

# FULLY ALLOCATED COST STUDY

## 1 Summary

The proposed Fully Allocated Cost Study is found on Exhibit GI-13, Document 3 through 13. A summary of the significant results, the allocated costs to each rate class, the revenue to cost ratios, and indicated returns on rate base, is outlined on Document 3, which is reproduced here in Table 1. The results of the Fully Allocated Cost study are compared to the proposed revenues found in Column 1.

<b>Table 1</b>					
<b>STUDY'S RESULTS</b>					
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5
	<u>Revenue</u> <i>\$Thousand</i>	<u>Cost of Service</u> <i>\$Thousand</i>	<u>Ovr/Und</u> <i>\$Thousand</i>	<u>Return on Rate Base</u>	<u>Revenue to Cost</u>
Rate 1	19,784.4	17,887.2	1,897.2	20.19%	1.11
Rate 2	27,913.6	30,156.4	(2,242.8)	4.23%	0.93
Rate 3	164.7	143.8	20.9	48.23%	1.15
Rate 4	1,282.0	1,127.8	154.2	27.22%	1.14
Rate 5	906.1	798.7	107.4	17.30%	1.13
Rate 9	1,922.6	1,859.5	63.1	10.72%	1.03

## 2 Introduction

The Fully Allocated Cost Study allocates the rate base and revenue requirement underpinning the test year to the various customer rate classes. The study's results are a best estimate of the forecast costs to serve each rate class based on the principles and conventions set forth in the study. These results are a reasonable representation of the costs incurred to provide service to Gazifère's customer rate classes. Other analysts using different conventions would produce different results. However, it is the consistent year-to-year relationship between costs and revenues that is important, rather than the absolute level of allocated costs.

The proposed study separates gas supply, gas supply load balancing, distribution facilities and customer related costs. The gas supply costing to Gazifère under Enbridge Gas Distribution's Rate 200 has facilitated this process.

Original : 2003-08-15

Révisé : 2003-10-08

GI-13

Document 2

Page 3 de 19

Requête 3514-2003

The Customer Accounting costs are classified to Number of Customers. These costs consist of the allocated general plant costs incurred to support that function together with its working capital component.

The Specific Costs are the GST/QST revenues. They are classified as such.

### **Document 8; Net Investment Costs**

Item 1, Gas Supply, represents the Régie dues expense. The portion of the Régie dues that is remitted to the Régie is classified to load balancing, annual, since the fee is applicable to delivered volumes. The remainder is the portion remitted to la Régie du Batiment which is calculated based on sales volumes. It is hence classified as commodity.

Items 2 to 9 follow the same classification of the rate base (Document 7).

### **Document 9; Operating and Maintenance expenses**

The first major function classified is Gas Supply costs. The details are found on Page 2.

#### **Delivery charge (blocks):**

The rationale for the classification of the delivery charge is explained above in section 4.3.2.

The total cost, 2,619.2 (\$000), is found on Document 9, page 3, line 25, column 13.

The storage costs component of 1,310.0 (\$000) corresponds to the storage costs included in Rate 200's delivery charge. The costs are classified to peak, space and annual based on the classification of Enbridge Gas Distribution's storage costs.

The remaining delivery costs of 1,309.2 (\$ 000) are classified 30% to peak and 70% to annual, reflecting Gazifère's operational load factor.

Peak component = 30% X ( 1,309.2) = 392.8

Annual component = 70% X ( 1,309.2 )= 916.4

Original : 2003-08-15

Révisé : 2003-10-08

GI-13

Document 2

Page 15 de 19

Requête 3514-2003

#### **Load balancing charge:**

The load balancing charge classification is explained above in section 4.3.4.

The total cost of 6,204.7 (\$000), is classified to load balancing, peak and annual.

The costs are classified 30% to peak and 70% to annual, reflecting Gazifère's operational load factor.

Peak component =  $30\% \times (6,204.7) = 1,861.4$

Annual component =  $70\% \times (6,204.7) = 4,343.3$

### **Gas Supply charge:**

The total gas supply cost of 25,919.7 (\$000) is shown at Document 9, page 3. It is derived as the sum of commodity charges for system gas and buy/sell volumes, i.e. the sum of lines 26 and 28.

The gas supply charge being a purely variable cost, is classified entirely as gas supply commodity.

### **Niagara:**

These costs are incurred to move gas from Enbridge Gas Distribution's system to Gazifère's franchise area. They represent fixed transportation costs and are classified and allocated 30/ 70 peak/annual consistently with the treatment of fixed gas supply costs, as previously explained in section 4.2.

Item 2.1, Chart Processing, is classified to Readings Processed.

Items 2.2 and 2.3, System Operations and Mains, follow the same classification as Distribution costs in rate base.

The Customer Service function costs are shared equally amongst all customers classes by classifying the costs to the total number of customers.

Many of the costs incurred in the fourth functional group, Sales Promotion, can be identified with specific classes. General Sales Promotion, Item 4.4, is related to the general promotion of natural gas resulting in optimizing distribution capacity. Accordingly, this expense is classified as capacity related.

Costs comprising the Customer Accounting function, with the exception of Item 5.3 are classified to be shared by all customers. Responsibility for the costs of Meter Reading Item 5.3, is readily determinable and is accumulated in Column 15.

Original : 2003-08-15

Révisé : 2003-10-08

GI-13

Document 2

Page 16 de 19

Requête 3514-2003