



Section 5.0 – Cost of Service Rates

March 3, 2023

5.0 Cost of Service Rates

Under a Cost of Service ("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.

Cost of Service Methodology

In the December 23, 2014 Decision in the Matter of Enbridge Gas New Brunswick's ("EGNB") Review of 2013 Regulatory Financial Statements/2015 Rate Application, the Board approved the Cost-of-Service Study as proposed by EGNB. Liberty used the same cost of service principles and processes for the purpose of the 2023 COS study.

Revenue Requirement

The revenue requirement provided in the 2023 Budget was used for the purpose of determining the distribution rates in the 2023 COS Model.

Allocators

Allocators used in the 2023 COS study are consistent with those provided in support of the 2022 Rate Application, with one exception. In the previous rate application, the witness for the Public Intervenor, Robert Knecht, proposed a change to the development of the allocators used in the study. Liberty's interpretation of Mr. Knecht's proposal is to adjust the Design Day Allocator to account for the capacity captured in the Minimum System estimate. As a result of this adjustment, the allocation of the Demand classified plant is reduced to zero for the residential customer class because the capacity associated with the minimum system exceeds the demand of the residential class.

A copy of the Allocators is attached in Schedule 5.1 - Allocators.



The results of the 2023 COS study can be found in Schedule 5.2 – Cost of Service Model Data.

- COS Schedule 1 represents the results of the class cost of service study for 2023. The first two pages provide summary information of the results by providing details on rate base, O&M expenses, and current revenues by class (lines 1-18). The next section (lines 19-25) provides present revenues at equal rates of return (if each class's return was the same as the overall system return). Then the summary sheet presents the total revenue requirement at the proposed rate of return (lines 26-40) with line 40 providing the revenue deficiency or excess for each class. The last section (lines 41-51) shows the proposed revenues by class and the resulting rate of return by class and the parity ratios on lines 52-57. The remaining pages of Schedule 1 provide the results of the COS Study for each account and component of the total revenue requirement allocated to each rate class.
- COS Schedule 2 provides the summary of account functionalization. This schedule provides the results of functionalization step for each account and component of the total revenue requirement allocated to the three functions (1) Gas Supply (not used); (2) Distribution, and (3) Onsite & Metering.
- COS Schedule 3 summarizes the classification of the distribution function accounts. This schedule provides the results of classification step for each account and component of the total revenue requirement allocated to each of the three classifications (1) Demand, (2) Energy, and (3) Customer. This information is presented for each of the three functions so the first section (pages 1-8) provides the classification of costs functionalized as Gas Supply (no costs are included in this function) and the second section (pages 9-16) provide classification of costs functionalized to Distribution (see Distribution Total, Distribution Demand, Distribution Energy, and Distribution Customer columns) and the third section (pages 17-24) provide classification of costs functionalized to Onsite & Metering.
- COS Schedule 4 provides the allocation of each account by classification and by rate class. This schedule has three sections (1) Distribution Demand (pages 1-8), (2) Distribution Customer (pages 9-16), and (3) Onsite & Metering Customer (pages 17-24). Each section provides the results of class allocation step for each account and component of the total revenue requirement allocated to each of the rate classes.
- COS Schedule 5 provides a summary of the allocation factors by account and function. This schedule provides the chosen functions, classification factors, and class allocation factors for each of the accounts and components of the total revenue requirement; and when used it indicates the internal allocation factors.
- COS Schedule 6 provides a summary of the revenue requirement, revenue expected from proposed rates and the credit related to overearnings with the resulting amounts presented in the column 'Revenue Targets for Rate Design'.

