

APPENDIX E  
Cost of Service Rates

### Cost of Service Rates

Under a COS model, a regulated entity is permitted to set rates that allow it the opportunity to recover the costs of its regulated operations, including a fair rate of return on its investment devoted to regulated operations.

This principle is consistent with what is expected to occur in a competitive market, where the price of services trends towards the cost of providing them, including a fair return. In all previous EGNB rate setting based on market based formula proceedings, this principle has been clearly satisfied through the use of a deferral account which was recognized and applied by the Board.

It is important to note that this standard only gives the entity the opportunity to earn a fair return; it does not guarantee it. In most cases, the rates are set prospectively, based on anticipated future costs. If the entity over-recovers, it usually keeps the excess and if it under-recovers, it bears the deficiency.

The “cost of service” principle reflects the need for fairness and the necessity to offer adequate incentives for providing regulated services. That is:

- an entity’s investors should have the opportunity to recover their costs, including a fair return, just as they would if they were to invest in a non-regulated entity of similar risk;
- from an incentive viewpoint, unless investors have a reasonable opportunity to recover their costs, it will not be possible to attract the investment necessary to provide regulated operations. However, the opportunity to recover costs, including a fair return, should provide an adequate incentive to attract those funds.

### Cost of Service Methodology

In the December 21, 2010 Decision in the Matter of a Review of a Cost of Service Study filed by EGNB the Board approved the methodology proposed for the COS model. EGNB has used the same cost of service principles and processes and the principles of rate design that require consideration and how these have been translated into the proposed rate classes under cost of service rates, for the purposes of the 2013 COS study.

Revenue Requirement

The revenue requirement provided in the 2013 Budget was used for the purpose of determining the distribution rates in the 2013 COS study.

Rate Classes

The regulated rate classes prescribed in Section 3 of the Regulation (except Contract Power Plant Service) were used in the 2013 COS study.

Customer Mapping

For the purposes of this Application, EGNB’s current customers were mapped into the regulated rate classes based on the customer’s consumption data from May 1, 2011 to April 30, 2012. The regulated rate classes are defined by the maximum monthly consumption resulting in no distinction between residential and small commercial customers. The following table summarizes the mapping of existing customers to the regulated rate classes:

Historical Rate Classes	Regulated Rate Classes					
	Small General	Mid-General	Large General	Contract General	Industrial Contract General	Off-Peak
SGSR	8,149	166	1			
SGSC	1,739	390	7			
GS	73	1,057	186			
CGS	1	10	262	65		
CLGS-LFO				27	2	
CLGS-HFO				4	8	
OPS						15

Allocators

There were three basic approaches used to arrive at the allocators used in the 2010 COS study: direct attribution; EGNB’s historic experience; and Black & Veatch Corporation (“Black & Veatch”) experience. The allocators, proposed during the 2010 COS study, were adopted for the 2013 COS study as presented with the exception of changes to the percentage allocated to the

customer and demand classification under the “Mains” within the Classification Allocators. A copy of the allocators is attached in Schedule 17.

As part of the December 21, 2010 Decision, the Board directed EGNB to undertake a minimum system study and a zero-intercept study using 1¼ inch mains as the minimum. The purpose of these studies was to establish the classification of mains between customer related costs and demand related costs based on EGNB’s system data.

Black and Veatch was contracted by EGNB to complete the minimum system study and zero-intercept study. While Black and Veatch concluded that the 2 inch pipe should be the basis for the minimum system because it was more representative of the general main installed to service customers, the percentages allocated to the customer and demand classifications for the 2013 COS study were updated to reflect the results of the minimum system study for the 1¼ inch pipe as directed by the Board in the above noted Decision. A copy of the minimum system study is attached in Schedule 18.

The results of the 2013 COS study can be found in Schedule 19.

- COS Schedule 1 represents the results of the class cost of service study for 2013.
- COS Schedule 2 provides the summary of account functionalization.
- COS Schedule 3 summarizes the classification of the distribution function accounts.
- COS Schedule 4 provides the allocation of each account by classification and by rate class.
- COS Schedule 5 provides a summary of the allocation factors by account and function.
- COS Schedule 6 provides summary of the revenue requirement, revenue expected from proposed rates and the rates.