

Step 1: Determine Revenue Requirement

Rate design starts with determining a utility's "revenue requirement," or how much the utility needs to collect through bills to continue providing reliable service to customers. There are five primary components of customers' bills:

- **Generation** charges reflect the amount included in customer bills for recovery of energy procurement and SCE's costs of generating electricity at its power plants.
- **Transmission** charges recover SCE's costs for transporting electricity over long distances, such as from remote wind and solar farms to substations in urban areas.
- **Distribution** charges recover SCE's costs for "stepping down" electricity voltage and distributing it from substations to homes and businesses.
- **Customer services** charges recover costs for various services, such as customer billing and call centers.
- **Public purpose programs** charges recover fees mandated by state to promote public policies, such as customer rooftop solar and energy efficiency.

These costs and the related charges are impacted by federal and state regulatory and legislative decisions; aggressive renewables goals, inclusion of various fees, etc.

Step 2: Revenue Allocation

Revenue allocation determines what percentage of SCE's total costs each customer group will pay. Rates vary for different groups for two main reasons.

First, the cost to serve different customer groups varies from group to group. For example, distribution costs are higher for residential customers because additional transformers are needed to step down voltage to a level safe and usable in homes. Second, certain groups are provided subsidies as a result of regulatory or legislative requirements or social policies, including:

- Low-usage residential customers (\$600 million/year)
- Income-qualified (low income) residential customers (\$350 million/year)
- Consumers that own on-site renewable generating facilities (Net Energy Metering) (\$80 million/year and growing)

In total, these subsidies impact rates (and bills) for remaining customers to the tune of nearly \$1 billion per year.

Balance is Critical

The rate design process attempts to allow SCE to fully recover its revenue requirement in an equitable manner while adhering to public policy objectives and restrictions. As SCE looks ahead, it is critical that we take a look at how different customer groups are impacted and continually ask, "How do we best serve all of our customers' needs? How do we balance public policy and safety, reliability and affordability?"