



South Carolina House of Representatives

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March 5, 2021

K. Earle Powell, Executive Director
South Carolina Legislative Audit Council
1331 Elmwood Ave., Suite 315
Columbia, SC 29201

RE: Plantation Lakes Homeowners Association/
South Carolina Public Service Authority [*i.e.* SCPSA/Santee Cooper]

Dear Director Powell,

Mr. Bob Sweet, Chair of the Plantation Lakes Property Owners' Association Street Lights Committee, has forwarded the enclosed information about charges from the South Carolina Public Service Authority [SCPSA, or generally referred to as Santee Cooper by him] they have been paying. As full disclosure, Rep. McGinnis is a resident of this development.

After reviewing his materials, and given his estimates calculated from the data the SCPSA provided to him, we, the undersigned, have genuine questions and concerns about the bills this state-owned entity is sending to this POA, as well as to other POAs in the SCPSA service areas. We are told SCPSA has over 530 developments with arrangements similar to the one they have with Plantation Lakes.

To us, it is past time, especially given the headlines and news articles about the SCPSA's operations over the past few years, for the SC Legislative Audit Council to review and report on street lighting program[s], revenues, and expenditures undertaken by SCPSA. We refer to the materials, estimate calculations, and other materials shared with us by Chairman Sweet for the scope of your review. Please conduct an audit and report to us what you find.

Thank you for your kind consideration of our concerns, and prompt response to our request.

Sincerely,

Handwritten signature of Timothy A. McGinnis in black ink.

Rep. Timothy A. "Tim" McGinnis

Handwritten signature of Lee Hewitt in black ink.

Rep. Lee Hewitt

TM/ss/mar5-21-2

Enclosure

Determining a Fair Rate Schedule
For Leasing Streetlights To HOAs by Santee Cooper

Updated: Feb 15, 2021

Background:

For decades, Santee Cooper (SC) has charged HOAs/POAs for utility-owned streetlights using rates SC established which they claim only cover ongoing expenses...and therefore will never be reduced.

Numerous communities have questioned this however, pointing out that their cumulative lease payments have amounted to more than twice the original cost of the lighting system...and are destined to continue at the current rate in perpetuity!

See 1st Attachment:

At the request of Plantation Lakes, a Myrtle Beach community, Santee Cooper provided a Rate Calculation worksheet purporting to demonstrate how their current charges are determined. Their example uses 220 light fixtures and poles of the same type as those installed at Plantation Lakes and assigns a charge in seven different categories without explaining how those charges are derived. The Calculation worksheet totals reflect the monthly lease charges for each light fixture and pole (\$11.70 and \$22.30 respectively), as listed in Santee Cooper's OL-17 Rate Schedule.

Note: Another concern: There is a HUGE disparity between lease costs, based on which equipment the community developer decides to install. For example, Plantation Lakes' poles are four times more expensive to lease than the standard poles installed in many communities, (\$22.30 vs. \$5.66/month each).

See 2nd attachment:

Plantation Lakes has developed an alternative rate structure. It's an attempt to provide good-faith estimates for all cost factors and then apply the remainder of monthly payments to paying down the original system costs. At Plantation Lakes' request, Santee Cooper provided the original cost of its outdoor lighting system as \$717,793. Under this construct, Santee Cooper should have recovered the entire original cost of the lighting system—with interest—after 13.87 years. If this approach is reasonable, from then on Plantation Lakes should have only been required to pay for ongoing expenses.

Whether inadvertent or deliberate, there have been numerous instances of overcharging by entities that weren't subject to close oversight. For example, in May 2019, TransDigm Group was found to have overcharged on 46 of 47 different parts sold to the Defense Department. They agreed to reimburse the government \$16.1 million.* Certainly, TransDigm had a rate schedule to justify their charges, but hadn't previously been required to submit it for audit/review.

To our knowledge, the details behind Santee Cooper's rate schedule have not been reviewed by an outside source, so accomplishing that would seem most appropriate.

*See: <https://www.govexec.com/defense/2019/05/defense-contractor-accused-overcharging-will-repay-16-million/157288/>

Request:

We request an outside opinion/audit to determine (1) if our alternate approach is reasonable and (2) if it's based on sound financial/accounting principles.

Sincere thanks for any assistance possible to determine a rate structure that's fair and reasonable for both Santee Cooper and the communities they serve.

Additional information/clarification can be obtained from:

~ Bob Sweet
Chairman, Street Lights Committee
Plantation Lakes POA
bsweet731@gmail.com

Santee Cooper Lighting Rate Calculation Example

All capital and rate values are from 2015 Santee Cooper Rate Study

Capital Calculations*

	175W MH Hampton Fixtures	14' Fiberglass Low Country Fluted Poles
Labor	98.70	195.87
Equipment	14.89	59.89
Mat-Fixture	450.00	1,200.00
Mat-Other	17.85	61.52
Overhead	98.19	199.27
Alloc. Cost	78.77	151.52
CIFR	<u>74.25</u>	<u>103.90</u>
Total Capital Cost per Item	\$832.66	\$2,021.98

Simulated Bill Calculations*

Monthly Facilities Charge (From 'Facilities Charge' worksheet)	1.40%	1.10%	
Monthly Lease Charge (Total Capital Times Facilities Charge)	\$111.70	\$223.30	
Total Fixtures	220	220	<u>Total</u>
Total Monthly Estimated Costs	\$2,574.00	\$4,906.00	\$7,480.00
<u>Estimated Monthly Itemized Costs</u>			
O&M Expense	\$203.92	\$507.09	
Interest Payment	\$815.68	\$2,926.35	
Principal Payment	\$1,297.00	\$1,879.97	
CIF & Payment To State	<u>\$252.30</u>	<u>\$490.60</u>	
Total Facilities Charge	\$2,574.00	\$4,906.00	

*Calculations use only one fixture type and one pole type for simplification

Calculation of Facilities Charge (as a percent of Installed Capital Cost)

	Fixtures	LED/Non-Wood Poles	Wood Poles	
O&M Expense	1.25%	1.25%	1.25%	Street lighting Maintenance Expenses / Street lighting Gross Plant.
Years Debt Service Paid	10	15	30	
Interest Payment	5.00%	5.00%	5.00%	
Principal Payment	7.95%	4.63%	1.51%	
Total Annual Debt Service Percentage	12.95%	8.63%	6.51%	
Total of O&M Expense and Debt Service	14.20%	10.88%	7.76%	
CIF Requirement and Payment to State	1.58%	1.21%	0.86%	
Annual Facilities Charge	15.78%	12.09%	8.62%	
Monthly Facilities Charge	1.40%	1.10%	0.80%	Used in 'Bill Calculation' Section.
<u>Facilities Charge Breakdown</u>				
O&M Expense	7.92%	10.34%	14.31%	
Interest Payment	31.59%	41.34%	58.03%	
Principal Payment	50.39%	38.32%	17.47%	
CIF & Payment to State	<u>10.00%</u>	<u>10.00%</u>	<u>10.00%</u>	
Total Facilities Charge	100.00%	100.00%	100.00%	

**STREET LIGHTS
MONTHLY EXPENSES and DEBT SERVICE**

Location: Plantation Lakes POA
Lights owned and serviced by: Santee Cooper
Original value of system as provided by Santee Cooper: \$717,793
Number of outdoor light poles: 220

MONTHLY EXPENSES:

Insurance *	\$ 500
Maintenance * (25 lights/year@ \$325/light)	\$ 677
Interest * (6% average; diminishing principal)	\$1,792
Management, Overhead *	<u>\$ 417</u>
TOTAL	<u>\$3,386</u>

DEBT SERVICE:

Monthly lease payments	\$7,700
Less monthly expenses	<u>- \$3,386</u>
Monthly amount available for debt retirement	<u>\$4,314</u>

MONTHLY LEASE PAYMENT AFTER DEBT RETIREMENT:

Adjusted total: (Insurance, maintenance, mgt, overhead) \$1,594

NOTES:

- * "Monthly expenses" are an attempt to provide good faith estimates in each listed category. These figures can be refined should specific data be provided by Santee Cooper or other reliable source(s). Process and data used for determining estimates above are available upon request.
- Amount available each year to be applied to debt retirement: ($\$4,314 \times 12 = \$51,768$)
- Number of years to pay off the initial cost: **13.87 years** ($\$717,793$ divided by $\$51,768/\text{year}$)
- $\$92,400/\text{year} \times 13.87 \text{ years} = \$1,281,588$. Total amount paid to Santee Cooper, enabling them to recoup **estimated total costs**. This is 1.79 times the original value of the lighting system.
- Questions? Clarifications? Contact:
~ Bob Sweet
Chairman, Street Lights Committee,
Plantation Lakes POA
bsweet731@gmail.com