



140 BROADWAY NEW YORK, NY 10005

RAYMOND E. MOORE, CFA (212) 320-3065 Trading (212) 320 3001

June 15, 2006

ray.moore@shieldsandco.com

Rating: Buy: Income & Appreciation

**SCANA Corporation
(SCG-NYSE)**

	6/13						
Price	38						
52-week range	44-38				Relative	Price	Y-t-d 12 Mos.
Book Value (12/31/05)	23.34	161%	P/b		Performance	6/13	% %
Earnings Ongoing					Scana	38	(4) (12)
2003	2.50	15.1	P/e		Phil. Electric Index	432	1 5
2004	2.67	14.1			Dow Industrials	10,706	0 2
2005	2.78	13.5			Coverage		
2006 Estimate	2.80	13.4			Analyst Total	7	
2007 Estimate	2.95	12.8			Buys	4	
2008 Estimate	3.10	12.1			Shares (millions)	115	
Dividend Per Share	1.68	4.5%	Yield		Market Value (\$Bil.)	4	

Overview & Recommendation

Scana Corporation is a conservative, well-run combination electric and gas utility. That's not to say management hasn't made mistakes but those commitments were well within the risk tolerance of its conservative shareholder profile. Employees via various stock programs represent the largest shareholder component at 11 million shares (10% of shares outstanding), followed by JP Morgan Chase (5 million), Barclays (5 million) and Wellington (3 million). Management efforts for the next few years will be geared to 1) meeting its growth targets of 4%- 6% annually in earnings and dividends, and 2) getting the balance sheet in shape to support possible construction of a nuclear plant(s) in the post-2010 era.

Scana's shares have underperformed electric stocks and the Dow Industrials on both year-to-date and 12-month trailing bases. Its share price declined 4% and 12%, respectively, for y-t-d and trailing 12-months, compared to gains of 1% and 5% for the Philadelphia Electric Index, and 0% and 2% for the Dow Industrials. Part of this performance may be attributable to investor oversight. At a \$4 billion equity capitalization, Scana is modest-sized, but not regarded as a takeover candidate, and its story lacks the charisma of a more aggressive commodity play. However, at its current price of \$38, the price/earnings multiples of 13.4 and 12.8 times 2006 and 2007 represent 5% to 10% discounts to the average electric company, while its 4.5% yield compares to an industry average of 3.7%. An average yield would produce a price of \$45 (plus 18%), while the total annual return as measured by yield plus dividend growth works out to 9% to 10% annually. We believe Scana's price could rise 13% to 15% to the \$43-\$45 area over the next 12 months and that total returns could average 9% to 10% annually longer term. We're maintaining a buy rating for investors seeking income and appreciation with less than average risk.

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See page 7 of report for Analyst's Certification, pages 7-8 for Important Disclosures and page 8 for Other Disclosures and Disclaimers

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According to Bloomberg Financial Service, Scana has 7 active recommendations, including 4 buys and 3 holds. Buys or equivalents are maintained by Matrix USA (5/10/06), BB&T Capital (5/2/06), Rochdale Securities (5/1/06) and Edward Jones (2/10/06). Our buy rating issued in April 2004 was obviously too dated to be included in the survey.

Earnings and Dividends

SCANA is primarily a regulated electric and natural gas distribution system. Ongoing earnings of \$2.78 a share in 2005 were derived 90% (\$2.48 a share) from the regulatory jurisdictions of South Carolina and, to a lesser degree, North Carolina. Other significant businesses include South Carolina Pipeline (\$0.09 a share), an intra-state transporter of natural gas, and Scana Energy-Georgia (\$0.21 a share), a non-regulated seller of natural gas to retail consumers in Georgia.

SCE&G: The ability to attain earnings targets hinges primarily on the regulated businesses at South Carolina Electric & Gas (SCE&G - \$2.25 a share in 2005), and the gas distribution business in North Carolina (PSNC Energy - \$0.23 a share). Both regulatory climates are perceived as fair.

The electric and gas rate structures in South Carolina appear in good shape. The last electric rate case was in two steps and designed to recoup the costs of constructing the \$450 million 875-megawatt gas-fueled Jasper plant that went commercial in May 2004 (\$71 million effective February 2003 and \$41 million January 2005). The January decision granted a return on common band of 10.4% to 11.4% on an equity component of 50.3%. SCE&G electric business earned 10.98% on common equity in 2005. The electric business should be able to maintain returns in the 10.5% to 10.75% area through 2006 and into 2007. The next electric rate request is not likely before mid 2007. Since the South Carolina Public Service Commission is required to issue a decision within six months of application, regulatory lag should be modest.

Gas distribution was granted a \$22.9 million cost of capital rate increase in October 2005 that included a 10.25% return on common versus an actual return of only 1.7% in 2005. Also under gas rate legislation enacted February 2005, annual rate stabilization adjustments should enable the company to earn the allowed 10.25% level.

Overall we're estimating SCE&G consolidated earnings at \$2.20 a share in 2006 versus \$2.25 a share in 2005, \$2.39 a share in 2007 and \$2.52 a share in 2008.

PSNC Energy: When Scana purchased PSNC Energy, a natural gas distributor in North Carolina, in 2000, it agreed to freeze rates through mid-2005. On April 3, 2006, PSNC filed for rate relief of \$20.9 million (\$28 million before reduction in the fixed portion of gas costs). The decision is expected this fall with the new rates effective November 2006. PSNC Energy earned \$0.23 a share (\$26 million), approximately a 9.2% return on a common equity component of \$283 million. Assuming the North Carolina commission allows a 10.5% return, earnings could rise to the \$0.25 a share (\$30 million) area.

South Carolina Pipeline: South Carolina Pipeline profits are inverse to the direction of natural gas prices as higher natural gas prices lead to lower volumes as users switch to oil. Five years ago, pipeline earnings exceeded \$0.10 a share, but hit a low of \$0.04 a share in 2002. Profits have recovered to \$0.09 a share following completion of the \$25 million expansion to supply natural gas to the Jasper plant beginning in May 2004. We're maintaining pipeline earnings at \$0.09 a share annually through 2008.

SCANA Energy-Georgia: Scana Energy-Georgia markets natural gas to 400,000 non-regulated and 75,000 regulated retail customers. Regulated retail represents a group of low income and/or credit challenged consumers whose business is derived via competitive bid from which the company is paid a fee to serve. Georgia earned \$0.21 a share (\$24 million) in 2005, down from \$0.26 a share (\$29 million) in 2004. Most of the \$0.05 a share decline stemmed from a one-time restructuring charge in a billing arrangement with several co-ops. Profits should rebound to the \$0.25 a share area in 2006. Longer-term we don't share management's enthusiasm for the retail competitive arena, particularly since customers are not tied to long-term contracts and others have opted to exit the business. We're assuming earnings remain steady at \$0.25 a share but would not be surprised if Scana exited the business as well.

Synfuels: Synfuel credits have been deferred and credited to the Lake Murray Dam investment with no impact on earnings. The company did generate a modest \$0.07 a share (\$8 million) of synfuel-related earnings via royalties for operation of non-affiliated synfuel facilities. The absence of royalty income has not been incorporated in management guidance.

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Earnings: Ongoing earnings (GAAP Adjusted) for the three months ended March 31, 2006 were \$0.80 a share, down 10% from \$0.89 a share in the prior comparable period. Management cited the usual culprits. Mild temperatures reduced electric earnings by \$0.07 a share. Gas margins were reduced \$0.05 a share by the combination of mild weather, rising prices and conservation. Despite the poor first-quarter performance, management reaffirmed guidance of \$2.80 to \$2.95 a share, assuming normal weather. Since regulation Fair Disclosure (FD), most companies begin the year with a wide guidance, usually flat to up a percentage. That way lots can happen -- press releases can continue to reaffirm earlier forecasts and legal departments get away with issuing fewer 8Ks. Street consensus is typically the mid-point of guidance, or \$2.88 a share in the case of Scana. We are estimating earnings at \$2.80 a share for 2006 and (rounded to the nearest nickel) \$2.95 a share for 2007 and \$3.10 a share for 2008.

Dividend: The dividend was raised for the seventh consecutive year at the February declaration. The current indicated level of \$1.68 a share is an 8% increase from \$1.56 a share and represents a 58% payout of mid-point guidance. Management's goal is to combine 4% to 6% annual dividend growth with a payout in the 55% to 60% range. We expect the dividend to rise to \$1.76 a share in 2007 and to \$1.86 a share in 2008.

Table 1
Ongoing Earnings Per Share Profile

	Actual				Estimated		
	2002	2003	2004	2005	2006	2007	2008
South Carolina Electric & Gas	2.06	1.99	2.11	2.25	2.20	2.39	2.52
PSNC Energy	0.22	0.28	0.21	0.23	0.25	0.25	0.25
South Carolina Pipeline	0.04	0.06	0.09	0.09	0.09	0.09	0.09
Georgia Retail	0.13	0.18	0.26	0.21	0.25	0.25	0.25
Parent and Other	(0.07)	(0.01)	0.00	0.00	0.00	0.00	0.00
Ongoing non GAAP	2.38	2.50	2.67	2.78	2.80	2.98	3.11
% Change		5	7	4	1	7	4
Average Shares Outstanding	106.0	110.8	111.6	113.8	115.9	116.7	116.8

Synthetic Fuel Tax Credits Applied to Lake Murray Construction

In 2000 and 2001 South Carolina Electric & Gas (SCE&G) entered into two synfuel transactions. Typically synfuel facilities lose money on an operating basis but generate significant tax credits that are used to reduce taxes on the consolidated return. In June 2000, the South Carolina Public Service Commission (SCPSC) approved an accounting procedure allowing deferral of synfuel earnings pending completion of the Lake Murray Dam. In January 2005, the commission and the company agreed to apply accumulated credits against construction costs. As of December 31, 2005, SCE&G transferred \$214 million of deferred taxes, leaving a balance of \$91 million (\$0.80 a share). The company capitalizes carrying charges on the unamortized balance (\$11 million in 2005) similar to the AFUDC entries.

The bad news is that synfuel credits are linked to NYMEX oil prices and benefits decline steadily at prices beginning at \$55-\$56 a barrel and reach zero at \$68-\$69 a barrel. Failed efforts to enact enabling legislation have forced most synfuel producers to idle production. SCE&G management is among the few that have yet to announce suspension but it's expected. Management will likely seek rate base treatment for the remaining balance. The revenue requirement is about \$23 million, or approximately 1% on a \$2 billion revenue base.

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Nuclear Looms-Balance Sheet Improving

SCANA's consolidated balance sheet became top heavy beginning in 2000 when it issued \$700 million in debt to buy Public Service of North Carolina (PSNC Energy), an action that also led to a goodwill impairment charge of \$240 million. Other ventures were also disappointing, requiring \$189 million in write-offs. Consolidated capitalization as of 12/31/05 stood at \$6,354 million, consisting of 56% debt, and 42% common equity. SCE&G capital structure is stronger with 49% each for debt and common and 2% preferred. PSNC capitalization, representing less than 15% of consolidated, has a debt component of only 41%.

Management strategy is to lower Scana consolidated debt (short and long-term) to 50%-52% by year-end 2008, down from 56% in 2005. SCE&G will be the source of that improvement. Its construction budget for the 2006/8 period totals \$1,123 million, about equal to expected funds generated internally. SCE&G common equity should rise from 49% of capitalization in 2005 to just under 55% in 2008. (Table 3 on pages 5 & 6 details SCE&G Source and Use Statement Forecast for the 2006-8 period.)

Table 2
Comparative Capitalization

Capitalization -12-31-05	SCANA \$-Millions	SCE&G \$-Millions	PSNC \$-Millions	Other \$-Millions
Debt	3,563	2,342	372	849
Preferred	114	114		
Common	2,677	2,362	528	(213)
Total	6,354	4,818	900	636
Shares Out. - Millions	115			
Book Value	23.28	20.54	4.59	(1.85)
% Total		88	20	(8)
Capital Structure %				
Debt	56.1	48.6	41.3	133.5
Preferred	1.8	2.4	0.0	0.0
Common	42.1	49.0	58.7	(33.5)
Total	100.0	100.0	100.0	100.0

Strengthening the balance sheet is vital if management is to proceed with plans to construct a nuclear plant beginning post 2010. Management expects to file an application for two nuclear units (one to be built later) in late 2007. The units will be located at the existing VC Summer site with SCE&G as the operator and Santee Cooper, a public power system in South Carolina, as co-owner.

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Table 3
South Carolina Electric & Gas
Source & Application of Funds

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Source & Use of Funds	2002	2003	2004	2005	2006est.	2007est.	2008est.	2008/6
Net Income	219	220	232	258	262	286	302	850
Adjustments								
Deferred Income Taxes losses equity method	11	51	44	(165)	20	20	20	60
Deferred Fuel		(5)	13	(32)	10	10	10	30
Amortization nuclear fuel	20	21	22	18	15	15	15	45
Depreciation & Amortization	171	188	221	465	225	230	235	690
Total Adjustments	202	256	302	363	270	275	280	825
Gross Funds Operations	421	476	534	621	532	561	582	1675
Less								
AFC Total & Carrying Costs	31	25	30	15	15	10	15	40
Preferred Dividends	7	7	7	7	7	7	7	22
Common Dividends	123	133	151	151	153	167	177	497
Total Reductions	161	165	188	173	175	184	199	559
Net Funds Available Construction	260	311	346	448	357	376	383	1116
Construction (including AFUDC)	585	629	489	362	404	333	426	1163
Less AFUDC	31	25	30	15	15	10	15	40
Net Construction	554	604	459	347	389	323	411	1123
% Generated Internal	22.2%	22.0%	75.4%	129.1%	91.8%	116.5%	93.1%	99.4%
Financing Needs	294	293	113	(101)	32	(53)	28	7
Debt	251	365	39	7	(34)	(73)	(17)	(125)
Other		2	2	2				0
Preferred	(1)			(1)	5	1	(2)	5
Common (Capital Parent)	157	9	9	98	61	18	47	127
Total Financing	407	376	50	106	32	(53)	28	7
Capitalization								
Debt	1,856	2,221	2,332	2,342	2,308	2,234	2,217	
Preferred	115	115	115	114	119	120	119	
Common	1,966	2,043	2,164	2,362	2,526	2,655	2,820	
Total	3,937	4,379	4,611	4,818	4,952	5,010	5,156	
Capital Structure %								
Debt	47.1	50.7	50.6	48.6	46.6	44.6	43.0	
Preferred	2.9	2.6	2.5	2.4	2.4	2.4	2.3	
Common	49.9	46.7	46.9	49.0	51.0	53.0	54.7	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Shares Outstanding (Consolidated)	110.8	110.8	112.5	115.0	116.9	116.5	117.1	
Average Shares (Consolidated)	106.0	110.8	111.6	113.8	115.9	116.7	116.8	
Earnings Per Average Share	2.00	1.92	2.02	2.21	2.20	2.39	2.52	
Dividend Per Average Share	1.16	1.20	1.35	1.33	1.32	1.43	1.51	
Payout Ratio	58.0%	62.4%	67.1%	60.2%	60.0%	60.0%	60.0%	
Return on Average Common	11.4	10.6	10.7	11.1	10.5	10.8	10.8	
Tax Rate	37.5%	35.6%	35.2%	-79.8%	35.5%	35.5%	35.5%	

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Table 3
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Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Other Credit Measures	2002	2003	2004	2005	2006est.	2007est.	2008est.
Imbedded Interest	7.7	6.9	6.5	6.3	6.3	6.3	6.3
Imbedded preferred dividends	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Interest Expense	133	141	148	147	147	144	144
Total Kilowatt hour Sales	23,085	22,521	25,050	25,158	25,661	26,174	26,698
Revenue kwh Gross	6.00	6.54	6.75	7.60	8.09	8.20	8.22
Fuel & PP per kwh	1.77	1.94	2.07	2.60	2.60	2.60	2.60
Net Rev kwh	4.23	4.60	4.69	5.00	5.49	5.60	5.62
Gas Sales		42,230	42,430	43,298	44,164	45,047	45,948
Rev Mcf		8.52	9.36	11.76	11.76	11.76	11.76
Purchased gas		6.37	7.38	9.63	9.63	9.63	9.63
Net margin		2.15	1.98	2.12	2.12	2.12	2.12
Debt Coverage		3.01	3.21	2.12	3.47	3.84	3.94
Cash Flow Interest		617	682	768	680	704	726
Cash Flow % Debt		27.8	29.2	32.8	29.5	31.5	32.7

Analyst's Certification

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Important Disclosures

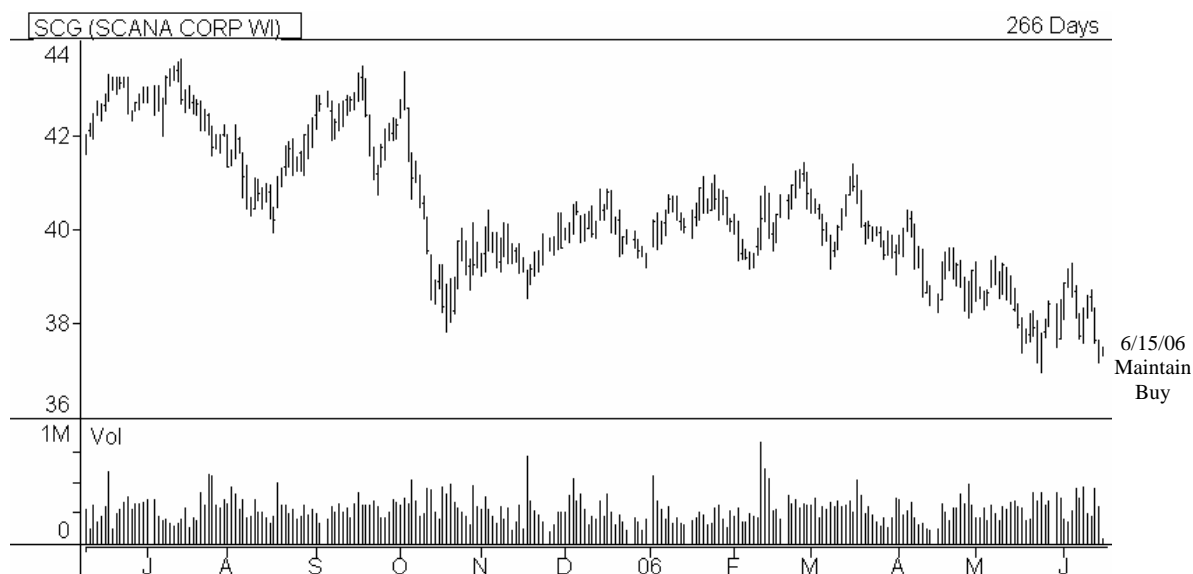
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Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

Range of Formal Recommendations 15 total 1-buy-13-holds-1 sell



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