

Experts Report

D-2017-009 R-3867-2013 Phase 3

Pursuant to ordering paragraph 41 of the February 1, 2017 Order in the Docket, the experts have communicated with each other to identify the topics on which they agree and debate topics on which they disagree. The process included calls and exchanges of working proposals and e-mail comments designed to refine positions and as far as possible to identify areas of agreement and disagreement. This report provides a summary of the areas where the witnesses have been able to agree relative to the issues of Phase 3A. Phase 3A has as its objective to determine the long-run marginal costs concerning the specific O&M costs associated with the new connection(s).

Based on the discussion of the experts, the experts agree that there are certain one-time costs associated with new customers as well as ongoing costs that may occur annually or occur as lumpy and intermittent costs. Attachment 1 to this report consisting of three tables- Table 1 for Residential customers, Table 2 for CII customers and Table 3 for Major Industrial customers- provide a comparison prepared by Mr. Baudino of the costs in the Black & Veatch report and the consultants' costs that other experts believe should be reflected in the long-run marginal costs. These costs differ by class of service and include the one-time cost of confirmation letters (Item 1 in the Tables), contract preparation (Item 5 in the Tables), account set-up (Item 3 in the Tables), and credit checks for non-residential customers in year 1 (Item 6 in Tables 2 and 3). The experts agree that the cost of bill presentation (Item 2 in the Tables) and handling payments (Item 7 in the Tables) should be included in all years as part of long run marginal costs. Other costs recurring annually should be treated in each year. Some costs may not be incurred for one or more years after the connection or some may occur less than annually (e.g., inspections and preventive and corrective maintenance); the profitability analysis should reflect the timing and/or magnitude of the costs as represented in the cash flow in the years when the costs are most likely to be incurred. Some first-year costs may repeat with customer turnover.

The items contained in the boxes in Tables 1, 2, and 3 are items that remain in dispute among the experts and are not included in the items where agreement has been reached. Each party will address their positions relative to the particular items in their own reports.

TABLE 1
RESIDENTIAL LONG RUN MARGINAL COSTS - OPERATING EXPENSES

Attachment 1

	Black and Veatch Proposed				Consultants Report			
	Year 1		Year 2 and +		Year 1		Year 2 and +	
	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
1 Mailing of subscription confirmation letter	\$ 0.83	\$ 0.83	\$ -	\$ -	\$ 0.83	\$ 0.83	\$ -	\$ -
2 Cost of mailing bill	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36
3 Cost of opening a billing file	\$ 9.66	\$ 9.66	\$ -	\$ -	\$ 9.66	\$ 9.66	\$ -	\$ -
4 Cost of reading a meter	\$ -	\$ -	\$ -	\$ -	\$ 6.71	\$ 6.71	\$ 6.71	\$ 6.71
5 Input of a new contract	\$ 36.29	\$ 36.29	\$ -	\$ -	\$ 36.29	\$ 36.29	\$ -	\$ -
6 Cost of a credit check conducted internally	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7 Annual cost of cashing a payment	\$ 0.74	\$ 0.74	\$ 0.74	\$ 0.74	\$ 0.74	\$ 0.74	\$ 0.74	\$ 0.74
8 Cost of processing a standard customer call	\$ -	\$ 12.84	\$ -	\$ 12.84	\$ -	\$ 12.84	\$ -	\$ 12.84
9 Cost of bad debt	\$ -	\$ -	\$ -	\$ -	\$ 0.57	\$ 0.57	\$ 0.57	\$ 0.57
10 Collection and recovery costs	\$ -	\$ -	\$ -	\$ -	\$ 2.43	\$ 2.43	\$ 2.43	\$ 2.43
11 Customer retention costs - Major accounts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12 Customer retention costs - Major industries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13 Preventive maintenance - Service line	\$ -	\$ -	\$ -	\$ 12.88	\$ 12.88	\$ 12.88	\$ 12.88	\$ 12.88
14 Corrective maintenance - Service line	\$ -	\$ -	\$ -	\$ 17.99	\$ 17.99	\$ 17.99	\$ 17.99	\$ 17.99
15 Processing of CRP application	\$ -	\$ 23.83	\$ -	\$ -	\$ -	\$ 23.83	\$ -	\$ -
16 Preventive maintenance - Mains	\$0.22 / m				\$0.22 / m			
17 Corrective maintenance - Mains	\$0.37 / m				\$0.37 / m			
18 Meter inspection and maintenance costs								
19 - Types of meters								
20 Turbine	\$ -	\$ 31.68	\$ -	\$ 31.68	\$ -	\$ 31.68	\$ -	\$ 31.68
21 Spin test for turbines (less than 12 in.)	\$ -	\$ 79.20	\$ -	\$ 79.20	\$ -	\$ 79.20	\$ -	\$ 79.20
22 Telemetry	\$ -	\$ 118.79	\$ -	\$ 118.79	\$ -	\$ 118.79	\$ -	\$ 118.79
23 Corrective instruments	\$ -	\$ 87.11	\$ -	\$ 87.11	\$ -	\$ 87.11	\$ -	\$ 87.11
24 Spin test for turbine (12 in and more)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25 Cost of a cellular line - telemetry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26 Totals	\$ 55.88	\$ 409.33	\$ 9.10	\$ 369.59	\$ 96.46	\$ 449.91	\$ 49.68	\$ 379.30

Note: This table does not reflect Distribution Mains O&M costs, which will be included in Phase 3B

TABLE 2
CII LONG RUN MARGINAL COSTS - OPERATING EXPENSES

Attachment 1

	Black and Veatch Proposed				Consultants Report			
	Year 1		Year 2 and +		Year 1		Year 2 and +	
	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
1 Mailing of subscription confirmation letter	\$ 0.83	\$ 0.83	\$ -	\$ -	\$ 0.83	\$ 0.83	\$ -	\$ -
2 Cost of mailing bill	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36
3 Cost of opening a billing file	\$ 9.66	\$ 9.66	\$ -	\$ -	\$ 9.66	\$ 9.66	\$ -	\$ -
4 Cost of reading a meter	\$ -	\$ -	\$ -	\$ -	\$ 6.71	\$ 6.71	\$ 6.71	\$ 6.71
5 Input of a new contract	\$ 52.62	\$ 52.62	\$ -	\$ -	\$ 52.62	\$ 52.62	\$ -	\$ -
6 Cost of a credit check conducted internally	\$ 17.19	\$ 17.19	\$ -	\$ -	\$ 17.19	\$ 17.19	\$ -	\$ -
7 Annual cost of cashing a payment	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75
8 Cost of processing a standard customer call	\$ -	\$ 12.84	\$ -	\$ 12.84	\$ -	\$ 12.84	\$ -	\$ 12.84
9 Cost of bad debt	\$ -	\$ -	\$ -	\$ -	\$ 7.77	\$ 7.77	\$ 7.77	\$ 7.77
10 Collection and recovery costs	\$ -	\$ -	\$ -	\$ -	\$ 33.31	\$ 33.31	\$ 33.31	\$ 33.31
11 Customer retention costs - Major accounts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12 Customer retention costs - Major industries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13 Preventive maintenance - Service line	\$ -	\$ -	\$ -	\$ 12.88	\$ 12.88	\$ 12.88	\$ 12.88	\$ 12.88
14 Corrective maintenance - Service line	\$ -	\$ -	\$ -	\$ 17.99	\$ 17.99	\$ 17.99	\$ 17.99	\$ 17.99
15 Processing of CRP application	\$ -	\$ 32.90	\$ -	\$ -	\$ -	\$ 32.90	\$ -	\$ -
16 Preventive maintenance - Mains	\$0.22 / m				\$0.22 / m			
17 Corrective maintenance - Mains	\$0.37 / m				\$0.37 / m			
18 Meter inspection and maintenance costs								
19 - Types of meters								
20 Turbine	\$ -	\$ 31.68	\$ -	\$ 31.68	\$ -	\$ 31.68	\$ -	\$ 31.68
21 Spin test for turbines (less than 12 in.)	\$ -	\$ 79.20	\$ -	\$ 79.20	\$ -	\$ 79.20	\$ -	\$ 79.20
22 Telemetry	\$ -	\$ 118.79	\$ -	\$ 118.79	\$ -	\$ 118.79	\$ -	\$ 118.79
23 Corrective instruments	\$ -	\$ 87.11	\$ -	\$ 87.11	\$ -	\$ 87.11	\$ -	\$ 87.11
24 Spin test for turbine (12 in and more)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25 Cost of a cellular line - telemetry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26 Totals	\$ 90.41	\$ 452.93	\$ 10.11	\$ 370.60	\$ 169.07	\$ 531.59	\$ 88.77	\$ 418.39

Note: This table does not reflect Distribution Mains O&M costs, which will be included in Phase 3B

TABLE 3
MAJOR INDUSTRIES LONG RUN MARGINAL COSTS - OPERATING EXPENSES

Attachment 1

	<u>Black and Veatch Proposed</u>				<u>Consultants Report</u>			
	Year 1		Year 2 and +		Year 1		Year 2 and +	
	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
1 Mailing of subscription confirmation letter	\$ 0.83	\$ 0.83	\$ -	\$ -	\$ 0.83	\$ 0.83	\$ -	\$ -
2 Cost of mailing bill	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36	\$ 8.36
3 Cost of opening a billing file	\$ 9.66	\$ 9.66	\$ -	\$ -	\$ 9.66	\$ 9.66	\$ -	\$ -
4 Cost of reading a meter	\$ -	\$ -	\$ -	\$ -	\$ 6.71	\$ 6.71	\$ 6.71	\$ 6.71
5 Input of a new contract	\$ 36.29	\$ 36.29	\$ -	\$ -	\$ 36.29	\$ 36.29	\$ -	\$ -
6 Cost of a credit check conducted internally	\$ 17.19	\$ 17.19	\$ -	\$ -	\$ 17.19	\$ 17.19	\$ -	\$ -
7 Annual cost of cashing a payment	\$ 1.59	\$ 1.59	\$ 1.59	\$ 1.59	\$ 1.59	\$ 1.59	\$ 1.59	\$ 1.59
8 Cost of processing a standard customer call	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9 Cost of bad debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10 Collection and recovery costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11 Customer retention costs - Major accounts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12 Customer retention costs - Major industries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13 Preventive maintenance - Service line	\$ -	\$ -	\$ -	\$ -	12.88	12.88	12.88	12.88
14 Corrective maintenance - Service line	\$ -	\$ -	\$ -	\$ -	17.99	17.99	17.99	17.99
15 Processing of CRP application	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16 Preventive maintenance - Mains	\$0.22 / m				\$0.22 / m			
17 Corrective maintenance - Mains	\$0.37 / m				\$0.37 / m			
18 Meter inspection and maintenance costs								
19 - Types of meters								
20 Turbine	\$ 31.68	\$ 31.68	\$ 31.68	\$ 31.68	\$ 31.68	\$ 31.68	\$ 31.68	\$ 31.68
21 Spin test for turbines (less than 12 in.)	\$ 79.20	\$ -	\$ 79.20	\$ -	\$ 79.20	\$ -	\$ 79.20	\$ -
22 Telemetry	\$ 118.79	\$ 118.79	\$ 118.79	\$ 118.79	\$ 118.79	\$ 118.79	\$ 118.79	\$ 118.79
23 Corrective instruments	\$ 87.11	\$ 87.11	\$ 87.11	\$ 87.11	\$ 87.11	\$ 87.11	\$ 87.11	\$ 87.11
24 Spin test for turbine (12 in and more)	\$ -	\$ 237.59	\$ -	\$ 237.59	\$ -	\$ 237.59	\$ -	\$ 237.59
25 Cost of a cellular line - telemetry	\$ -	\$ 186.12	\$ -	\$ 186.12	\$ -	\$ 186.12	\$ -	\$ 186.12
26 Totals	\$ 390.70	\$ 735.21	\$ 326.73	\$ 702.11	\$ 428.28	\$ 772.79	\$ 364.31	\$ 708.82

Note: This table does not reflect Distribution Mains O&M costs, which will be included in Phase 3B