

SECTION 5.0
Cost of Service Rates

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2 Under a Cost of Service (“COS”) model, a regulated entity is permitted to set rates that allow it
3 the opportunity to recover the costs of its regulated operations, including a fair rate of return on its
4 investment devoted to regulated operations.

5 This principle is consistent with what is expected to occur in a competitive market, where the price
6 of services trends towards the cost of providing them, including a fair return.

7 **Cost of Service Methodology**

8 In the December 23, 2014 Decision in the Matter of Enbridge Gas New Brunswick’s (“EGNB”)
9 Review of 2013 Regulatory Financial Statements/2015 Rate Application, the Board approved the
10 Cost of Service Study as proposed by EGNB. EGNB used the same cost of service principles and
11 processes for the purpose of the 2021 COS study.

12 **Revenue Requirement**

13 The revenue requirement provided in the 2021 Budget was used for the purpose of determining
14 the distribution rates in the 2021 COS Model.

15 **Allocators**

16 Allocators used in the 2021 COS study are consistent with those provided in support of the 2020
17 Rate Application. A copy of the Allocators is attached in Schedule 5.1 - Allocators.

1 The results of the 2021 COS study can be found in Schedule 5.2 - Cost of Service Model Data.

2 • COS Schedule 1 represents the results of the class cost of service study for 2021. The
3 first two pages provide summary information of the results by providing details on rate
4 base, O&M expenses, and current revenues by class (lines 1-19). The next section
5 (lines 20-26) provides present revenues at equal rates of return (if each class's return
6 was the same as the overall system return. Then the summary sheet presents the total
7 revenue requirement at the proposed rate of return (lines 27-41) with line 41 providing
8 the revenue deficiency or excess for each class. The last section (lines 42-52 show the
9 proposed revenues by class and the resulting rate of return by class and the parity ratios
10 on lines 53-38. The remaining pages of Schedule 1 provide the results of the COS
11 Study for each account and component of the total revenue requirement allocated to
12 each rate class.

13 • COS Schedule 2 provides the summary of account functionalization. This schedule
14 provides the results of functionalization step for each account and component of the
15 total revenue requirement allocated to the three functions (1) Gas Supply (not used);
16 (2) Distribution, and (3) Onsite & Metering.

17 • COS Schedule 3 summarizes the classification of the distribution function accounts.
18 This schedule provides the results of classification step for each account and
19 component of the total revenue requirement allocated to each of the three classifications
20 (1) Demand, (2) Energy, and (3) Customer. This information is presented for each of
21 the three functions so the first section (pages 1-10) provides the classification of costs
22 functionalized as Gas Supply (no costs are included in this function) and the next
23 section (pages 11-20) provide classification of costs functionalized to Distribution (see
24 Distribution Total, Distribution Demand, Distribution Energy, and Distribution
25 Customer columns) and the classification of costs functionalized to Onsite & Metering
26 (see the last 4 columns).

27 • COS Schedule 4 provides the allocation of each account by classification and by rate
28 class. This schedule has three sections (1) Distribution Demand (pages 1-10), (2)
29 Distribution Customer (pages 11-20), and (3) Onsite & Metering Customer (pages 21-

- 1 30). Each section provides the results of class allocation step for each account and
2 component of the total revenue requirement allocated to each of the rate classes.
- 3 • COS Schedule 5 provides a summary of the allocation factors by account and function.
4 This schedule provides the chosen functions, classification factors, and class allocation
5 factors for each of the accounts and components of the total revenue requirement; and
6 when used it indicates the internal allocation factors.
 - 7 • COS Schedule 6 provides a summary of the revenue requirement, revenue expected
8 from proposed rates and the credit related to overearnings with the resulting amounts
9 presented in the column 'Revenue Targets for Rate Design'.