas Company:

We have made an examination of the balance sheet of South Carolina Electric & Gas Company (incorporated in South Carolina) as of December 31, 1938, and of the related statements of income and earned surplus for the year 1938. In connection therewith, we made a review of the accounting methods and examined or tested accounting records of the Company and other supporting evidence in a manner and to the extent which we considered appropriate in view of the system of internal accounting control. We previously made similar examinations for the years 1924 to 1937.

In our opinion, based on such examination, and subject to the fact that we are not in a position to express an opinion as to the provisions for retirements, renewals and replacements of fixed capital, the accompanying balance sheet, with the footnotes thereon, and related statements of income and earned surplus, fairly present, in accordance with accepted principles of accounting consistently followed by the Company, its financial condition as of December 31, 1938, and results of its operations for the year.

Haskins & Sells

Charlotte,
April 14, 1939.
SOUTH CAROLINA ELECTRIC & GAS COMPANY

STATEMENT OF INCOME
For the years ended December 31, 1938 and 1937

<table>
<thead>
<tr>
<th></th>
<th>1938</th>
<th>1937</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric</td>
<td>$3,302,212.02</td>
<td>$2,921,798.06</td>
</tr>
<tr>
<td>Gas</td>
<td>446,735.58</td>
<td>418,975.20</td>
</tr>
<tr>
<td>Transportation</td>
<td>257,230.66</td>
<td>256,251.13</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td><strong>$4,006,178.26</strong></td>
<td><strong>$3,597,024.39</strong></td>
</tr>
</tbody>
</table>

| Operating expenses and taxes |                  |                  |
| Operating expenses          | $1,694,269.77    | $1,397,683.99    |
| Maintenance                 | 199,859.95       | 210,821.03       |
| Provision for retirements, renewals and replacements of fixed capital | 571,114.50 | 464,230.57 |
| Provision for taxes         |                  |                  |
| Federal income              | 16,500.00        | 21,500.00        |
| Other                       | 594,555.32       | 489,272.57       |
| **Total operating expenses and taxes** | **$3,076,299.54** | **$2,583,508.16** |

| Operating income | $ 929,878.72 | $1,013,516.23 |
| Other income     | 46,038.68   | 41,990.80     |

| Gross income     | $ 975,917.40 | $1,055,507.03 |

| Deductions from income |                  |                  |
| Interest on long-term debt | $ 506,028.75 | $ 509,965.56 |
| Other interest (including in 1938 $3,908.58 on additional State income taxes for prior years and in 1937 $21,300.30 on additional Federal income taxes for prior years) | 173,470.89 | 208,863.31 |
| Amortization of debt discount and expense | 60,865.01 | 60,865.03 |
| Less: Interest charged to construction (credit) | 630.59 | 3,395.52 |
| **Total deductions from income** | **$ 739,734.06** | **$ 776,298.38** |

| Net income       | $ 236,183.34 | $ 279,208.65 |

[7]
**SOUTH CAROLINA ELECTRIC & GAS COMPANY**

**BALANCE SHEET**

**DECEMBER 31, 1938**

**ASSETS SIDE**

Fixed capital—Plant, property, etc., stated at valuation made as of December 31, 1932, based on estimated reproduction cost (including going value and other intangibles) December 31, 1930, plus subsequent additions at cost, less retirements .................................................. $31,718,233.31

Investments (including $40,147.50 in affiliated company) ...................... 43,839.19

Deposits for matured bonds, bond interest, and dividends (contra) ............ 4,422.75

Deposits with trustees for sinking funds, etc.............................................. 55,006.51

Cash (including working funds) ............................................................. 23,899.40

Note receivable ......................................................................................... 1,306.23

Accounts receivable:

Customers ......................................................................................... $297,085.17

Appliances (installment accounts):

Unpledged .............................................................................................. 51,493.92

Pledged as additional security for appliance accounts receivable sold .... 9,570.24

Miscellaneous ...................................................................................... 40,538.54

Materials, supplies and merchandise (book inventories) ....................... 398,687.87

Appliance accounts receivable sold (contra) ......................................... 209,100.04

Deferred debit items:

Unamortized debt discount and expense .............................................. $920,498.25

Prepayments ......................................................................................... 26,054.14

Miscellaneous unadjusted debits ......................................................... 43,656.18

Total assets side .................................................................................. $33,534,602.17

Notes:

The amount at which fixed capital is stated above does not purport to represent present realizable value or replacement cost.

It is the accounting policy of the Company, in general, to make provision for retirements, renewals and replacements of fixed capital in amounts which when added to maintenance expenditures equal fixed percentages of gross operating revenues less power and gas purchased.

Unpaid cumulative dividends on 7% preferred stock amounted to $611,566.66 at December 31, 1938, of which amount $576,380.00 is applicable to shares held by parent company, Southeastern Electric and Gas Company.

The Company's liability for Federal income taxes for the years 1929 and 1932 and the subsequent years beginning with 1934 is still subject to final determination. For the years 1929 and 1932, the Company was included in consolidated returns with other companies in the General Gas & Electric
BALANCE SHEET

DECEMBER 31, 1938

LIABILITIES SIDE

Capital stock:
Preferred, $6 prior cumulative, no par value, entitled to $100 a share in liquidation, 60,008 shares authorized, 25,000 shares issued and outstanding........................................... $2,500,000.00
Preferred, 7% cumulative, par value $100 a share, 40,000 shares authorized, 13,105 shares issued and outstanding 1,310,500.00
Common, par value $100 a share, 100,080 shares authorized, 43,294 shares issued and outstanding 4,329,400.00 $ 8,139,900.00

Long-term debt (less $1,265,000 principal amount of bonds in sinking fund and in treasury) (details on page 10) ........................................... 10,096,900.00

Notes and accounts payable-affiliated companies:
Southeastern Electric and Gas Company-parent company (subordinated to note payable-bank) ........................................... $1,748,672.22 $ 1,820,881.91
Other-equipment purchase obligations ........................................... 1,265,000.00

Reserves and miscellaneous unadjusted credits:
Retirements, renewals and replacements of fixed capital (including adjustments arising through revaluation of fixed capital) ........................................... $2,096,746.17
Doubtful accounts receivable ........................................... 19,612.04
Additional Federal income taxes for prior years (subject to final determination) ........................................... 19,412.50
Other reserves and miscellaneous unadjusted credits ........................................... 23,084.70 2,158,855.41

Contributions for extensions (non-refundable) ........................................... 53,534.17

Capital surplus (arising through revaluation of fixed capital and adjustment of related retirement reserve) ........................................... 7,871,162.73 2,116,459.97

Total liabilities side ........................................................................... $33,534,602.17

Notes (continued):
Corporation group. For these years, under the Federal income tax regulations, the companies included in the consolidated tax returns may be held to be jointly and severally liable for any deficiencies assessed against the consolidation. Federal income taxes and penalties for the years 1929 and 1932, aggregating $5,584,283, have been asserted against General Gas & Electric Corporation and the other companies included in the consolidated returns for those years. These assertions are being contested. Separate Federal income tax returns were filed for the years beginning with 1934. A deficiency amounting to $8,725 has been asserted against the Company for the year 1934, but the Company does not admit any additional tax liability and the proposed deficiency is being contested. The latest return examined by the Treasury Department covers the year 1935 and no deficiency has been asserted against the Company for this year.
SOUTH CAROLINA ELECTRIC & GAS COMPANY

STATEMENT OF EARNED SURPLUS
For the year ended December 31, 1938

Balance, January 1, 1938 ........................................ $2,089,130.98

Surplus credits:
Net income for the year (details on page 7) ................. $236,183.34
Discount (net) on bonds reacquired ...................................... 3,350.00
Total .................................................................................. $2,328,664.32

Surplus charges:
Dividends on $6 prior preferred stock ......................... $150,000.00
Expenses incurred in connection with proposed refinancing
of Company’s long-term debt, etc. - proposal abandoned 62,204.35
Total .................................................................................. $2,116,459.97

STATEMENT OF LONG-TERM DEBT
December 31, 1938

<table>
<thead>
<tr>
<th>Issue</th>
<th>Authorized</th>
<th>Outstanding</th>
<th>Interest Dates</th>
<th>Trustee Interest Dates Payable (see references)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad River Power Company (now South Carolina Electric &amp; Gas Company) first and refunding mortgage 5% bonds, series A, due September 1, 1954</td>
<td>*</td>
<td>$8,361,900</td>
<td>M &amp; S</td>
<td>1</td>
</tr>
<tr>
<td>Divisional Ken-The Parr Shoals Power Company first mortgage 5% sinking fund bonds, due April 1, 1952 (less $102,000 in treasury** and $1,163,000 in sinking fund)</td>
<td></td>
<td>$3,000,000†</td>
<td>A&amp;O</td>
<td>1</td>
</tr>
<tr>
<td>Total long-term debt</td>
<td></td>
<td>$10,096,900</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:
*Additional bonds issuable upon compliance with mortgage and statutory requirements.
**Pledged as collateral to first and refunding mortgage 5% bonds, series A, due September 1, 1954.
†Closed mortgage.
1. Guaranty Trust Company of New York .............................................. New York, N. Y.
3. Irving Trust Company ........................................................................ New York, N. Y.
4. Transfer and Paying Agency ................................................................ 41 Trinity Place, New York, N. Y.
and 26 Journal Square, Jersey City, N. J.
SOUTH CAROLINA ELECTRIC & GAS COMPANY

COMPARATIVE STATISTICS
For the years ended December 31, 1938 and 1937

**Electric Department:**

<table>
<thead>
<tr>
<th></th>
<th>1938</th>
<th>1937</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity sold-kilowatt hours:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>15,895,614</td>
<td>13,752,156</td>
</tr>
<tr>
<td>Other</td>
<td>248,091,387</td>
<td>168,433,857</td>
</tr>
<tr>
<td>Total</td>
<td>263,987,001</td>
<td>182,186,013</td>
</tr>
</tbody>
</table>

| Number of customers: |          |          |
| Residential          | 17,039   | 15,971   |
| Other               | 5,048    | 4,932    |
| Total               | 22,087   | 20,903   |

| Miles of transmission lines (11,000 volts and over) | 498 | 493 |

| Kilowatt generating capacity | 97,130 | 97,130 |

**Gas Department:**

<table>
<thead>
<tr>
<th></th>
<th>1938</th>
<th>1937</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas sold-cubic feet:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>243,180,900</td>
<td>226,559,100</td>
</tr>
<tr>
<td>Other</td>
<td>92,420,000</td>
<td>81,531,600</td>
</tr>
<tr>
<td>Total</td>
<td>335,600,900</td>
<td>308,090,700</td>
</tr>
</tbody>
</table>

| Number of customers: |          |          |
| Residential          | 7,621    | 7,361    |
| Other               | 732      | 735      |
| Total               | 8,353    | 8,096    |

| Miles of gas mains. | 166 | 162 |

| Daily manufacturing capacity-cubic ft | 1,896,000 | 1,896,000 |