

# LINE AND SERVICE EXTENSION POLICY



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## APPLICABILITY

Requests for line and service extensions shall be governed by this policy. A *Cost-to-Revenue Ratio* shall be calculated and applied to all service requests from both new customers and existing customers, wherein changes in MPC facilities are required that result in a total incremental distribution investment of less than \$50,000.00.<sup>1</sup> The purpose of the Cost-to-Revenue Ratio calculation is to identify situations where the customer will be required to contribute toward service extension costs pursuant to Rule 701 of the Company's Rules Governing Electric Service. Customer contributions shall be required whenever the Cost-to-Revenue Ratio exceeds the applicable ratio set forth below.

## DEFINITIONS

As used in this Line and Service Extension Policy:

*Base Revenue* shall mean the incremental annual base rate revenue to be collected from the customer; provided, however, Base Revenue shall not include any revenues or amounts collected through fuel charges, charges from other rate adjustment clauses and riders, sales tax, or other Commission directed charges, and shall not include other bill components such as lease payments or miscellaneous credits, fees or other adjustments.

*Cost-to-Revenue Ratio* shall mean the total Distribution Service Order (DSO) costs to provide Standard Service (as defined below) or certain circumstances underground services,<sup>2</sup> including labor, materials, and related costs, divided by the estimated annual electric service Base Revenue.<sup>3</sup>

*Standard Service* shall mean the minimum overhead primary and secondary lines, transformers, wood poles, and related facilities required to provide electric service to a service point approved by Mississippi Power Company, and at a Company standard voltage that meets the customer's voltage, phasing, and load requirements.

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<sup>1</sup> Service requests requiring incremental distribution investment of \$50,000.00 or greater shall not be subject to this policy and shall be evaluated on a case-by-case basis to determine if any customer contribution will be required.

<sup>2</sup> The cost-to-revenue ratio shall be calculated using the cost to provide Standard Service except in those cases where the Company determines, in its sole discretion and in accordance with its Underground Electric Service Policy, that underground service is more economical than overhead in which case the cost to provide underground service shall be used.

<sup>3</sup> The Cost-to-Revenue Ratio addresses distribution line costs only, and does not consider transmission or substation facility costs that may be required to serve a customer. Customer requests requiring additional transmission facilities shall be evaluated on a case-by-case basis to determine if any customer contribution will be required.

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## COST-TO-REVENUE RATIOS AND COLLECTION

The following ratios indicate the *maximum* allowable Cost-to-Revenue Ratio for each character of service<sup>4</sup> before customer contribution is required:

- Residential– 5:1;
- Commercial/Industrial – 3:1;

Where the Cost-to-Revenue Ratio falls within the maximum allowable ratios above, Customer shall not be required to provide any contributions under this policy. In such circumstances, no Contribution In Aid of Construction (CIAC) gross-up shall be collected for work that the Company authorizes the Customer to perform in connection with such service extension.

### Calculating Cost-to-Revenue Ratios

Cost-to-Revenue Ratios shall be calculated and, where applicable, out-of-ratio contributions shall be billed according to the following guidelines:

1. When calculating the Cost-to-Revenue Ratio, only work that is necessary to provide Standard Service shall be included. If the service extension work requires both Standard Service work and miscellaneous non-Standard Service work (such as moving poles or additional non-standard investment), all non-Standard Service charges shall be excluded from the calculation and shall be billed separately.
2. When calculating the Cost-to-Revenue Ratio, only the facilities that are being installed for that individual customer shall be included. If the Company, in its sole discretion, determines that all or a portion of the facilities to be constructed are reasonably likely to be used to serve other customers within 3 years (Commercial/Industrial) or 5 years (Residential), then such facilities shall be excluded from the calculation.
3. The Cost-to-Revenue Ratio applies to primary and secondary residences. Ratios for serving secondary residences (e.g. hunting/fishing camps, low-use vacation homes, etc.) shall be calculated using estimated annual Base Revenue adjusted for secondary usage or, where this adjusted data is not available, then ratio shall be calculated using one-half of the estimated annual Base Revenue of a primary residence of similar square footage.

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<sup>4</sup> This policy is not applicable to lighting service extension requests. Lighting service requests shall be governed by the Company's filed lighting rate schedules (OL and SL).

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4. Load additions shall be evaluated in the same manner as new construction. The Cost-to-Revenue Ratio calculation shall only include the incremental costs and revenues resulting from the additional load.

## Billing for Out-of-Ratio Contributions

1. If the Cost-to-Revenue Ratio calculation exceeds the allowable maximum Cost-to-Revenue Ratio for each character of service prescribed herein, the Customer shall be required to pay as CIAC toward such service extension a sum equal to the out-of-ratio amounts. (Residential Example: Estimated annual Base Revenue of \$2,000 results in maximum allowable costs of \$10,000 (per 5:1 ratio). DSO Costs total \$12,000. Therefore, customer contribution would be equal to \$2,000 (i.e. \$12,000-\$10,000=\$2,000) plus applicable CIAC, income tax gross up and all applicable sales and use tax)).
2. Contributions required hereunder shall be billed to the customer through a separate Non-Electric Service Bill (NESB) for the total contribution amount. The total charges will include CIAC, income tax gross-up, and all applicable sales and use tax.
3. Company may, in its sole discretion, offer other options for the customer to compensate the Company for out-of-ratio amounts or to provide a revenue guarantee in an amount and under terms that, in the opinion of the Company, is sufficient to justify and protect the Company's investment.