

Outdoor Lighting Cost of Service Concepts and Rate Design

Three Key Takeaways

- Santee Cooper's program is consistent with industry best practices and has lower price points than neighboring utilities – and we are working with the HOAs to make our program even better.
- Lease pricing recovers Outdoor Lighting customers' share of specific and system costs – that includes costs for lighting equipment and maintenance, and also generating and other total electric system operations necessary to produce electricity.
- Our current rate lock, which benefits the HOAs and all customers through refunds and cost controls – restricts our ability to change rates through 2024. We are working on short-term options beyond the rates that could benefit lighting customers.

Consistent with widespread industry practice, Santee Cooper's ratemaking (generally, and for the lighting customer class) includes five broad steps in the process:

1. Determine Revenue Requirements
2. Unbundle Costs by Functions and Services
3. Classify Costs
4. Allocate Costs among Customer Classes
5. Design Rates

Each of these steps is necessary for the proper development of customer rates.

Determine Revenue Requirements

Revenue requirements for a government-owned utility generally must cover costs associated with the operation, maintenance, financing of improvements, renewal and replacement of facilities, and assurance of the adequacy and continuity of reliable service to customers. Santee Cooper determines revenue requirements consistent with the methods of other publicly owned utilities, and includes the various generalized cost components described in the following sections. **This step effectively determines the total costs to operate the system in a given period. The costs are for all customers, including lighting customers.**

Unbundle Costs

Although budgeting and accounting systems generally follow functional groups (e.g., production, transmission, etc.), certain costs such as those associated with administrative and general expenses and debt service generally are not assigned by accounting and budgetary convention to a major function. A cost of service analysis usually requires the rearrangement of these types of expenditures into functional groups, (i) to be more representative of the expenditure causation, (ii) to combine costs that have been incurred for a similar purpose, and

(iii) to facilitate cost allocation. Thus, the functionalization of certain costs is merely a ratemaking mechanism to apportion such costs to the common utility function. **Ultimately, costs are functionalized so that they might be properly identified and further allocated to customer classes in later steps. Lighting, Production, Transmission, Distribution and Customer Costs are identified in this step.**

Classify Costs

The classification of costs reflects usual regulatory practice. Costs are generally assigned as Demand (Fixed) Costs (defined as those costs incurred to maintain readiness-to-serve in an electric system, capable of meeting the total combined demands of all classes of customers), Energy (Variable) Costs (defined as those costs that vary substantially or directly with the amount of energy sold or generated and purchased, including such items as fuel and a portion of operation and maintenance expense for production facilities) and Customer Costs (defined as those costs directly related to the number, type, and size of customers, such as customer accounting and collecting, the costs of meters and services, and other distribution related costs associated with maintaining the minimum distribution system to serve the Authority's customers). **Cost classification separates costs into reasonable segments (fixed, variable and customer) so that they may be properly allocated.**

Allocate Costs

The aforementioned costs are allocated to the customer classes according to the cost allocation factor developed for each class and for each type of cost. The development of the allocation factors requires a compilation of data from several different sources including, among others, the Authority's peak demand and energy forecasts, historical billing and other customer information, and data from the Authority's ongoing load research program. Cost of service allocation factors are developed based on the usage characteristics of the Authority's firm requirements customers, including lighting customers. **At the end of the allocation process, costs are assigned to customer classes by function. These are the costs that must be recovered by the rates for these customers. The lighting customer class (OL, MS and TL) has costs allocated to it from each function and classification. These costs must be recovered via lighting rates each year.**

Design Rates

Rate design is where the rates and charges for each customer class are developed in such a way that the total revenue requirements of the system will be recovered equitably and consistent with the results of the allocated cost of service study, utility policy objectives, and any applicable orders and/or requirements of local, state, and federal regulatory authorities.

For lighting customers, rates are designed to recover the allocated costs of serving the entire Santee Cooper lighting class, using industry standard methods. They assume average light and pole replacement and maintenance costs, as well as other necessary support costs, for the

entire system, not specific customers. Through this design, rates from all lighting customers generate sufficient revenue to recover the cost of service allocated to the entire lighting customer class.

Conclusion

As part of a court-approved settlement, Santee Cooper is in a rate-lock period through the end of 2024, which means we cannot change current rates through that time period. That settlement benefits all customers, including lighting customers, through refunds and cost controls.