

SECTION 6.0  
Cost of Service Rates

## **6.0 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.

### 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 used the same cost of service principles and processes and the principles of rate design that require consideration for the purpose of the 2013 COS study. On September 25, 2012, EGNB filed a letter with the Board outlining the modifications to the COS study identified during the 2013 Rate Application review, as well as the directives provided in the Board's September 20, 2012 Decision. The 2014 COS study has been updated to reflect all of these modifications.

### Revenue Requirement

The revenue requirement provided in the 2014 Budget was used for the purpose of determining the distribution rates in the 2014 COS Model.

### Allocators

Allocators used in the 2014 COS study are consistent with those provided in support of the 2013 Rate Application. A copy of the Allocators is attached in Schedule 6.1 - Allocators.

### Mains Allocation Methodology

In accordance with the September 20, 2012 Board decision, the minimum system method using 1.25 inch pipe as the minimum main size was used in the 2014 COS model and the ICGS class was not allocated any portion of the cost of plastic mains.

The results of the 2014 COS study can be found in Schedule 6.2 - Cost of Service Model Data.

- COS Schedule 1 represents the results of the class cost of service study for 2014.
- 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 a summary of the revenue requirement, revenue expected from proposed rates and the rates.