

1 **Q. (Reference Application Schedule B, page 35 of 98) For the Services (Pooled) project,**
2 **what is the primary cause of the steep increase in unit costs in 2018 (36% increase**
3 **over new services unit costs in 2017)?**
4

5 A. The increase in unit costs for the Services project in 2018 was attributed to 3 principal
6 factors.¹
7

8 First, in 2018, distribution systems in some residential subdivisions were constructed
9 using the new front-lot hybrid construction configuration. In this configuration, the
10 normal aerial secondary voltage wires are replaced by underground wiring in conduit.
11 The costs for aerial secondary wires are normally included in the *Extensions* budget,
12 while the costs for underground wiring in conduit are normally included in the *Services*
13 budget. As a result, the new construction configuration resulted in a decrease in costs
14 under the *Extensions* budget and an increase in costs under the *Services* budget.²
15

16 Second, in 2018, more customers chose to install underground services than a normal
17 year, which are more costly to construct than aerial services.³
18

19 Finally, while overall gross customer connections declined in 2018 due to a decline in
20 residential construction, the number of higher-cost general service connections remained
21 relatively constant.⁴ As a result, in 2018, the average cost of new services increased.⁵

¹ The variance explanation for the 2018 *Services* project was included in the *2018 Capital Expenditure Report* that was filed with the Board on March 1, 2019.

² In 2018, the *Extensions* costs were \$464,000 less than budget.

³ The cost difference between aerial and underground services is charged to the customer making the request. In 2018, 151 new customers chose to install underground services compared to 63 in 2017.

⁴ In 2018, overall gross customer connections declined by 490 compared to 2017. However, new general service connections in 2018 were 554 compared to 558 in 2017.

⁵ Typically, it costs more to install a service for a general service customer than for a domestic customer.