



Industry Simulation

Power & Utility
Case study



South Eastern Public Utility, Inc. (SEPU)



Company profile

South Eastern Public Utility, Inc. (SEPU) is a vertically integrated Investor-Owned Utility (IOU) company with generation, transmission, and distribution assets. Founded in 1911, SEPU has been providing reliable electricity to consumers and stable returns for shareholders for more than 100 years. The company operates in one region with an electric service area in 12 counties, serving approximately 1.1 million customers.

Regulatory environment overview

SEPU is overseen by the Federal Energy Regulatory Commission (FERC) and by the regional Public Service Commission (PSC). Most interaction occurs between the company and the five appointed commissioners of the PSC. The PSC is in charge of assuring that rates are just and reasonable and that service is safe, adequate, and reliable. The PSC requires companies to receive approval for the construction of transmission lines, as well as for any issuances of debt or equity and various other investment activities.

SEPU charges a regulated rate for electricity generation and delivery, from its generation in plants through its transmission and distribution to customers. The PSC approves rates that allow SEPU a reasonable opportunity to recover its operating expenses (operating and maintenance expenses, depreciation, and taxes) and realize a return on the approved capital investment.

Generation

The generation division of SEPU operates three power plants. The electricity supply business is capital intensive and is subject to volatility in fuel prices and prices in wholesale electricity markets. The goal of the generation plants is to provide safe, adequate, reliable, and affordable electricity to consumers.

SEPU must prioritize capital resources to replace outdated generation system components to maintain the efficiency and reliability of the generation plants while minimizing cost. Recently, SEPU has not been

providing customers with the standards of reliability they expect, and regulators are increasingly frustrated with the flagging dependability. Employee engagement has also suffered as a result of SEPU initiating departmental reductions and payroll cuts.

Transmission and distribution

SEPU maintains and operates approximately 1,600 conductor miles of electric transmission lines and a distribution network of approximately 9,050 pole miles of overhead lines and 3,275 trench miles of underground lines. The transmission systems carry large volumes of high-voltage electricity from generation sources and transfer it through substations to low-voltage distribution networks to homes and businesses.

Customer satisfaction

The quality of the service at the SEPU customer call center is analyzed by average call-time waiting, duration of a call, customer responses to satisfaction surveys, and total customer complaints. Billing accuracy is rated based on internal audits and the number of customer complaints regarding billing inconsistencies.

Operating summary

Due to the size of its infrastructure, SEPU incurs substantial operating costs. More than half of SEPU's total cost of service is attributable to energy generation expenses. SEPU is subject to the volatility inherent in wholesale market fuel prices. The bulk of what remains goes toward service, maintenance and repair costs, and labor expenditures.

Outlook

Analysts indicate that the power and utility industry will change significantly in the coming years as a result of new regulations, industry consolidation, and shifting demand patterns. SEPU will need to respond to market changes and varied customer interests to retain its market position.

SEPU's top five goals:

- 1. Drive revenue through existing and new business models:** This metric refers to the total money made by selling the company's products and services.
- 2. Reduce operating expenses:** This metric refers to the expenses SEPU incurs through its normal business operations, including generation, transmission, and distribution operational costs.
- 3. Increase customer satisfaction:** This metric is a measure of the degree to which products and services supplied by SEPU meet or surpass customer expectations.
- 4. Strengthen grid reliability:** This metric refers to the degree to which the performances of the elements of the electric system result in power being delivered to consumers within accepted standards and in the amount desired.
- 5. Improve employee productivity:** This metric refers to the efficiency and output of SEPU's employees. The more employees feel that their health and safety are a priority, the more likely they will be to perform well and to stay at SEPU.

Financial overview

The company's revenues and operating margins are under pressure. The previous leadership team was not prepared to respond to the declining revenue and failed to prioritize cost-cutting measures appropriately.



Financial statements

In millions	Year 0	Year -1	Year -2
Revenue	3,576,274	3,481,613	3,399,101
Operating expenses	(3,301,305)	(3,214,117)	(3,163,353)
Interest expense	(352,383)	(336,071)	(349,809)
Total expenses	(3,653,688)	(3,550,188)	(3,513,162)
Revenue less operating and interest expenses	(77,414)	(68,575)	(114,061)
Grant income	43,238	42,058	43,929
Other income	56,838	43,639	43,699
Total other income	100,076	85,697	87,628
Change in net position	22,662	17,122	(26,433)
Net position, beginning of year	472,188	455,066	481,499
Net position, end of year	494,850	472,188	455,066

Revenues by Customer Class (in Millions)	Year 0	Year -1	Year -2
Residential	1,919,126	1,843,735	1,815,921
Commercial	1,563,010	1,544,607	1,492,815
Other	94,138	93,271	90,365
Total	3,576,274	3,481,613	3,399,101