

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-1****Reference:** Sufficiency of Data

- Justice Bielby decision paragraph 67(a)
- August 19, 2004 response from ALGC to DCA re Initial Straw Dog Report paragraph 4
- August 10, 2004 Draft Initial Straw Dog Report Sections 3.2.3 and 7.2 3)
- BCMB 2006 Phase I & II Reports Technical meeting December 14, 2006 Presentation, page 7
- 2006 Phase I Report Rev 0, page 60

**Request:**

- a) How can the parties be confident that the data from the 165 Depots of the Study System is statistically valid in representing all Depots and does not exhibit a non-response bias? (If full data is not available from the UCA can sufficient information be obtained from the annual information filed with the BCMB to prepare an appropriate analysis?)
- b) If a non-response bias is identified, please advise how the data should be adjusted.
- c) 147 Depots were used in setting the allocation factor based on space utilization. Is the information regarding space utilization available from the permit application, and if so could the data provided with the permits be used to assess the space utilization of the non-reporting Depots?

**Response:** a) Madame Justice Bielby stated under paragraph 67:

The following issues may arise in the course of gathering and adjusting the information which is used in making these [revenue requirement] calculations:

- a) it may be that these calculations could be undertaken using only a selection of statistically valid information, rather than obtaining actual information obtained from every bottle depot;<sup>1</sup>

The AGLC comment to the DCA stated:

4. 7.2 3) The Standard of the Data – This section discusses the requirement to collect UCAs from 100% of all depots and then suggests concentrating on 75% of the depots by **volume**. The possible impact of approving this must be

---

<sup>1</sup> Doc 01-014

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

considered as to whether it would meet Bielby's findings and how it could affect decisions in other areas such as depot cross subsidization. To evaluate the cross subsidization issue, the UCAs for a representative sample of different types and sizes of bottle depots are needed rather than simply 75% by volume.<sup>2</sup>

The Draft August 10, 2004 version of the Straw Dog Report stated under section 7.2 3:

3) The Standard of the Data

As per the Bielby findings, Stantec will collect completed UCAs from 100% of all depots (but not the Class "D" depots) operating in the Province. Stantec suggests that in the interests of balancing costs and the need for a reasonable timeline that there should be a graduated approach to improving the standard of the data over time. Initially Stantec proposes that all Depots submit a completed UCA under the guiding principle of Sound Information but that we concentrate our initial efforts on the top 75% of the depots by volume in terms of the recommended standards for completeness and verification as outlined above and as agreed to by the Board. The top 75% of the depots will be used as a benchmark for the remainder.<sup>3</sup>

The DCA notes that the BCMB approved Straw Dog Report contained the following under section 6.2.3 (same area of report as above, only sections re-numbered):

Stantec will collect completed UCAs from 100% of all depots (but not the Class "D" Beer Depots) operating in the Province. Stantec suggests that in the interests of balancing costs and the need for a reasonable timeline that there should be a graduated approach to improving the standard of the data over time. Stantec proposes

---

<sup>2</sup> Doc 05-001, p. 18

<sup>3</sup> Doc 01-001, p. 7.12

<sup>4</sup> Doc 01-004, p. 6.10

<sup>5</sup> The sampling issue can be partially addressed by bootstrapping method. The bootstrapping method is done by randomly choosing observations from the original sample and form another sample with the same size. The use of bootstrapping can improve the finite-sample critical values for hypothesis testing.

<sup>6</sup> There also is another perspective. Whether the low cost Depots choose to report depends on their competing strategy. They could choose not to report and keep the average costs higher so that they can get more profit. Or, they can report and reduce the average cost so that they can put competitive pressure on the high cost Depots in an attempt to force them out of business.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

that the Board approve a more detailed review process when they approve the final version of the UCA as outlined in section 4.1.1 of this report.<sup>4</sup>

The DCA submits that the BCMB approved the 2004 UCA after an initial review, a testing process with 10 Depots and a further review. The approved 2004 UCA data collection process was designed to collect data from all Depots. Based on concerns from interested parties, including the AGLC, the actual 2004 UCA data collection process was expanded to include all Depots.

The BCMB 2006 Phase I & II Reports Technical Meeting December 14, 2006 Presentation on page 7 provided the return statistics for the 2005 UCAs. The DCA assumes the reference to page 60 of the 2006 Phase I Report Rev 0 relates to the footnotes that provide return related statistics.

The DCA submits that the interested parties and the HCRP can take comfort in the fact that the BCMB, the ABDA and the DCA were diligent in collecting data from the maximum number of Depots as possible. The DCA incorporated into the 2006 Phase I Report Rev 0 2005 UCAs from Depots for two months after the due date in an attempt to maximize the number of returns (see 2006 Phase I Report Rev 0, p. 13, l. 12-31). After the September 30, 2006 cut off date the DCA only received a few 2005 UCAs that could have been incorporated into the 2006 Phase I Report Rev 0.

The following two charts show the percentage of the 215 Depots in the Cal 2005 Total System that filed 2005 UCAs by number and by volume. Note that the Volume Clusters in these charts are for all 215 Depots in the Cal 2005 Total System and hence there are 10 or 11 Depots per Cluster.

The first chart shows that on a number of Depots basis, there is a relatively even distribution of Depots that filed 2005 UCAs by Volume Cluster. The exception is Volume Cluster 1 where only 27% (3 of 11) of the smallest Depots filed 2005 UCAs. The range of volume for Depots in Volume Cluster 1 is up to 380,000 containers per year (up to about \$15,000 per year in Handling Commission Revenue).

The second chart shows that similarly on a volume basis, there is a relatively even distribution of Depots that filed 2005 UCAs by Volume Cluster. For Volume Cluster 1, 41% of the volume was captured in the 2005 UCAs, suggesting that the smallest of the Depots in Volume Cluster 1 did not file 2005 UCAs. This result is consistent with the DCA's experience that the smallest Depots could not comply with the 2005 UCA requirements and were exempted from filing by the

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

BCMB.

The third chart shows that, with Volume Cluster 1 removed, there is a trend that suggests more of the 2005 Study System Volume was captured by Larger Depots. The DCA notes that the  $R^2$  statistic for the best fit line is low.

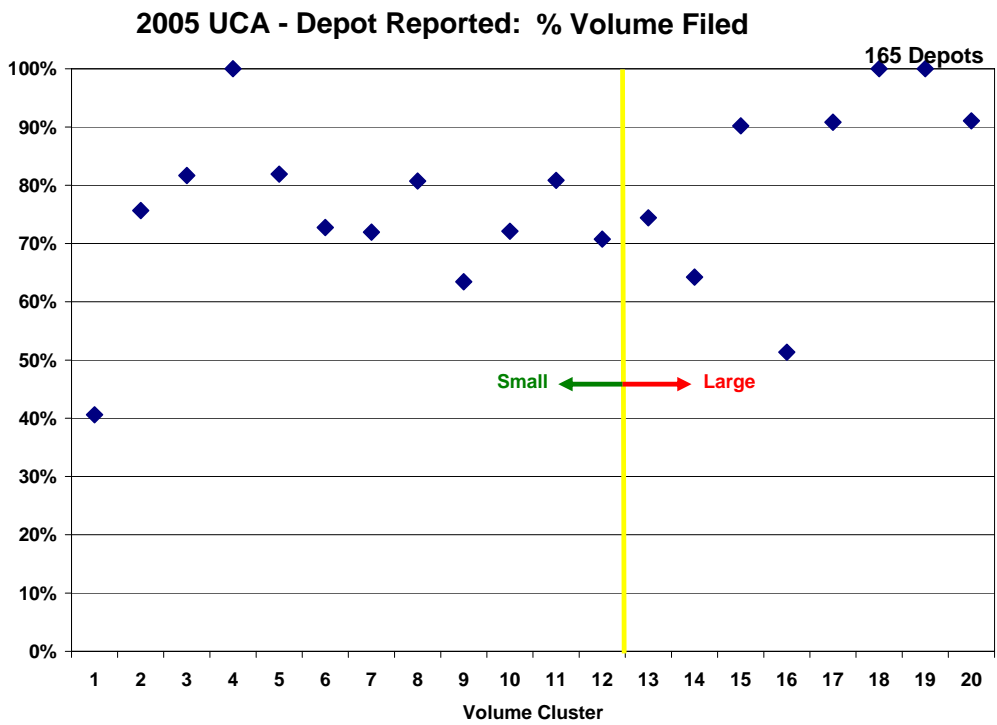
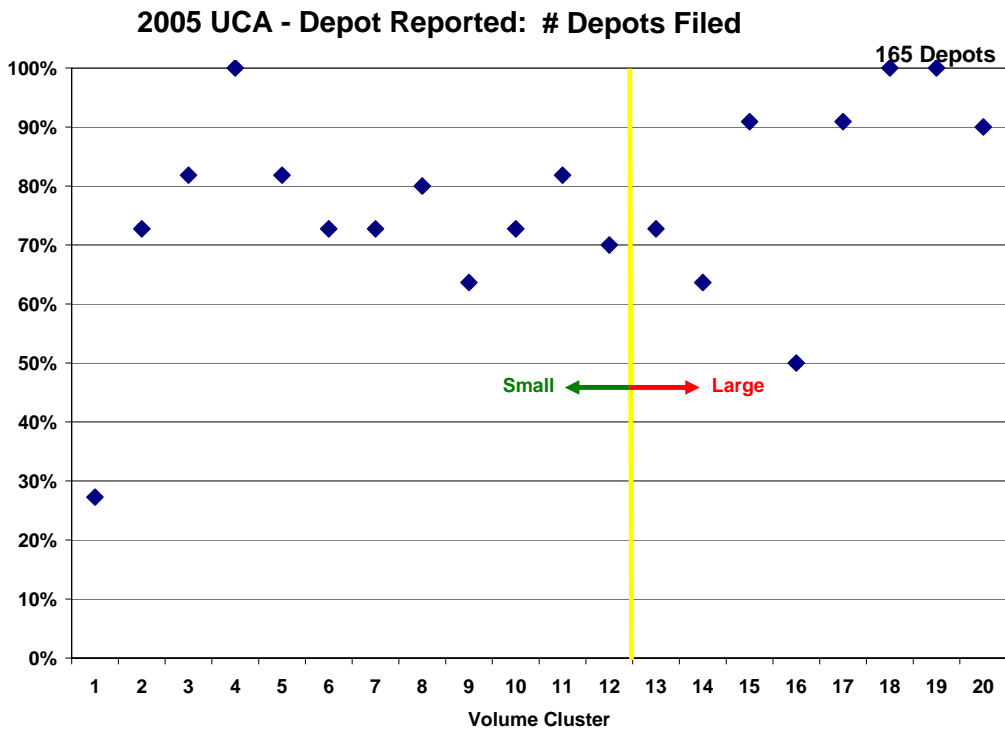
A sample from a population can be statistically valid if the sample is selected at random.<sup>5</sup> In context, the issue is: are the 165 Depots in the Study System a random sample of the 215 Depots in the Total System population? A concern could arise if there is a sampling bias whereas a disproportionate number of “low-cost” or “high-cost” Depots did not submit their 2005 UCAs.

The information analyzed from the 165 Study System Depots suggests there is a wide range of costs across most cost categories. For example, building costs seem to vary significantly across the Study System. For a systemic problem to exist, the DCA surmises that Depot owners would have to know that their Depot is “low-cost” and choose not to file their 2005 UCA in an attempt to keep the average costs higher (which would lead to higher Handling Commissions).<sup>6</sup> In light of the BCMB’s compliance policy that can lead to the cancellation of a Depot’s permit, the DCA does not believe that a material number, if any, Depots elected to withhold their 2005 UCA information in an attempt to skew the overall 2006 Revenue Requirement.

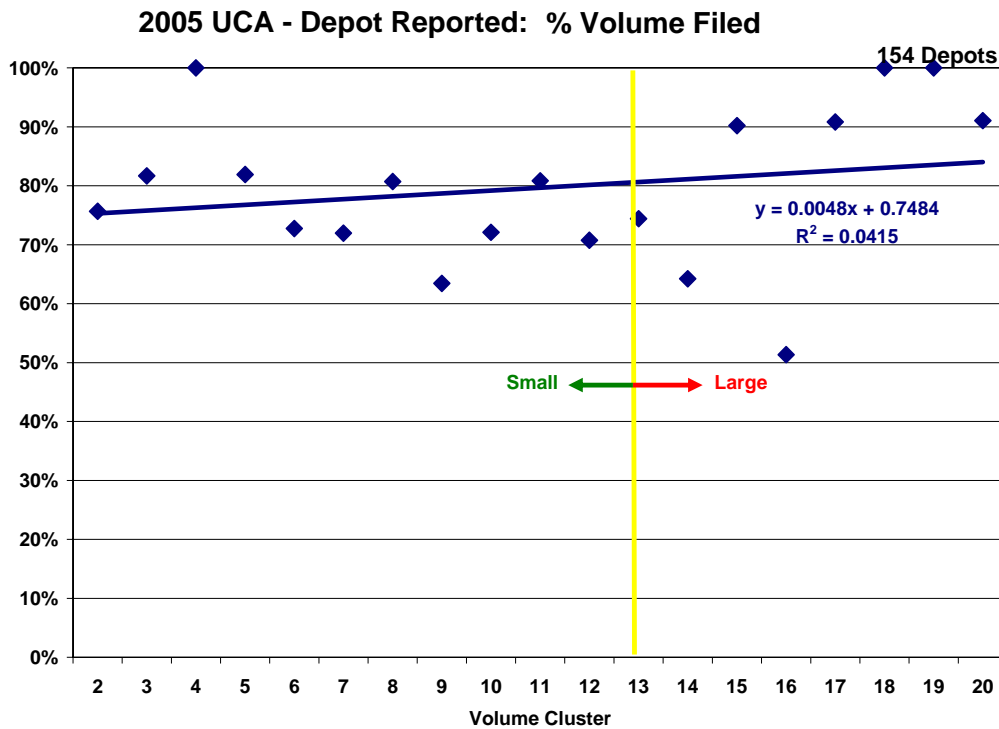
For the smallest Depots, the DCA is of the view that an inherent non-response bias exists due to their small size and presumed lack of business records to complete the 2005 UCAs. The DCA is of the view that any non-response bias is small and would not have a material impact on the 2006 Revenue Requirement.

BCMB staff advised the DCA that there is limited information collected by the BCMB from Depots on an annual basis and any information collected is inadequate to supplement the 2005 UCAs data submitted to the DCA.

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)



Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)



- b) The DCA considered escalating costs from the Study System to the Total System segmented by Depot classification (Small & Large). For example, the average Small Depot costs could be escalated separately from the average Large Depot costs, instead of escalating all costs by 21.2%.

Unfortunately, the DCA’s 2006 Total System forecast is by Forecast Group and individual Depot forecasts only exist for the Study System Depots. With the use of actual 2006 data, the DCA can now escalate costs (and revenues) from the Study System to the Total System by Depot Classification. The table below shows the results of this analysis.

Note that the Cal 2006 Study System volume forecast was 1,180.7 million containers. Actual Cal 2006 Study System volume was 1,202.9 million containers, or 1.9% higher. The Cal 2006 Total System volume forecast was 1,431.0 million containers. Actual Cal 2006 Total System volume was 1,428.9 million containers or 0.1% lower.

The gross up factor from Cal 2006 Study System to Cal 2006 Total System was 121.2%. The revised gross up factor based on actual volumes is 118.8%. However, when segregated by Depot classification, the Small Depot gross up factor is 136.7% and the Large

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

Depot gross up factor is 115.8%. The DCA is of the view that with the availability of 2006 actual volumes this approach is more accurate and should be utilized.

**DCA Escalation from Cal 2006 Study System to Cal 2006 Total System**

	Total (Forecast)	Total (Actuals)
Cal 2006 Study System Volume	1,180,697,888	1,202,867,072
Cal 2006 Total System Volume	1,431,044,640	1,428,939,498
Escalation Rate	121.2%	118.8%
Cal 2006 Study System Total Operating Expenses	\$43,538,989	\$43,538,989
Cal 2006 Total System Total Operating Expenses	\$52,770,686	\$51,721,909

**Escalation from Cal 2006 Study System to Cal 2006 Total System By Depot Classification (2006 Actuals)**

	Small	Large	Total
Cal 2006 Study System Volume	171,922,969	1,030,944,103	1,202,867,072
Cal 2006 Total System Volume	235,068,498	1,193,871,000	1,428,939,498
Escalation Rate	136.7%	115.8%	118.8%
Cal 2006 Study System Total Operating Expenses	\$9,794,822	\$33,744,167	\$43,538,989
Cal 2006 Total System Total Operating Expenses	\$13,392,359	\$39,076,980	\$52,469,340
DCA Forecast Cal 2006 Total Operating Expenses	\$52,770,686		
Revised Forecast Using Classification & Actuals	\$52,469,340		
Difference	\$301,346		
Percent Difference	0.6%		

- c) A BCMB staff person has provided the DCA with the following response:

I believe, that in most cases, it may be possible to retrieve space allocation numbers that may tell us what space is used for customer service, and what areas is used for loading/sorting/storage. It may not be available in all cases, and allocations may have changed since the permit application was made, as other than customer service area, we do not mandate sizes of those other allocations.

Considering that the space allocation data was only used to allocate Building costs in the 2006 Phase II rate design, the DCA is of the view that reviewing historical BCMB records and making a determination to allocate building space by function would result in little change to the proposed 2006 Handling Commissions. Further, the DCA is of the view that the sample of 147 Depots used is likely random and that no non-response bias exists. Finally, for the 2005 UCAs the DCA requested that Depots provide a plan sketch of their building layout with the hope that Depots would use the sketch to report more accurate space allocation numbers.

The DCA notes that the space allocation statistics from the 2004 UCAs

**Information Request Response #1 to Desiderata Energy Consulting  
Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

(page 33, 2005 Phase I Report Rev 1) are comparable to the statistics from the 2005 UCAs (page 61, 2006 Phase I Report Rev 0).



**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-2****Reference:** Analysis of Outlier Data

- DCA Final Straw Dog Report, September 21, 2004 Sections 4.1.1 and 7.0;
- 2006 Phase I Report Rev 0, pages 38, 49, 62, 65, 73

**Request:**

- a) How is an outlier defined?
- b) Please advise what procedures have been or will be undertaken to ensure that the Study System is not distorted by outlier data.
- c) Have outliers at both the minimum and maximum range been identified and considered?
- d) Please provide average information regarding the five minimum and maximum Depots in each of Metro, Urban and Rural classifications for each significant cost item or other factor; for example square footage, labour cost, volume.

**Response:** a) The following was provided in the 2005 Phase I Report under Appendix III, page 2-3):

There are basically three types of unusual observations.

1. Outliers: In linear regression, outliers will generate large residuals, which may indicate a sample peculiarity or may indicate a data entry error or other problem.
2. Leverage is an observation with extreme values on the explanatory variables. It measures the deviation of the explanatory variable from its mean. Leverage points can have either positive or negative effect on the estimation of regression coefficients.
3. Influence: If we remove some observations from the sample, the estimate of coefficients changes substantially, then we say these observations are influential.

The inclusion or exclusion of an outlier is a philosophical question about whether the existing data is reasonable. One has to make a choice between keeping the outlier in the sample or deleting it. The former may or may not distort the data. The latter may lead to the loss of some important information. Econometricians tend to worry more about the loss of information. They want to be very careful about taking out any of the so called "outliers". Removing data for a

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

reporting Depot who is in the Study System may reflect some valuable information about the economic process or some degree of social welfare gain/loss.

- b) DCA Final Straw Dog Report, September 21, 2004 sections 4.1.1 states:

We believe that the information review process, at a minimum, should contain the following:

1. A normalized comparison of peer costs.
2. A more detailed analysis of cost items from outlier depots and a more detailed analysis of cost items from random depots.
3. A procedure to follow if the data provided is poor or unusable.

Stantec will make a proposal to the Board that will balance accuracy of the review with the cost involved in undertaking the review. This discussion with the Board is necessary because Stantec does not have suitable guidance on this issue to make a clear recommendation at this point, and Stantec recognizes that the Information Review and Testing process is one of the most crucial aspects of the process in determining proper rates.

Given the number and variety of individual depot operations, Stantec suggests that the Board consider a graduated approach over several years in building up the accuracy and confidence in the data. In this way the Board can balance the cost of information verification while achieving a reasonable and improving standard over time.<sup>7</sup>

The process the DCA initially used to analyze the 2005 UCA data is provided on pages 9 and 10 of the 2006 Phase I Report Rev 0. In addition, when analyzing each cost component the DCA often went back to the source database and/or the filed UCA to review individual Depot data outliers to determine if a data entry error had occurred, and if not, to determine if a reason for the outlier data could be determined. In some instances the outlier data, if found to be inaccurately entered into the database or misrepresented in some way, was adjusted in a similar manner to the process described on pages 9 and 10 of the 2006 Phase I Report Rev 0.

---

<sup>7</sup> Doc 01-004, p. 5.7

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

In some instances where data was an outlier and no plausible explanation could be found, the DCA accepted the data as filed. The DCA notes that most of the financial data was verified with tax return and/or financial statements, including accepted outliers.

- c) Yes. See response to b) above.  
 d) Please see the following tables.

**2005 Fiscal Year As Reported**

Item	BCMB Classification	Observations	Ave 5 Min.	Median	Average	Ave 5 Max.
Volume	Rural	110	338,851	1,749,033	2,520,855	8,823,646
	Urban	21	5,729,600	11,584,320	11,326,041	22,676,651
	Metro	33	8,359,377	15,233,493	16,589,339	29,615,132
Labour Costs	Rural	110	\$0	\$26,279	\$45,865	\$194,502
	Urban	21	\$80,036	\$196,965	\$225,505	\$470,653
	Metro	34	\$158,746	\$328,167	\$397,390	\$794,948
Labour Hours	Rural	110	353	2,807	4,463	14,703
	Urban	21	7,263	15,957	19,386	44,164
	Metro	34	10,111	22,515	25,585	46,604
Building Costs	Rural	110	\$1,351	\$11,237	\$15,713	\$58,456
	Urban	21	\$24,854	\$59,006	\$59,244	\$128,110
	Metro	34	\$24,639	\$64,150	\$80,703	\$192,050
Square Feet	Rural	110	498	2,400	2,614	7,047
	Urban	21	3,419	5,000	7,039	14,098
	Metro	34	3,722	5,946	5,931	8,886
Equipment Costs	Rural	110	\$0	\$5,407	\$9,287	\$60,569
	Urban	21	\$5,969	\$18,910	\$19,959	\$52,633
	Metro	34	\$5,492	\$27,558	\$27,071	\$55,414
Overhead Costs	Rural	110	\$649	\$7,501	\$11,039	\$48,929
	Urban	21	\$15,529	\$40,393	\$47,991	\$171,001
	Metro	34	\$23,822	\$73,261	\$78,194	\$146,183

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**2005 Fiscal Year As Adjusted**

<b>Item</b>	<b>BCMB Classification</b>	<b>Observations</b>	<b>Ave 5 Min.</b>	<b>Median</b>	<b>Average</b>	<b>Ave 5 Max.</b>
Volume	Rural	110	338,851	1,749,033	2,520,855	8,823,646
	Urban	21	5,729,600	11,584,320	11,326,041	22,676,651
	Metro	33	8,359,377	15,233,493	16,589,339	29,615,132
Labour Costs	Rural	110	\$5,654	\$41,355	\$62,839	\$193,965
	Urban	21	\$98,880	\$229,886	\$250,806	\$507,114
	Metro	34	\$186,650	\$285,023	\$353,150	\$685,694
Labour Hours	Rural	110	454	2,831	4,445	14,201
	Urban	21	6,917	17,630	19,861	44,164
	Metro	34	11,201	21,041	24,573	44,443
Building Costs	Rural	110	\$5,929	\$22,687	\$21,809	\$42,818
	Urban	21	\$29,566	\$49,386	\$51,867	\$117,557
	Metro	34	\$38,866	\$63,315	\$64,356	\$102,719
Square Feet	Rural	110	498	2,400	2,211	3,000
	Urban	21	3,419	5,000	4,557	5,000
	Metro	34	3,722	5,946	5,728	7,500
Equipment Costs	Rural	110	\$0	\$5,546	\$9,565	\$60,781
	Urban	21	\$6,936	\$18,910	\$20,441	\$52,633
	Metro	34	\$6,041	\$28,026	\$27,554	\$55,414
Overhead Costs	Rural	110	\$1,384	\$8,539	\$11,743	\$49,701
	Urban	21	\$18,648	\$40,394	\$50,491	\$175,149
	Metro	34	\$30,355	\$73,685	\$81,049	\$147,343

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-3****Reference:** Methodology

ABDA - Stantec - 13 (Phase I 2005)

**Request:** Information regarding the statistical validity of the regression analyses was not provided in the Phase I and Phase II reports. Please identify the confidence level(s) used and confirm that the regression lines included in the graphs are statistically valid. If not, please identify those that are not statistically valid and comment.**Response:** Confidence levels were not used for any of the regression equations provided in the 2006 Phase I and Phase II Reports, except for the MVLP equations. The DCA provided the regression lines and related equations to assist with identifying trends and correlations between variables.

Regression lines were utilized in the 2006 Volume Forecast (section 5 of the 2006 Phase I Report Rev 0) to estimate 2006 and 2007 volumes by Forecast Group. The DCA did not analyze if the regression equations were statistically valid. Instead, the DCA used the following criteria:

1. The regression equation with the higher  $R^2$  value was used.
2. If the resulting forecast did not appear reasonable, typically due to the lack of or variations in the underlying data, the DCA provided a manual forecast.

Please see Doc 10-018 for the family of forecasts utilized to generate the 2006 and 2007 Volume forecasts. The DCA notes that the passage of time has likely rendered the 2006 Volume Forecast mute as actual 2006 volume data is now available. Please see HCRP-DCA-2006-20 a).

For the MVLR regression equations developed by the DCA and Mr. Li, 90% confidence levels for all the statistical tests of regression.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-4****Reference:** Volume Clusters

2006 Phase I Report Rev 0 Pages 15, ff

- Request:**
- a) Please describe any changes made to the 20 volume clusters in changing from the original 189 Depots to the Study System of 165 Depots.
  - b) For the 165 Depots in the Study System, indicate how many are in each of the 20 clusters.
  - c) For the 51 Depots excluded from the Study System, indicate how many would have been in each of the 20 clusters.

- Response:**
- a) The number of Depots in each Volume Cluster was divided proportionately between the 20 clusters for the 189 Depots that were used in the population analysis, the 169 Depots that provided 2005 UCA Table 1 statistics and the 165 Depots in the Study System.

Please see attached Table for groupings by Volume Cluster.

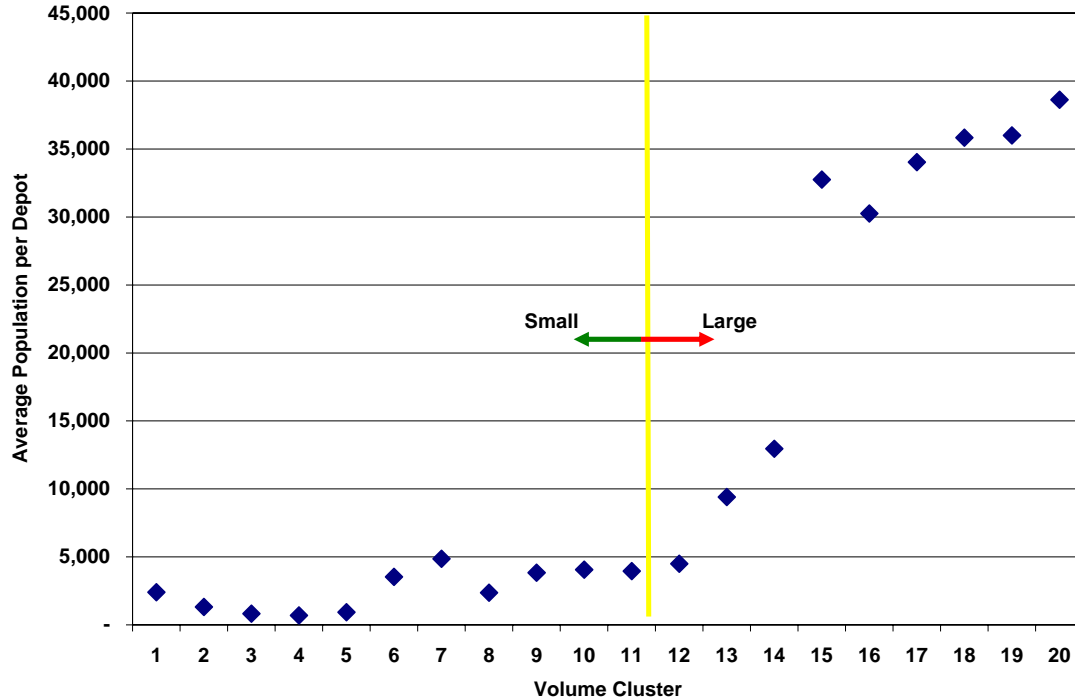
Please note that the DCA discovered a computational error in the population analysis that produced the chart on page 18 of the 2006 Phase I Report Rev 0. A total of 10 Depots with no (zero) population data were inadvertently included in the analysis. Therefore the total number of Depots in the analysis is 179 (not 189 as noted on line 16, page 15).

In addition, the DCA, in responding to HCRP-DCA-2006-18, noted that a better representation of the data would be to assume all Depots within a municipality serve the population equally within the municipality (for example, if there are 3 Depots within a city of 60,000 people, the DCA assumes that each Depot serves 20,000 people). The revised page 18 chart is shown below. The conclusions presented on page 18, lines 3 to 17 do not materially change as result of these modifications.

- b) Please see attached Table.
- c) Please see attached Table. The first chart shown under HCRP-DCA-2006-1 a) shows the Included in Total System data graphically.

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

**Average Depot 2005 Population Base by Volume Cluster**



**Number Depots in Volume Cluster**

Volume Cluster	Population Analysis	Table 1 Statistics	Study System	Total System	Included in Total System	Excluded from Total System
1	9	8	8	11	3	8
2	8	8	8	11	8	3
3	9	9	8	11	9	2
4	9	8	9	10	10	0
5	9	9	8	11	9	2
6	9	8	8	11	8	3
7	9	9	8	11	8	3
8	9	8	9	10	8	2
9	9	9	8	11	7	4
10	9	8	8	11	8	3
11	9	9	8	11	9	2
12	9	8	9	10	7	3
13	9	8	8	11	8	3
14	9	9	8	11	7	4
15	9	8	8	11	10	1
16	9	9	9	10	5	5
17	9	8	8	11	10	1
18	9	9	8	11	11	0
19	9	8	8	11	11	0
20	9	9	9	10	9	1
	179	169	165	215	165	50

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**
**HCRP-DCA-2006-5**
**Reference:** Comparative Data

Phase I 2005 and Phase I 2006 Reports

- Request:**
- Please prepare Schedule 1 of the Phase I Report in a format comparing the data from the 2005 Report to the 2006 Report on a cents per container basis; e.g., Fiscal Year as Reported for each of 2004 and 2005.
  - Please provide an explanation for all significant differences and changes.

**Response:** Please see page 23 of December 14, 2006 Technical Meeting Presentation (Doc 10-029). Please also see the following three tables for As Reported, As Adjusted and Cal 2006.

As Reported

	2004 UCA ¢ per container	2005 UCA ¢ per container	% Change	DCA Comments
	(a)	(b)	(c)	(d)
<b>Revenue</b>				
Revenue	11.73	11.69	-0.4%	More lower Handling Commission containers
Less Purchases	7.75	7.69	-0.8%	Fewer over 1 litre containers with higher deposit
Gross Margin (HC)	3.98	4.00	0.5%	
Misc Revenue	0.03	0.04	6.4%	Likely above inflation; mix of Depots reporting
Total Margin	4.01	4.03	0.5%	
<b>Expenses</b>				
Direct Labour	1.25	1.29	3.6%	Less than labour inflation; mix of Depots reporting
Contract Labour	0.09	0.14	54.6%	DCA moved reported cash payments for labour to Contract Labour
Overhead Labour	0.72	0.73	1.2%	Less than labour inflation; mix of Depots reporting
Labour Subtotal	2.06	2.16	5.0%	Less than labour inflation; mix of Depots reporting
Building	0.34	0.53	57.7%	Some Building costs reported as Overhead on 2004 UCA; More diligent reporting by Depots; better UCA design & review; cost inflation
Equipment	0.12	0.22	84.5%	Some Equipment costs reported as Overhead on 2004 UCA; More diligent reporting by Depots; better UCA design & review; cost inflation
Overhead (Ex-Collections)	0.58	0.35	-39.2%	Some Building & Equipment costs reported as Overhead on 2004 UCA; More diligent reporting by Depots; better UCA design & review; cost inflation
Collections	0.11	0.10	-9.1%	Contract Labour for collections moved to Direct labour by Depots
<b>Total Operating Expenses</b>	3.20	3.36	5.0%	Overall higher than general inflation; however, not unrealistic given inflation for Labour and Buildings from 2004 to 2005
<b>Earnings before taxes</b>	0.81	0.68	-17.1%	Unit costs increase, unit revenues constant
<b>Income Taxes</b>	0.22	0.20	-5.9%	Lower income = lower tax
<b>Net Income</b>	0.60	0.47	-21.1%	Unit costs increase, unit revenues constant



### Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

#### 2005 Fiscal Year as Adjusted

1	2004 UCA ¢ per container	2005 UCA ¢ per container	% Change	DCA Comments
2	(a)	(b)	(c)	(d)
<b>Revenue</b>				
3	11.73	11.69	-0.4%	Same as As Reported
4	7.75	7.69	-0.8%	Same as As Reported
5	3.98	4.00	0.4%	
6	0.03	0.04	14.6%	Collection costs removed from 2004 UCA
7	4.01	4.03	0.6%	
<b>Expenses</b>				
8	1.60	1.69	5.6%	Different Labour adjustment processes
9	0.00	0.00		Contact Labour moved to Direct and Overhead labour
10	0.38	0.50	30.0%	Different Labour adjustment processes
11	1.98	2.19	10.3%	Different Labour adjustment processes
12	0.48	0.51	6.0%	DCA Adjustments results in similar unit costs; Some Building costs reported as Overhead on 2004 UCA
13	0.05	0.22	313.0%	Collection costs including in 2005, primarily vehicles; Some Equipment costs reported as Overhead on 2004 UCA
14	0.50	0.36	-7.6%	Some Building & Equipment costs reported as Overhead on 2004 UCA
15	0.00	0.10		Collection costs including in 2005 Report
16	3.02	3.38	12.0%	Collection and Vehicle costs included in 2005
17	0.99	0.65	-34.3%	Unit costs increase, unit revenues constant
18	0.22	0.23	7.7%	
19	0.60	0.42	-30.1%	Unit costs increase, unit revenues constant

#### Cal 2006 Study System Forecast

1	2004 UCA ¢ per container	2005 UCA ¢ per container	% Change	DCA Comments
2	(a)	(b)	(c)	(d)
<b>Revenue</b>				
3	11.74	11.71	-0.3%	Revenues escalated by volume forecast
4	7.76	7.69	-0.9%	Revenues escalated by volume forecast
5	3.98	4.02	0.8%	
6	0.03	0.03	17.2%	Higher 2006 escalation rate
7	4.01	4.05	0.9%	
<b>Expenses</b>				
8	1.77	1.89	6.6%	Higher 2006 escalation rate
9	0.00	0.00		
10	0.39	0.52	33.1%	Higher 2006 escalation rate
11	2.16	2.40	11.4%	Higher 2006 escalation rate
12	0.49	0.62	26.6%	Summer 2006 market survey = higher deemed lease rates
13	0.05	0.21	308.5%	2006 Similar escalation rates to 2005
14	0.47	0.45	-4.5%	2006 Similar escalation rates to 2005
15	0.00	0.00		
16	3.17	3.69	16.3%	Overall higher escalation rates in 2006
17	0.84	0.36	-56.9%	Unit costs increase, unit revenues constant
18	0.22	0.19	-14.3%	Lower income = lower tax
19	0.60	0.18	-70.3%	Unit costs increase, unit revenues constant

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-6****Reference:** Are Costs Reasonable

- Request:**
- a) Please describe all procedures undertaken to determine whether the Depot reported costs are reasonable.
  - b) It appears that all costs have been escalated assuming every Depot will experience costs increases in all aspects of their operations. On an overview basis, what consideration was given to the possibility that not all costs will increase for all Depots to the same extent, or that operating practices can be modified to minimize the impact of cost increases. For example, a Depot could use more contract or seasonal labour at lower rates.

- Response:**
- a) The data verification process is described on pages 9 and 10 of the 2006 Phase I Report Rev 0. To the extent possible, all costs were reviewed and based on the DCA's professional judgement cost outliers were identified and investigated.

The data review and analysis process undertaken by the DCA and documented in section 4 of the 2006 Phase I Report Rev 0 has as one of its primary objectives to determine if the reported data was reasonable. In instances where reported data was not felt to be reasonable, the DCA recommends adjustments.

In addition, throughout the process of analyzing the data and preparing the 2006 Phase I Report Rev 0 the DCA routinely went back to the source database and/or the filed 2005 UCA to review individual Depot data elements to determine if the reported cost was reasonable. In some instances if the reported amounts did not appear reasonable, primarily in light of similar costs reported by other Depots, a check was made to ensure the data was not inaccurately entered into the database or misrepresented in some way.

Unfortunately the review of detailed Depot cost data is unprecedented (at least to the DCA's knowledge) and the DCA was unable to find applicable benchmarking data that could be utilized to test cost reasonableness.

Considering that the DCA was retained to review both the 2004 and 2005 UCA documents the BCMB can take some comfort in the experience the DCA has gained from reviewing over 300 UCAs.

- b) It is anticipated that not all Depot costs within a cost category (e.g. Direct Labour) will escalate at the same rate, however, in the

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

determination of a Total System Revenue Requirement the DCA is of the view that using average escalators by cost category is appropriate.

The DCA did not try to understand individual Depot processes and/or operational configurations and make an assessment to the reasonableness of the cost incurred related to the process and/or operational configuration. For example, if a certain Depot used Contract Labour to a significantly greater extent than other Depots, perhaps due to the labour market where the Depot resides, the DCA did not consider if the Contract Labour costs were imprudent. The DCA did review for cost outliers (e.g. high labour rates or high labour seconds per container).

The DCA has not attempted to forecast any productivity gains that could be achieved in the time period of the 2005 UCAs to Cal 2006. At a high level, the DCA subscribes to the regulatory compact that suggests that rates should be set based on costs and utilities (Depots) should be provided with the opportunity to obtain higher profits during a test year through innovation and efficiency gains, the benefits of which accrue to Consumers in subsequent rate review processes.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-7****Reference:** Cost Adjustments

2006 Phase I Report Rev 0

**Request:** Please prepare a table identifying all adjustments made to reported Depot costs, the amount of the adjustment and the supporting rationale. For example, for direct labour, please be specific as to what portion is due to hours, and what portion is due to rate changes for each position for each of the adjustments made. Please provide references to the pages in the report providing the calculation of and discussion of the adjustment.**Response:** The Schedules under Appendix I of the 2006 Phase I Report Rev 0 show all changes made to the As Reported information. Schedule 1-a provides a summary of the adjustments made.**Direct Labour**

Schedule 2 shows the adjustments to Direct Labour. Schedule 4-c provides a reconciliation of the Direct Labour adjustments. Referring to Schedule 4-c:

- Line 1 As Reported hours and costs, section 4.4.1, p. 36-37.
- Line 2 Adjustments for Stub Fiscal Years, section 4.4.2, p. 44.
- Line 3 Collection related Contract Labour moved to Direct Labour, section 4.5.2, p. 44.
- Line 4 Adjustments for Stub Fiscal Years, section 4.5.2, p. 45. No adjustment made as no Depots with Stub Fiscal Years reported costs.
- Line 5 Direct Labour related Contract Labour moved to Direct Labour, section 4.5.2, p. 44.
- Line 6 Adjustments for Stub Fiscal Years, section 4.5.2, p. 44.
- Line 7 Direct Labour related Collection / Driver Overhead Labour moved to Direct Labour, section 4.6.2.1, p. 53.
- Line 8 Adjustments for Stub Fiscal Years, section 4.6.2.1, p. 53.
- Line 9 Manager Hours allocated to Direct Labour at the Deemed Lead Hand rate of \$17.42/h, section 4.6.2.1, p. 55-56.
- Line 10 Direct Labour related Handler & Lead Hand Overhead Labour moved to Direct Labour, section 4.6.2.1, p. 53.
- Line 11 Adjustments for Stub Fiscal Years, section 4.6.2.1, p. 53.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

Line 12 Manager Hours allocated to Direct Labour at the Deemed Lead Hand rate of \$17.42/h, section 4.6.2.1, p. 55-56

Line 13 As Adjusted hours and costs, section 4.6.3, p. 59 & Schedule 4-a.

**Contract Labour**

Schedule 3 shows the adjustments to Contact Labour, and section 4.5.1, p. 44-45 presents As Reported hours and costs. All Contract Labour hours and costs were moved to Direct Labour and Overhead Labour.

**Overhead Labour**

Schedule 4 shows the adjustments to Overhead Labour. Schedule 4-d provides a reconciliation of the Overhead Labour adjustments. Referring to Schedule 4-d:

Line 1 As Reported hours and costs, section 4.6.1, p. 47.

Line 2 Adjustments for Stub Fiscal Years, not specifically noted in 2006 Phase I Report Rev 0.

Line 3 Collection related Contract Labour moved to Direct Labour, section 4.5.2, p. 44. Corresponds to Line 7 on Schedule 4-c.

Line 4 Adjustments for Stub Fiscal Years, section 4.5.2, p. 45. Corresponds to Line 8 on Schedule 4-c.

Line 5 Direct Labour related Contract Labour moved to Direct Labour, section 4.5.2, p. 44. Corresponds to Line 10 on Schedule 4-c.

Line 6 Adjustments for Stub Fiscal Years, section 4.5.2, p. 44. Corresponds to Line 11 on Schedule 4-c.

Line 7 Manager Hours rate adjusted to Deemed Manager rate of \$26.56/h, section 4.6.2.1, p. 57-58.

Line 8 Manager Hours rate adjusted to Deemed Lead Hand rate of \$17.42/h, section 4.6.2.1, p. 55-56.

Line 9 As Adjusted hours and costs, section 4.6.3, p. 59 & Schedule 4-a.

**Buildings**

Schedule 5 shows the adjustments to Buildings costs. Schedule 5-a provides a reconciliation of the Building cost adjustments. Referring to Schedule 5-a:

Line 1 As Reported costs, section 4.7.3, p 67-68

Line 2 Deemed lease rate applied to deemed square footage for all

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

- Depots, section 4.7.4.4, p. 74-77 & section 4.7.4.5, p. 77-80.
- Line 3 Reported Building CCA removed as all Buildings deemed to be leased rather than owned, section 4.7.4.4, p. 74-77.
- Line 4 Reported building use costs (excluding Property Insurance, Maintenance, Garbage & Other costs deemed to be paid by a Depot in a leased building) removed as all Buildings deemed to be leased rather than owned, section 4.7.4.4, p. 74-77.
- Line 5 Utility costs adjusted for Stub Fiscal years and for change in deemed building size, section 4.7.4.5, p. 77-80 & section 4.7.4.6, p. 80-82.
- Line 6 Reported Leasehold CCA removed as all Buildings deemed to be leased rather than owned, section 4.7.4.4, p. 74-77.
- Line 7 As Adjusted hours and costs.

**Equipment**

Schedule 6 shows the adjustments to Equipment Costs, and section 4.8.1, p. 83-84 presents As Reported costs.

Goodwill was excluded at the verification stage, section 4.8.2.1, p. 84.

All cost items were adjusted for Stub Fiscal Years, section 4.8.2.3, p. 85.

**Overhead**

Schedule 7 shows the adjustments to Overhead Costs, and section 4.9.1, p. 87-88 presents As Reported costs.

ABDA & BCMB Fees were adjusted based on Manufacturer data, section 4.9.2.1, p. 91-92.

Charity costs were removed, section 4.9.2.2, p. 92.

All cost items were adjusted for Stub Fiscal Years, section 4.9.2.5, p. 92.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-8**

**Reference:** Cal Total System Costs

2006 Phase I Report Rev 0, page vi line 28

**Request:** Please explain how the 21% escalation rate was determined.

**Response:** The 21.2% escalation rate is the increase in volume from the Cal 2006 Study System to the Cal 2006 Total System:

$$\frac{(\text{Cal 2006 Total System Volume} - \text{2006 Study System Volume})}{\text{2006 Study System Volume}} =$$

$$\frac{(1,431,044,640 \text{ containers} - 1,180,697,888 \text{ containers})}{1,180,697,888 \text{ containers}} =$$

21.2%

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-9****Reference:** Direct Labour Costs

- Brewers of Canada November 15, 2004 response to the Handling Commission Review Procedure, page 3
- BCMB 2006 Phase I & II Reports Technical Meeting Presentation, December 14, 2006 pages 53, 90
- 2006 Phase I Report Rev 0 pages 38, 53, 162

**Request:**

- a) The Brewers of Canada observed "...the reality that this is largely an unskilled and transitory workforce at best which may be immune to incentives such as inflation adjusted earnings for sorting beer or juice containers cans [sic]." Please comment on this issue with respect to the applicability of the Watson/ Wyatt data on comparable labour.
- b) Please discuss whether the current labour market in Alberta warrants geographic differentiation in direct labour costs.
- c) At page 53 of the technical presentation, it is stated that there are no discernable economies of scale in labour. In view of this, please comment on the graph at Phase I page 38 and in particular, the fixed component and the  $R^2$  value of .6146 and also at page 162 the  $R^2$  value of .7015, which appear to imply a fixed operating expense component of 30 to 40%.
- d) Please comment on whether the statement at page 90 of the technical presentation, that large Depots can obtain economies of scale is in contradiction of the statement at page 53 of the technical presentation that there are "No discernable economies of scale in labour."

**Response:** a) The Brewers of Canada comments in Doc 04-002 were considered by the DCA in developing and implementing the 2004 UCA review and 2005 Phase I Report development processes.

In general, the DCA does not agree with the Brewers of Canada that "unskilled and transitory workforce ... may be immune to incentives such as inflation adjusted earnings for sorting beer or juice containers". Any labourer has the incentive to maximize their earnings and will likely choose employment, including temporary employment, that pays the highest wage. In the current tight Alberta labour market, the DCA is of the view that Depots will have to pay market rates to obtain labourers.

The DCA submits that it is unreasonable to assume that Depot costs for labour will not increase with inflation. The use of the Watson Wyatt report provides a reasonable benchmark for the cost of various types of labour that reasonably compare with Depot operations. The



**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

use of Statistics Canada indices to escalate Depot labour costs is a reasonable approach to ensure that the 2006 Revenue Requirement includes Depot labour costs at 2006 market rates.

- b) At any time (current or otherwise) there are undoubtedly labour rate differentials between southern and northern Alberta locations and between rural and urban locations. It is anticipated that these labour rate differentials were incorporated in the costs reported on the 2005 UCAs.

The DCA is of the view that the utilization of escalation factors based on Statistic Canada indices will appropriately take into consideration any labour rate escalation differences that may exist across the province. The DCA does not believe that escalating labour costs based on geographic areas to set a Total System Revenue Requirement is required.

- c) The DCA does not believe that an  $R^2$  value of 60% to 70% implies that 30% to 40% of the costs may be of a fixed nature. Rather, the  $R^2$  statistic is measure of the amount of correlation or interdependence between variables.

The DCA is of the view that the zero-intercept method is a generally accepted concept that can provide an indication as to the quantum of fixed costs. In the charts noted if the best fit regression lines crossed the x-axis at a significant y-value then the zero-intercept method would suggest there is some level of fixed costs present. Since all the best fit regression lines tend to emanate from the origin the zero-intercept method would suggest that Direct Labour fixed costs are limited.

The comment that there are no discernable economies of scale is based on the observation that as volume increases the number of Direct Labour hours per container does not tend to decrease.

- d) The comment on slide 53 of Doc 10-029 was made in the context of Direct Labour costs as noted above. The comment on slide 90 of Doc 10-029 was made in the context of the proposed fixed monthly fee and the recovery of fixed costs.

With respect to fixed costs, larger Depots can utilize economies of scale (higher volumes) to recover their fixed costs. This is especially true for fixed building related costs where higher throughput (more Manufacture shipments) can result in lower unit fixed (e.g. ¢/container) costs. The economy of scale is created because more frequent Manufacturer pickups can permit higher volumes to be processed without the corresponding need for larger premises.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-10****Reference:** Labour Cost Escalation

- 2006 Phase I Report Rev 0, page 38, ff.
- BCMB 2006 Phase I & II Reports Technical Meeting presentation, December 14, 2006 pages 58-61

- Request:**
- a) Please clarify whether Statistics Canada references are to Alberta Data.
  - b) For direct labour, please discuss arguments for and against adjusting direct labour hours only by 61% of the volume increase, based on the .6146 R<sup>2</sup> value in the graph on page 38 of the 2006 Phase I Report Rev 0. (.7015 R<sup>2</sup> value page 162)
  - c) Please clarify whether there is double counting of direct labour adjustments. We observed an adjustment for the stub period and an escalation adjustment for 15.6 months. In addition we note that the Watson Wyatt data is as of May 1, 2005.
  - d) Similar to c), is there a double counting for Overhead Labour?

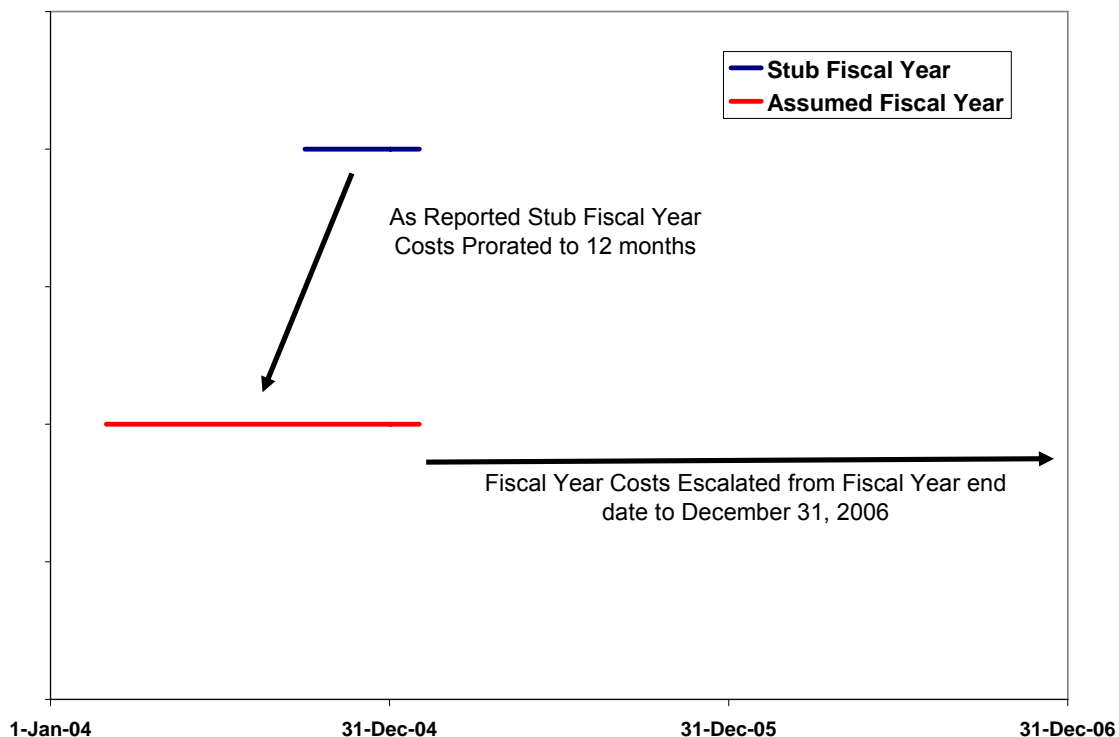
- Response:**
- a) All Statistics Canada Indices utilized are based on Alberta data.
  - b) The DCA does not see the rationale for only escalating a portion of the Direct Labour costs for inflation. Please see HCRP-DCA-2006-9c).
  - c) The DCA does not believe there is double counting of Direct Labour adjustments, however, there is slight bias in the escalation assumptions used.

The As Reported costs for a Stub Fiscal Year were prorated to 12 months to provide a consistent basis for all Depots, i.e. all Depot costs reported for a 12 month period.

The Fiscal Year annual costs for each Depot were escalated by the number of months from the fiscal year end to December 31, 2006. Over the 2006 Study System, costs were escalated on average 15.57 months.

The following chart shows the process used.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**



The DCA kept the fiscal year end date for the stub fiscal year of each Depot constant. Prorating costs to 12 months creates a slight bias as it assumes that the As Reported costs were all incurred at the same rate and without inflation. Given that only 9 Depot costs were prorated, the DCA is of the view that any cost bias is not material.

Please also see ABDA-DCA-2006-8.

Line 1-2 of the 2006 Phase I Report Rev 0 states:

The Watson Wyatt base date for the salary statistics is May 1, 2005. This date is close the average of the Study System mid-fiscal year ends of March 25, 2005.

Considering the relative time difference and the other assumptions that lead to the development of the Watson Wyatt and DCA wage rates the DCA is of the view that adjusting for this time difference is not required and would not result in a material adjustment.

d) No. Please see response above.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-11**

**Reference:** Labour

**Request:** Please provide, by Depot cluster, information on:

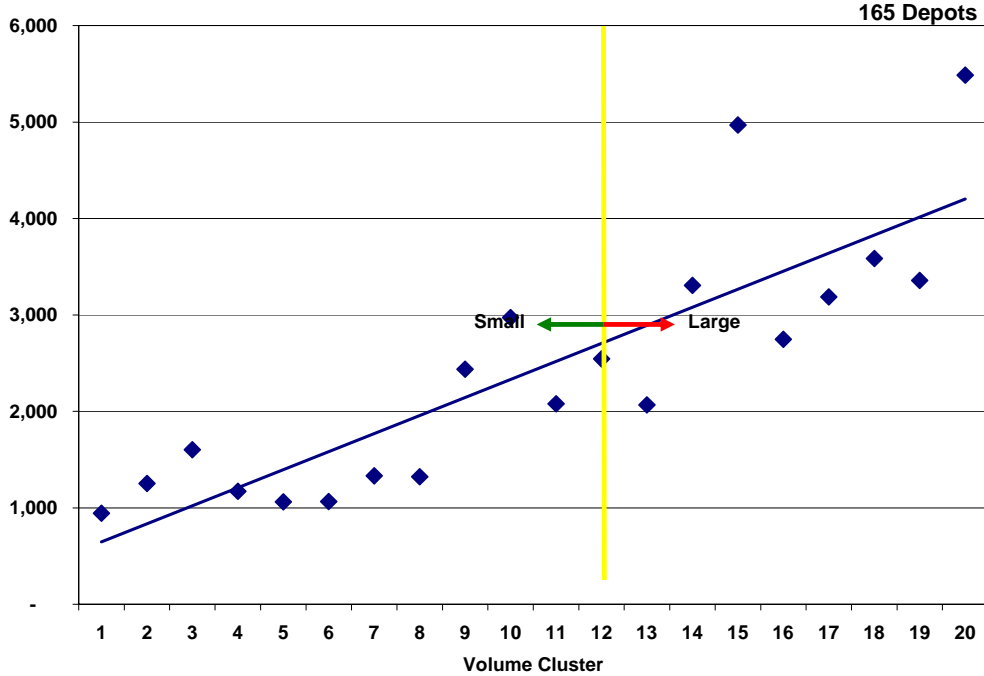
- a) the Owner and Manager hours;
- b) Depot hours of operation; and
- c) number of full time equivalent employees assuming a 40 hour work week.

**Response:**

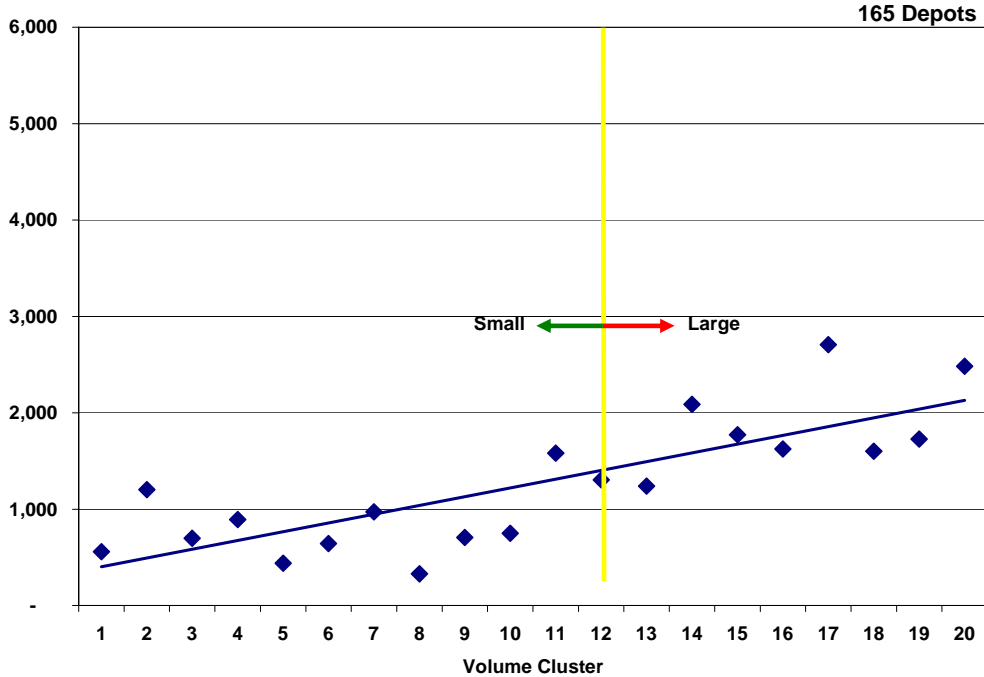
- a) Please see the following two charts that show average Owner and Manager hours per Depot by Volume Cluster for the 2006 Study System using As reported and As Adjusted information.
- b) Please see p. 28 of the 2006 Phase I Report Rev 0.
- c) Please see the next four charts that show the following averages by Volume Cluster for the 2006 Study System (Full Time Equivalent = hours / 40 hours per week / 52 weeks per year):
  - Direct Labour As Reported Full Time Equivalent per Depot
  - Direct Labour As Adjusted Full Time Equivalent per Depot
  - All Labour As Reported Full Time Equivalent per Depot
  - All Labour As Adjusted Full Time Equivalent per Depot

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

2005 UCAs: Owner & Manager Hours As Reported per Depot

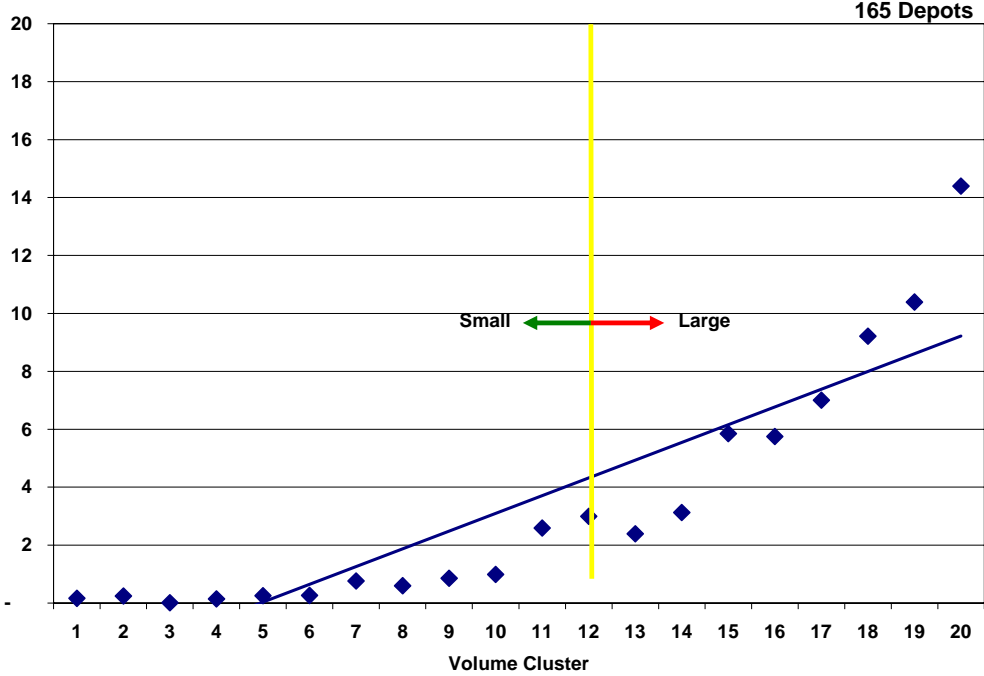


2005 UCAs: Owner & Manager Hours As Adjusted per Depot

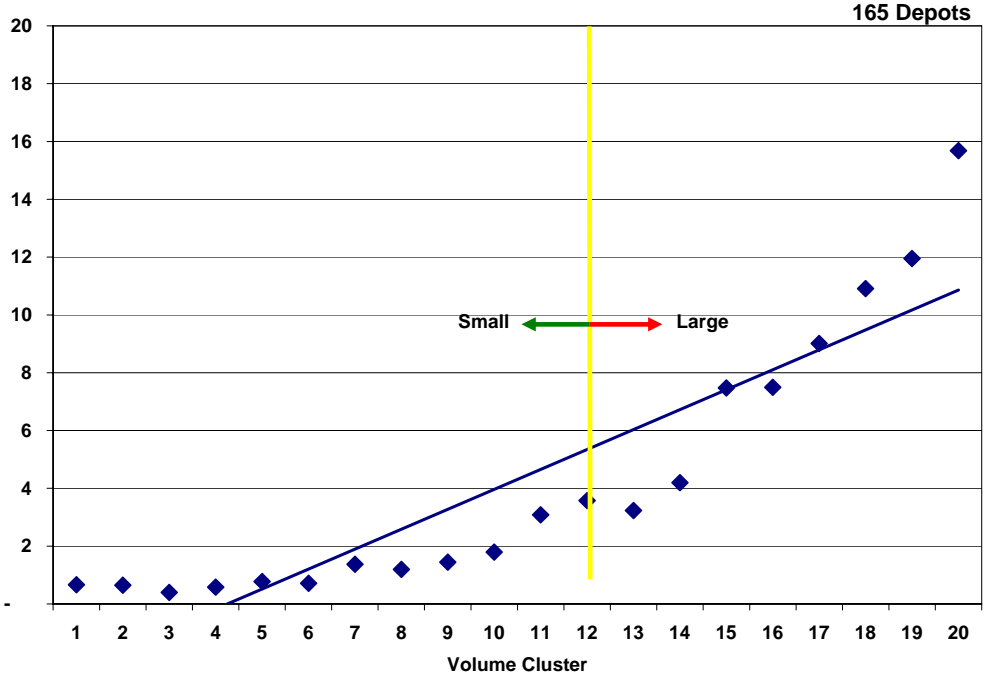


Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

2005 UCAs: Direct Labour As Reported Full Time Equivalent per Depot

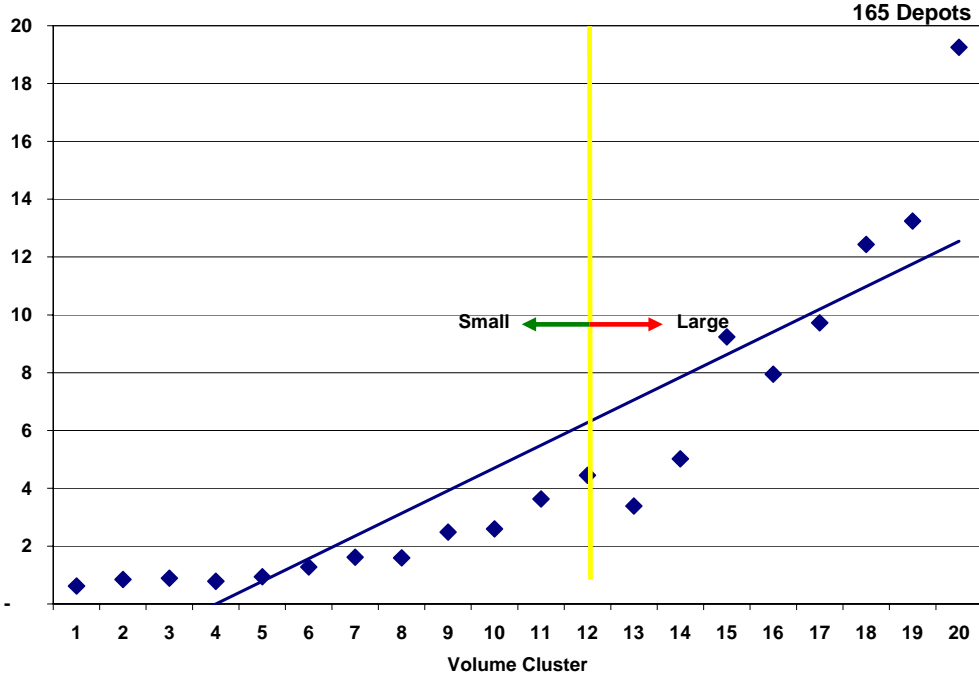


2005 UCAs: Direct Labour As Adjusted Full Time Equivalent per Depot

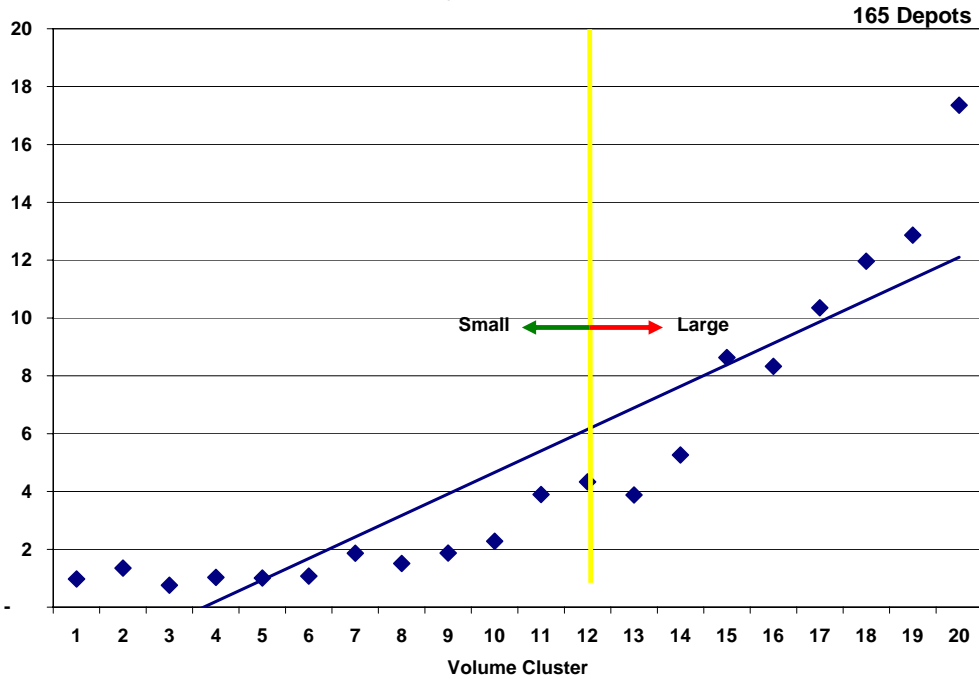


Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

2005 UCAs: All Labour As Reported Full Time Equivalent per Depot



2005 UCAs: All Labour As Adjusted Full Time Equivalent per Depot



**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-12****Reference:** Labour Efficiency

2006 Phase I Report Rev 0, page 37

- Request:**
- a) Please clarify why you believe the analysis to be a measure of efficiency rather than correlation. For example, if all Depots were operating at the same degree of efficiency of 60% would this result in a consistent cost structure?
  - b) At line 4 page 37 it is stated that there is no significant difference in Direct Labour efficiency over the range of Depot size increases because the slope of the best fit Regression line does not materially change as volume increases. Please explain how, in a single independent variable Regression analysis, the slope of the line is other than constant.
  - c) Please discuss whether, in the absence of an analysis on direct labour efficiency, an adjustment should be made to the labour costs in the Study System to take into account possible inefficiencies.
  - d) Please discuss how factors such as size, weight, relative quantities from each customer, packaging of the containers and Depot layout and process could be used to determine a measure of labour efficiency.

**Response:** a) The analysis shows both correlation and efficiency.

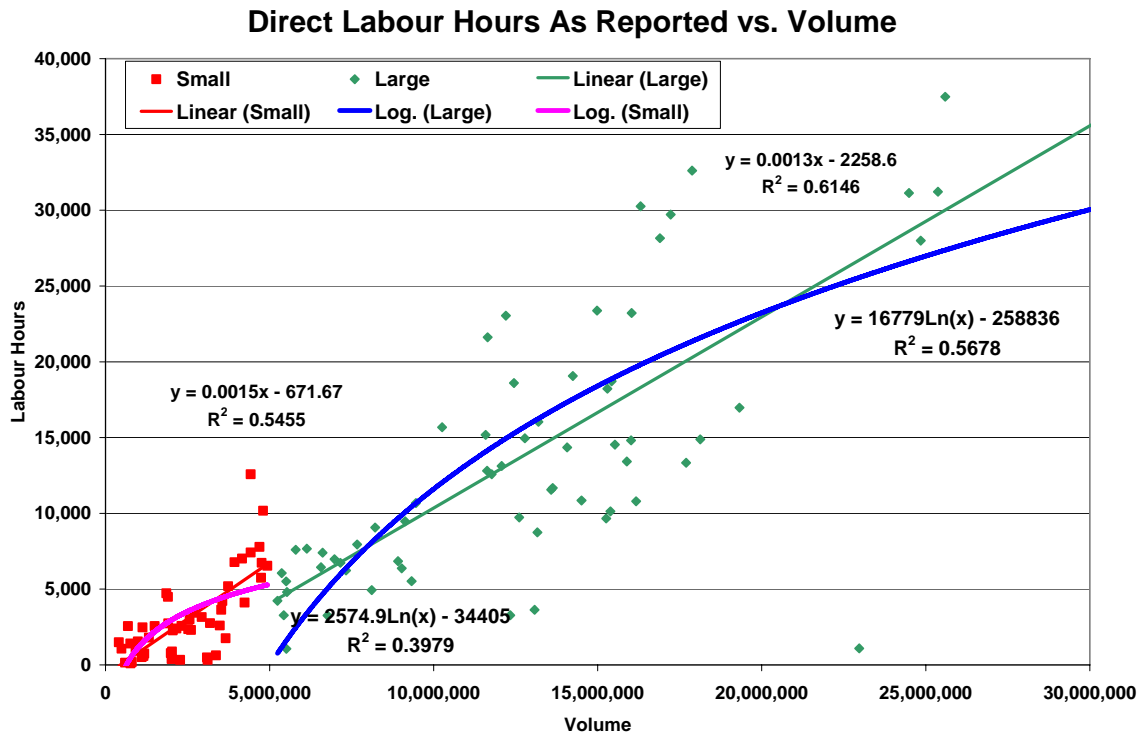
The regression line and related equation show the correlation between the variables. In the case of the Large Depots, the  $R^2$  statistic of 61% suggests linear correlation between Direct Labour Hours As Reported and Volume.

The analysis also suggests that there are no discernable economies of scale in Direct Labour Hours with Volume, i.e., the number hours required per volume of containers does not decrease with higher volume. This is the same as suggesting that the efficiency of Direct Labour does not increase with volume.

- b) If labour efficiency were observed then it would be expected that the data points would trend downward with increased volume as noted on the following chart. Similarity, one would expect that a non-linear regression line (e.g. logarithmic) and equation would have a better  $R^2$  value than the linear regression equation.



Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)



c) The DCA submits that the question is asking if the As Reported Direct Labour costs were prudently incurred costs and should be including into the 2006 Revenue Requirement.

In order to answer this question a study on labour efficiency could be undertaken and if it is found that Depots incur Direct Labour costs in excess of what is required to fulfill their BCMB permit requirements and/or to provide consumers with appropriate service levels then a portion of the Direct Labour costs could be excluded from the revenue requirement used to determine handling commissions.

The DCA submits that the profit motive each individual Depot owner has is strong incentive to ensure that Direct Labour costs are minimized to the point of providing appropriate (and perhaps even minimal in areas where no competition exists) service levels to consumers.

The DCA is of the view that setting 2006 Handling Commissions based on reported and verified Direct Labour costs is appropriate and that no adjustments to 2006 Direct Labour costs should be made in light of any perceived labour inefficiencies.

d) The factors listed undoubtedly have an impact on labour efficiency.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

Trying to correlate some of these factors (e.g. relative quantities from consumers) to labour efficiency could be difficult without an extensive real-time study. However, some factors, like Depot layout and container processing methodologies, likely have a greater impact on overall labour efficiency.

The DCA suggests that the 2004 and 2005 UCA data gathered could be used by the BCMB to identify Depots that appear to have above average and below average labour efficiency (the data outliers in the chart above). By investigating a few “good” and “bad” Depots, an investigator may uncover the factors that lead to better than average labour efficiency. For example, it may be found that a certain Depot layout consistently leads to lower unit labour costs. If factors are found, the BCMB could work with Depots to implement changes for the benefit of all interested parties and Consumers.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-13****Reference:** Bonuses

- UCA Instruction Manual, page 3.7
- 2006 Phase I Report Rev 0, page 37

**Request:** Please clarify if the reporting of bonuses has the potential to double count the amount of accrued bonuses; i.e., the bonus is reported as a bonus in the year accrued and becomes part of T4 income in the year paid. Although the amount was not large, the UCA should be revised if there is a problem, to ensure reliable reporting.**Response:** Accrued bonuses in a fiscal period will generally differ from the bonus amount included in a calendar year T4 return. This difference should be insignificant except where bonuses are newly introduced, discontinued or change drastically year-to-year.

By reconciling the UCA amounts to the T4, any significant year-to-year differences would be identified and adjusted if deemed to be material. For situations where fiscal and calendar years differ, the adjustments for part-year are based on the pro-ration of the calendar year T4 amount; therefore any difference will be limited to the current year vs. prior year bonus difference adjusted by the number of months prorated for the part year. Because of the T4 reconciliation, a bonus will not be included twice in any period and a revision to the UCAs is not required.

The DCA notes that bonuses for owners that were not on T4s were scrutinized more carefully. In a few instances Depots would report an accrued bonus on Table 4-a; however, the bonus amount was not present on the Depot's financial statement or reported on the tax return. In these instances the DCA removed the bonus amount at the verification stage. Given the DCA's subsequent determinations on owner's compensation, these removed amounts would likely not have impacted the proposed 2006 Revenue Requirement.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-14****Reference:** Reasonable Building Sizes and Costs

2006 Phase I Report Rev 0, pages 76, 172

- Request:**
- a) What consideration was given to the possibility that building leases may correspond to the term of BCMB permits? Please discuss alternatives of weighting the deemed lease costs for owned buildings if it is assumed that leases are for a five year term.
  - b) Please explain the relationship between the recommended deemed lease rate of \$10.87/SF and the table of forecast Deemed Lease Costs at line 20 of page 172.

- Response:**
- a) The DCA did not consider that building leases may correspond to the terms of BCMB permits. The DCA surmises that most Depots do not consider BCMB permits to have an expiry date as permits tend to be renewed as long as the Depot remains compliant. The DCA received the following response from a BCMB staff person:

Depot permits do have expiries, and the range of time for permits is anywhere from 1-5 years. I think it highly unlikely that depots are basing business decisions such as leasing terms on the possibility of non-renewal. I can only think of one instance over the past eight years where a depot permit was not renewed, and it was badly in non-compliance with our standards and had not responded to our many requests to get back into compliance.

The LePage researcher did not specifically ask realtors/agents in the various centers of Alberta for the term of the lease when requesting current market prices. This could be accomplished in future studies. The DCA notes that lease term may not always be a significant factor (compared to current market prices) in determining the unit cost of a lease.

If additional information was obtained from Depots on typical lease terms and additional market information on lease rates vs. lease terms was obtained a more precise forecast of deemed lease rates could be generated.

- b) The DCA notes a typographical error at line 24 of page 172 of the 2006 Phase I Report Rev 0. The \$10.87 value should be \$10.24 to correspond to the values noted on lines 20, 22 and 32.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-15****Reference:** Return Margins

- HCRP Memo dated July 25, 2006 to BCMB
- September 19, 2006 memo to Hildebrand from Cicchetti and Long
- 2006 Phase I Report Rev 0, pages 88, 111

- Request:**
- a) Please provide details of what Cicchetti and Long were asked to do and what information was provided to them.
  - b) Is the September 19, 2006 memo the response to the HCRP request for an expert report?
  - c) Is it intended that Dr. Cicchetti and/or Mr. Long will appear as an expert at the hearing?
  - d) Please explain how the differences between the regulated energy suppliers and bottle Depots identified in the memo have been addressed.
  - e) At page 7 of the memo, it is stated that under Regulated Rate Option Regulation all other aspects of an RRT provider's risks are intended to be covered off in other components of the regulated tariff. Please identify and discuss risks of bottle Depots not provided for in other components of the proposed rates.
  - f) Please identify any reasonably comparable retail companies to bottle Depots and the criteria by which they are considered to be comparable.
  - g) Please explain why retail companies are relevant as they buy in a wholesale market and sell in a retail market at market prices while bottle Depots are agents refunding deposits and providing a service as distinct from a product.
  - h) At page 10 of the September 19, 2006 memo is the statement "... we are informed that the bottle Depot industry employs primarily unskilled and a somewhat transitory workforce." Is this consistent with the labour comparable assumptions such as lead hands?
  - i) There is a statement at page 10 of the September 19, 2006 memo that that there are likely some costs and risks associated with arranging and collecting containers from various businesses that are not accounted for in the cost data. Please advise whether these comments are applicable to the 2006 report in which collection costs have been included.
  - j) At page 11 of the September 19, 2006 memo reference is made to a 47% Income Tax rate. Please advise as to the relevance of the 47%

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

rate.

- k) Page 111 of the Phase I Report refers to the need for the Depots to receive a return for fulfilling their legislated obligation to return deposits to customers. Please comment, as it appears the risk associated with management of the cash purchases is recovered as a component of the operating expenses as "Cash & Shrinkage" (see page 88 of the 2006 Phase I Report Rev 0).

- Response:** a) The initial e-mail and verbal discussions with Mr. Long concluded with the DCA providing the written instructions to Pacific Economics Group (PEG) as noted on p. 110, l. 21 to 28 of the 2006 Phase I Report Rev 0.

The DCA provided PEG with the following background documents:

- Doc 01-026b Phase I Report Revision 1 Nov 1 2005
  - Doc 10-010a FranData Preliminary Study Proposal
  - Doc 10-010 FranData Preliminary Study Results
  - Doc 10-011 HCRP Return Memo to BCMB July 25 2006
  - section 12 of the 2006 Phase I Report Rev 0, draft as of November 11, 2006
- b) The BCMB's response to the HCRP's July 25, 2006 memo (Doc 10-011) was to retain the DCA to prepare a Return study. The DCA's Return Study is section 4.12 of the 2006 Phase I Report Rev 0, p. 97 to 114, and the referenced documents (including the PEG memo, Doc 10-017).
- c) It is anticipated that if Interested Parties and/or the HCRP desire the opportunity to cross examine PEG then the BCMB will consider the request and may ask the DCA to arrange to have Dr. Cicchetti and/or Mr. Long appear during the oral hearing. For clarity, the DCA is under contract to the BCMB, and PEG is a subcontractor to the DCA. The DCA has made arrangements for PEG to continue to support the DCA throughout the HCRP process, as required.

This same response applies to DCA staff and other subcontractors retained by the DCA (e.g. Mr. Li (regression analysis), Mr. Charlton (LePage studies), Mr. Kaltenhauser (database work), Mr. Temple and Mr. Rogers.). The BCMB has advised the DCA that Mr. Hildebrand will be appearing before the HCRP.

- d) The DCA was of the view that application of the methodology employed by PEG to compare regulated energy suppliers to *ValueLine* and CANSIM statistics could equally be applied to compare

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

Alberta Depots to *ValueLine* and CANSIM statistics. The risk analysis on page 111 of the 2006 Phase I Report Rev 0 was prepared by the DCA and reviewed by PEG in an attempt to compare the relative risks between Alberta Depots and *ValueLine* and CANSIM companies.

e) PEG's memo on page 7 states:<sup>8</sup>

Fifth, and perhaps more importantly for this analysis, the return margin that we recommended for DERS and EEC in the EUB proceeding was a conservative margin that was meant to provide a pure margin. Under the Regulated Rate Option Regulation, all other aspects of an RRT providers risks are intended to be covered off in other components of the regulated tariff. Our understanding is that while much of a Bottle Depot company's costs (e.g. the refund of the deposit) is a relatively risk free pass-through, the margin or handling fee must be sufficient to adequately provide the Bottle Depot company with a margin equivalent to those earned by relatively comparable retail companies so that Bottle Depot companies will remain in business.

The relative difference in risk between the *ValueLine* and CANSIM companies and the Alberta Depots was analyzed on page 111 of the 2006 Phase I Report Rev 0. The DCA is of the view that there is a significant difference in the risk related to the refund of deposits and the collection, sorting and packaging of containers. The perceived difference in risk lead the DCA to recommend different return margins for Purchases and Operating Costs.

The DCA is of the view that the proposed return margins provide appropriate compensation for all Alberta Depot business risks.

f) The following response was provided to the DCA by PEG.

Bottle depot companies are rather unique in that they act as agents providing services and not selling product at retail. However, there were several companies in the Valueline data that are comparably similar in that they also provide services as opposed to products purchased at wholesale and sold at retail. Those companies typically fall into the Human Resources and Medical Services classifications. They are similar to bottle depot companies in that they primarily provide services rather than products. Those companies are:

---

<sup>8</sup> Doc 10-017

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**Human Resources**

- AMN: provides healthcare staffing services
- CDI: provides temporary and permanent job placement and project management
- Clark: consulting, compensation, and employee benefit services
- Heidrick & Strug: executive search
- Hewitt Associates: global outsourcing and consulting services
- Kelly: temporary office services
- Korn/Ferry: executive recruitment
- MPS: consulting and out-sourcing, training, and strategic human resources solutions
- Manpower: provides employment services
- Robert Half: temporary and permanent services in financing, accounting, law, etc

**Medical Services**

- American Healthways: specialized comprehensive care and disease management services
- Apria: provider and manager of integrated homecare services
- Beverly Enterprises: nursing home operator
- Community Health: owns and operates general acute care hospitals
- Davita: provides renal care services
- HCA: provides hospital management services
- Health Management: provides general acute care health services
- Humana: provides health care
- Lab Corp: provides full range of clinical and anatomical tests to physicians and hospitals
- Manor Care: provides nursing facilities and outpatient services
- Pediatrix: provides physician management services

---

<sup>9</sup> Doc 10-017



**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

- Quest Diagnostic: provides diagnostic testing, information and services
- Renal Care Group: provides nephrology services to patients suffering from kidney failure
- Sunrise Senior Living: provides housing and support services to the elderly
- Triad: owns and operates hospitals
- Universal Health: hospital chain

The Stats Can data is not broken out by individual companies, so it is not possible to answer the question.

g) The following response was provided to the DCA by PEG.

As stated in the response to (f), several of the companies in the Valueline data were also primarily services companies, selling services rather than reselling products purchased at wholesale and resold at retail. As companies providing services rather than selling products purchases at wholesale and sold at retail, those companies identified in the response to (f) are reasonably comparable. Further, those companies that do sell products, as distinct from providing services, share a feature in common with the bottle depots in that all these companies must earn a margin sufficient to allow them to remain in business. Without a sufficient margin, no investor is likely to invest in an industry, including the bottle depot business. Investors will compare opportunities, weight relative risks, and invest in the business opportunity that provides the best relative return for the risk undertaken. Thus, it is not particularly relevant that some of the companies in the Valueline data are retail companies. The point of the data is not to identify companies that are identical to bottle depots because such a task would be almost impossible and would provide very few, if any, observations. Rather, the point of the analysis was to identify reasonably comparable companies and the margin that they earned.

Furthermore, Bottle Depots have similar traits to other more purely retailers. For example, the Bottle Depots do not manufacture products. They collect bottles in a wholesale-like acquisition manner. Second, the Bottle Depots treat the bottles in collection/packaging retail-like fashion. Finally, the Bottle Depots charge a final price based upon their value added mark-up or margin contributed.

h) PEG stated on page 109 of their memo:<sup>9</sup>

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

In Dr. Cicchetti's evidence to the EUB with respect to the appropriate margin for a regulated energy provider in Alberta, he provided a very conservative recommendation of 3% after-tax and 4.5% pre tax. However, while illustrative, this recommendation should not be applied without adjustment to the Bottle Depot industry in Alberta for several reasons.

...

Second, we are informed that the bottle depot industry employs primarily unskilled and a somewhat transitory workforce. Consequently, higher costs and risks associated with theft, shrinkage, and other losses are likely relatively greater in the bottle depot industry than in the regulated energy service provider business.

PEG's comment that Depots employ "primarily unskilled and a somewhat transitory workforce" was in relation to Handlers, who represent the majority of the Direct Labour costs and could impose a greater business risk on Alberta Depots. The DCA concurs with PEG and notes that Depot owners and their representatives have advised the DCA that theft and shrinkage is a significant business risk Depots face. The DCA considered the risk identified by PEG when preparing the analysis presented on page 111 of the 2006 Phase I Report Rev 0.

- i) As noted on page 11 of the 2006 Phase I Report Rev 0 (line 14 to 34), the DCA is of the view that Collection costs As Reported, and included in the proposed 2006 Revenue Requirement, are understated. This is consistent with PEG's comment. The DCA considered the inclusion of reported Collection Costs into the 2006 Revenue Requirement, the relative riskiness of the *ValueLine* and CANSIM data to Alberta Depots, and the recommendations from PEG, in determining the proposed return margins that, we submit, meet the fair return standard imposed by Madame Justice Bielby.
- j) PEG's reference to a 47% Income Tax rate is based on their understanding of the marginal tax rate for large Canadian companies (e.g. Direct Energy). The DCA stated the following on page 110 of the 2006 Phase I Report Rev 0:

While PEG recommended grossing up to a before tax value using the large corporate tax rate of 47%, the DCA is of the view that the small corporation tax rate (for taxable income up to \$300,000) of 26.52% is more appropriate.

- k) The DCA is of the view that the 2006 Revenue Requirement should include both:

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

- The costs the Depots incur related to shrinkage (an expense for rate making purposes)
- A Return on the portion of their business related to the refunding of deposits to Consumers (recommended to be a 1% after tax return margin on Purchases)

The DCA is also of the view that inclusion of Collection costs in the 2006 Revenue Requirement should result in a lower return margin on Purchases, as recommended. If Collection costs are excluded from the 2006 Revenue Requirement, then the DCA is of the view that the return margin on Purchases should be higher to compensate Depots for higher business risks.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-16**

**Reference:** Turnover Ratio ("TOR")

- 2006 Phase I Report Rev 0, pages 109, 111
- September 19, 2006 memo to Hildebrand from Cicchetti and Long

**Request:**

- a) Please explain the relevance of a TOR ratio given the asset structure and Depot's choice of lease vs. own.
- b) Please recalculate the TOR excluding purchases.

**Response:** a) As noted at lines 10-11 on page 109, 2006 Phase I Report Rev 0:

As Dr. Cicchetti stated in his evidence, a TOR greater than 2.0 signifies a non-capital intensive industry. This supports the DCA's determination that Return on Rate Base is not the appropriate regulatory Return model for Alberta Depots.

The DCA notes that with the exclusion of assets related to Buildings, as recommended by the DCA, the TOR increases significantly.

Excluding Purchases from the Total Annual Sales results in As Reported TOR ratios that are greater than 2 (see b) below).

For Depots with owned buildings only, the following is the 2006 As Reported TOR:

Based on the 2006 UCA As Reported values, for Owned Depots only, the Alberta Depots have a TOR of about 3.1.

$$\text{TOR} = \frac{\text{Total Annual Sales}}{\text{Total Assets}} = \frac{\$62.2 \text{ million}}{\$19.9 \text{ million}} = 3.1$$

Therefore even for those Depots that elected to own their buildings the TOR signifies a non-capital intensive business.

Considering only Depots that have elected to lease buildings the TOR would be over 200.

b) Based on the 2005 UCA As Reported values, the Alberta Depots have a TOR of about 2.2 when Purchases are excluded from Annual Sales.

$$\text{TOR} = \frac{\text{Total Annual Sales}}{\text{Total Assets}} = \frac{\$41.1 \text{ million}}{\$18.9 \text{ million}} = 2.2$$

Based on the 2006 UCA As Reported values, the Alberta Depots have a TOR of about 2.2 when Purchases are excluded from Annual Sales.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

$$\text{TOR} = \frac{\text{Total Annual Sales}}{\text{Total Assets}} = \frac{\$43.5 \text{ million}}{\$20.2 \text{ million}} = 2.2$$

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-17****Reference:** Income Tax

2006 Phase 1 Report, page 117, Schedule 11

- Request:**
- a) Please explain why the Revenue Requirement includes both total return (before tax) and income taxes. "Revenue Requirement = Total Operating Expenses [line 16] – Miscellaneous Revenue [line 6] + Total Return [line 21] + Income Taxes [line 23].
  - b) Income taxes are \$2.142 million based on Total Return Before Tax of \$3.605 million for an effective rate of 59%. Please reconcile this rate to the 26.52% rate in the analysis on page 117.

- Response:**
- a) The DCA concedes that a provision for Income Taxes has been overstated in the calculation of the 2006 Revenue Requirement. There are two potential determinations for an Income Tax component for the 2006 Revenue Requirement:
    1. Assume all Depots have a taxable income equal to the return margin and are taxed at a constant income tax rate of 26.52%. Under this option, the Return and Income Tax components of the 2006 Revenue Requirement equal the Return Margin Before Tax.
    2. Utilize the recommended 2006 Handling Commissions in the determination of Revenue and the Cal 2006 Study System Costs to determine a taxable income and Income Tax Amount for each Depot. This option would take into consideration the range of Depot profit levels and compute Income Taxes at the higher tax rate for Depots with taxable income over \$300,000 per year. This option requires an iterative approach as the deemed Income Tax amount effects the Revenue Requirement, which in turn impacts 2006 Handling Commissions, which impacts the deemed Income Tax amount.

The DCA recommends Option 2 as all other determinations have been made on a per Study System Depot basis. The following two tables show Schedule 11 revised with the two potential options noted above.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

**HCRP-DCA-2006-17 a) Option 1 Schedule 11  
BEVERAGE CONTAINER MANAGEMENT BOARD  
2006 REVENUE REQUIREMENT**

Line No.					
1	<b>Report Volume</b>	1,180,697,888	or 83% Total System	1,431,044,640	or 100% Total System
2	<b>Report Depots</b>	165	or 76% Total System	216	or 100% Total System
		<b>Cal 2006 Study System Forecast</b>		<b>Cal 2006 Total System Forecast</b>	
		<b>\$</b>	<b>¢ per container</b>	<b>\$</b>	<b>¢ per container</b>
		(g)	(h)	(g)	(h)
3	<b>Revenue</b>	\$138,224,519	11.71	\$167,532,662	11.71
4	Less Purchases	\$90,812,396	7.69	\$110,067,610	7.69
5	Gross Margin (HC)	\$47,412,123	4.02	\$57,465,052	4.02
6	Misc Revenue	\$412,060	0.03	\$499,430	0.03
7	<b>Total Margin</b>	\$47,824,183	4.05	\$57,964,482	4.05
	<b>Expenses</b>				
8	Direct Labour	\$22,273,766	1.89	\$26,996,537	1.89
9	Contract Labour	\$0	-	\$0	-
10	Overhead Labour	\$6,118,822	0.52	\$7,416,213	0.52
11	Labour Subtotal	\$28,392,588	2.40	\$34,412,749	2.40
12	Building	\$7,327,617	0.62	\$8,881,313	0.62
13	Equipment	\$2,518,727	0.21	\$3,052,780	0.21
14	Overhead (Ex-Collections)	\$5,300,057	0.45	\$6,423,844	0.45
15	Collections	\$0	-	\$0	-
16	<b>Total Operating Expenses</b>	\$43,538,989	3.69	\$52,770,686	3.69
17	<b>Return on Purchases (Before Tax)</b>	\$1,235,879	0.10	\$1,497,926	0.10
18	Return Margin	1.36%			
19	<b>Return on Operations (Before Tax)</b>	\$2,370,114	0.20	\$2,872,656	0.20
20	Return Margin	5.44%			
21	<b>Total Return (Before Tax)</b>	\$3,605,993	0.31	\$4,370,582	0.31
22	Return Margin	3.19%		3.19%	
23	<b>Income Taxes (Theoretical)</b>	<u>incl in Return Margin</u>		<u>incl in Return Margin</u>	
24	<b>Revenue Requirement*</b>	\$46,732,922	3.96	\$56,641,837	3.96
25	<b>Revenue at Current Rates</b>	\$47,824,183	4.05	\$57,964,482	4.05
26	<b>Proposed Rate Increase</b>	-2.3%		-2.3%	
27	* Revenue Requirement = Total Operating Expenses [line 16] - Miscellaneous Revenue [line 7] + Total Return Before Tax [line 21]				

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

HCRP-DCA-2006-17 a) Option 2 Schedule 11

**BEVERAGE CONTAINER MANAGEMENT BOARD  
2006 REVENUE REQUIREMENT**

Line No.		Cal 2006 Study System Forecast		Cal 2006 Total System Forecast	
		\$ (g)	¢ per container (h)	\$ (g)	¢ per container (h)
1	<b>Report Volume</b>	1,180,697,888	or 83% Total System	1,431,044,640	or 100% Total System
2	<b>Report Depots</b>	165	or 76% Total System	216	or 100% Total System
3	<b>Revenue</b>	\$138,224,519	11.71	\$167,532,662	11.71
4	Less Purchases	\$90,812,396	7.69	\$110,067,610	7.69
5	Gross Margin (HC)	\$47,412,123	4.02	\$57,465,052	4.02
6	Misc Revenue	\$412,060	0.03	\$499,430	0.03
7	<b>Total Margin</b>	\$47,824,183	4.05	\$57,964,482	4.05
	<b>Expenses</b>				
8	Direct Labour	\$22,273,766	1.89	\$26,996,537	1.89
9	Contract Labour	\$0	-	\$0	-
10	Overhead Labour	\$6,118,822	0.52	\$7,416,213	0.52
11	Labour Subtotal	\$28,392,588	2.40	\$34,412,749	2.40
12	Building	\$7,327,617	0.62	\$8,881,313	0.62
13	Equipment	\$2,518,727	0.21	\$3,052,780	0.21
14	Overhead (Ex-Collections)	\$5,300,057	0.45	\$6,423,844	0.45
15	Collections	\$0	-	\$0	-
16	<b>Total Operating Expenses</b>	\$43,538,989	3.69	\$52,770,686	3.69
17	<b>Return on Purchases (After Tax)</b>	\$908,124	0.08	\$1,100,676	0.08
18	Return Margin	1.00%			
19	<b>Return on Operations (After Tax)</b>	\$1,741,560	0.15	\$2,110,827	0.15
20	Return Margin	4.00%			
21	<b>Total Return (After Tax)</b>	\$2,649,684	0.22	\$3,211,504	0.22
22	Return Margin	3.19%			
23	<b>Income Taxes (Calculated)</b>	\$1,917,255	0.16	\$2,323,777	0.16
24	<b>Revenue Requirement*</b>	\$47,693,868	4.04	\$57,806,536	4.04
25	<b>Revenue at Current Rates</b>	\$47,824,183	4.05	\$57,964,482	4.05
26	<b>Proposed Rate Increase</b>	-0.3%		-0.3%	

\* Revenue Requirement = Total Operating Expenses [line 16] - Miscellaneous Revenue [line 7] + Total Return After Tax [line 21] + Income Taxes [line 23]

27

As noted above, the DCA recommends Option 2. The following table shows simple income statements for the 2006 Study System and the 2006 Total System. Note that for the 2006 Study System revenues do not equal costs under the Option 2 2006 Handling Commissions (0.4% difference), whereas revenues equal costs for the Total System. The DCA surmises that the relative lower revenue for the Study System is due to the mix of container volumes at the Total Study System that produce the Option 2 2006 Handling Commissions.



**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

Also shown below are Option 2 2006 Handling Commissions.

	<b>Cal 2006 Study System</b>	<b>Cal 2006 Total System</b>
<b>Revenue</b>		
2006 Handling Commissions	\$47,499,146	\$57,806,536
Miscellaneous Revenue	\$412,060	\$499,430
	<u>\$47,911,206</u>	<u>\$58,305,966</u>
<b>Costs</b>		
Operating Expenses	\$43,538,989	\$52,770,686
Return Margin After Tax	\$2,649,684	\$3,211,504
Calculated Income Tax	\$1,917,255	\$2,323,777
	<u>\$48,105,928</u>	<u>\$58,305,966</u>
Revenue less Costs	-\$194,722	\$0
Revenue Requirement	\$47,693,868	\$57,806,536

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**
**HCRP-DCA-2006-17a) Option 2**

Product ID	Product Name	ID	Payable from Manufacturer to BCMB ( $\phi$ /cont)	Payable from Manufacturer to Depot ( $\phi$ /cont)	Total Handling Commission ( $\phi$ /cont)
1	Pop Cans 0 - 1 L	1	0.39	3.43	3.82
26	Beer Cans	2	0.39	3.45	3.84
16	PET 0 - 1 L	3	0.39	3.78	4.17
33	Industry Standard Bottles	4	0.39	3.28	3.67
23	Big Rock Bottles	4	0.39	3.28	3.67
8	Glass 0 - 500 ml	5	0.39	4.16	4.55
9	Glass 501 - 1 Litre	5	0.39	4.16	4.55
41	Glass 0 - 1 Litre	5	0.39	4.16	4.55
21	Tetra Brik 0 - 1 L	6	0.39	3.29	3.68
17	PET Plastics Over 1 Litre	7	0.39	4.72	5.11
35	Import Beer Bottles	8	0.39	3.91	4.30
10	Glass Over 1 Litre	9	0.39	5.61	6.00
0	Gable Top Over 1L	10	0.39	5.61	6.00
5	Drink Pouch 0 - 1 L	11	0.39	5.61	6.00
12	HDPE Plastics Over 1 Litre	12	0.39	6.61	7.00
18	Polycups 0-500ml	13	0.39	5.61	6.00
3	Bi Metal 0 - 1 L	14	0.39	5.61	6.00
11	HDPE 0 - 1 L	15	0.39	5.61	6.00
4	Bi-Metal Cans Over 1 Litre	16	0.39	5.61	6.00
7	Gable Top 0 -1 L	17	0.39	5.61	6.00
2	Bag in Box Over 1 L	18	0.39	9.61	10.00
34	Tetra Brik Over 1 Litre	19	0.39	9.61	10.00
20	PVC Plastics Over 1 Litre	20	0.39	9.61	10.00
37	Polypropylene	21	0.39	5.61	6.00
19	PVC 0 - 1 L	22	0.39	5.61	6.00
15	Liq/Wine Ceramics	23	0.39	9.61	10.00
36	Aerosol 0 - 1 Litre	23	0.39	9.61	10.00
32	Sleemans Bottles	24	0.39	5.61	6.00
14	Import Beer PET 0 - 1 Litre	25	0.39	5.61	6.00
13	Import Beer Cans (Bi-Metal)	26	0.39	5.61	6.00
27	Imports Under 1 Litre	27	0.39	5.61	6.00
24	Beer Cans - Deposit Only	23	0.39	9.61	10.00
25	Unusable ISBs	23	0.39	9.61	10.00
30	Molson Obsolete	23	0.39	9.61	10.00
31	Over 1 Litre Bottles	23	0.39	9.61	10.00

Payable from BCMB to Depot:	Depot Size Range (containers/year)	Fixed Fee (\$/month/depot)
	- 500,000	\$1,000
	500,000 1,000,000	\$1,500
	1,000,000 2,000,000	\$2,000
	over 2,000,000	\$2,500

b) The 2006 Phase I Report Rev 0 2006 Study System calculated

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

Income Tax placeholder was \$2.142 million and the 2006 Total System calculated Income Tax placeholder was \$2.596 million.<sup>10</sup> The 2006 Total System Income Tax amount was modified to \$2.623 million in the 2006 Phase II Report Rev 0 after the 2006 Handling Commissions were finalized,<sup>11</sup> which equates to a 2006 Study System calculated Income Tax amount of \$2.164 million.

The following table summarizes the 2006 Phase I Report Rev 0 Income Tax calculations using proposed 2006 Handling Commissions:

	<b>2006 Study System</b>	
Revenue		
2006 Handling Commissions	\$48,702,198	
Miscellaneous Revenue	\$412,060	
	<u>\$49,114,258</u>	
Operating Expenses	\$43,539,015	
Earning for Before Tax	<u>\$5,575,242</u>	
Calculated Income Tax	\$2,163,998	
		<b># Depots</b>
Depots with Positive Earnings	\$8,047,912	97
Depots with Negative Earnings	<u>-\$2,472,669</u>	68
	\$5,575,242	165
Average Tax Rate	26.89%	
Depots with Earnings over \$300,000	\$1,428,399	4

While Earnings Before Tax are \$5.6 million using the proposed 2006 Handling Commissions, the Study System taxable income is \$8.0 million. The average tax rate is 26.89%, slightly above the small business tax rate of 26.52% due the presence of four Depots with taxable earnings over \$300,000.

---

<sup>10</sup> 2006 Phase I Report Rev 0, Executive Summary, p. vi, l. 38-39

<sup>11</sup> 2006 Phase II Report Rev 0, Schedule 1, line 7

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-18****Reference:** Depot Profitability

2006 Phase II Report Rev 0, pages 58-59

**Request:** a) Please calculate, using the current rates and the proposed rate structure, the expected profit for an Urban Depot serving a population of:

1. 11,000
2. 25,000, and
3. 49,000

(Please identify separately any collection costs included in operating expenses.)

- b) Please calculate, in the same manner as in part a), the expected Depot profitability for Rural Depots serving populations of 2,000, 5,000 and 9,500. (Please identify separately any collection costs included in operating expenses.)
- c) Please calculate in the same manner, the expected Depot profitability for a Metro Depot serving a population of 40,000.
- d) Do the results in this IR identify any concerns regarding the proposed rate design. For example, do the rates ensure that the Depots have revenue stability from year to year and the opportunity to earn a fair return? If not, how would you recommend addressing the concerns.
- e) Please impute the population served, for Depots with volumes of 500,000 and 35,000,000.

**Response:** a) The first step in this analysis is to try and correlate population to Depot return volume. The analysis presented on page 17-18 of the 2006 Phase I Report Rev 0 was used to provide the correlation. Note that the DCA has concerns with using the BCMB classifications of Rural, Urban and Metro as the classifications do not appear to be applied consistently (see section 3.2.1, p. 14 of the 2006 Phase I Report Rev 0, and in particular lines 21-24).

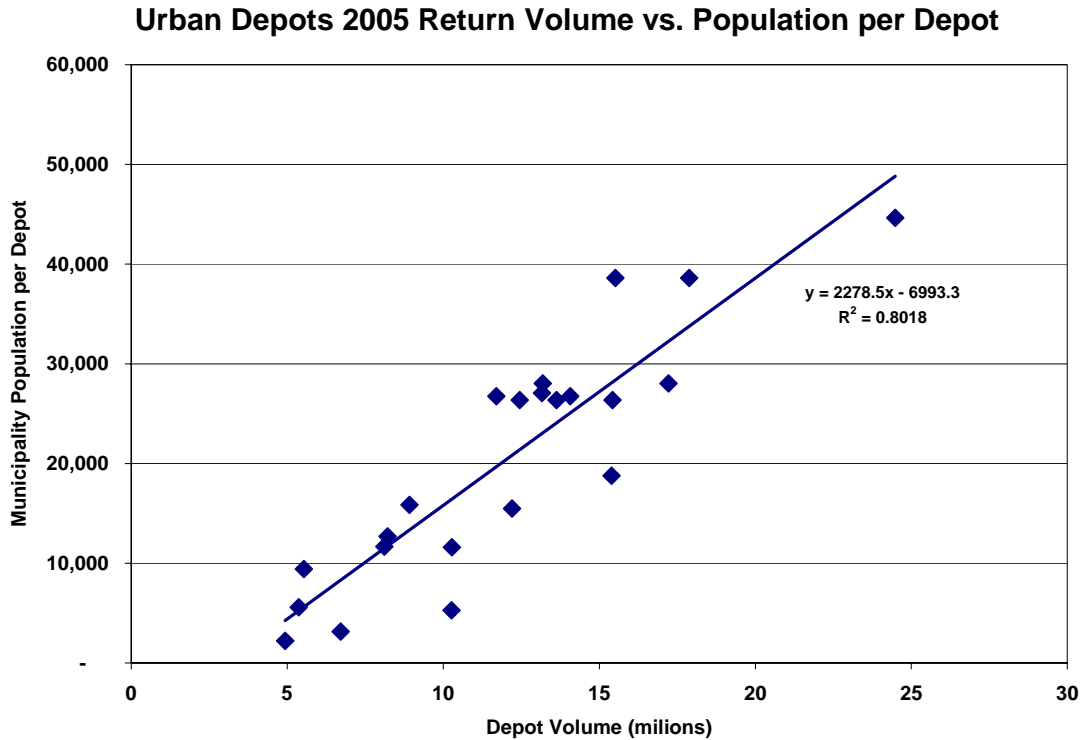
The chart below shows that there is a strong correlation ( $R^2=80\%$ ) between Municipality Population per Depot and Depot volume for Urban Depots. Note that outlier data points have been removed from the analysis, primarily to protect Depot confidentiality (which also improves the correlation). By using Population per Depot statistics and removing data outliers, the DCA is of the view that Interested

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

---

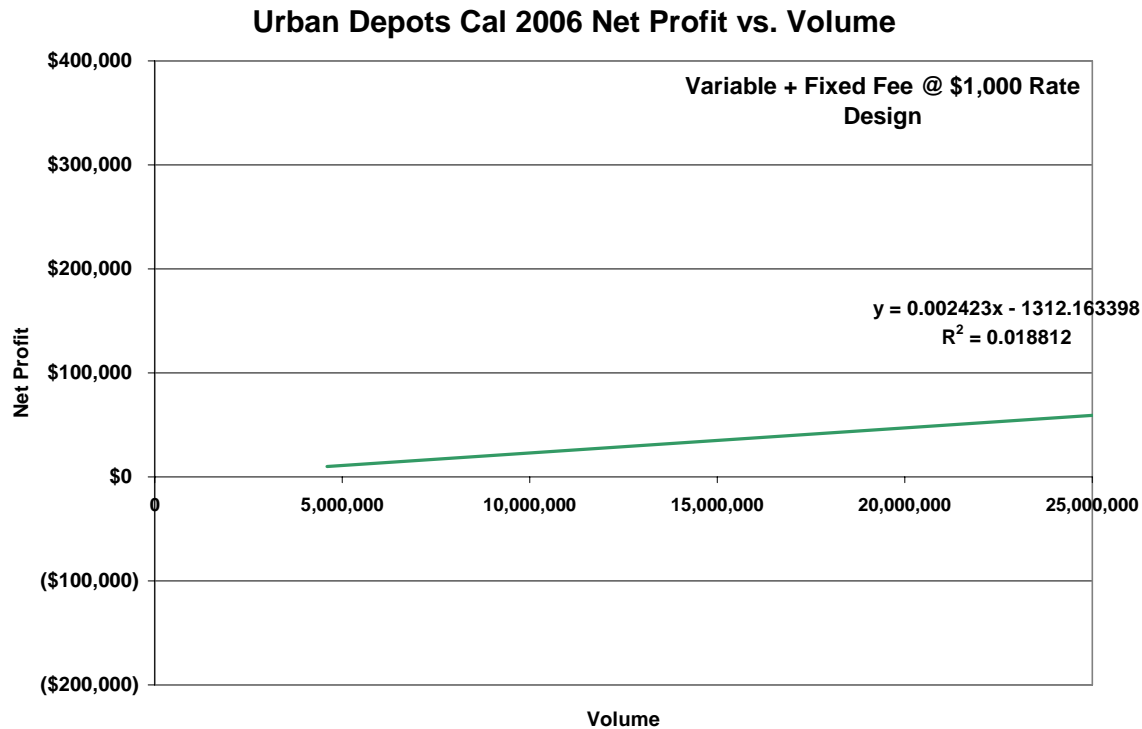
parties will not be able to discern individual Depot statistics.

From this analysis the DCA used the best fit regression line to correlate population to Depot volume.



The next step is to compare Depot profitability over the derived Depot Volume ranges. The chart at the bottom of page 46 of the 2006 Phase II Report Rev 0 is shown below with data for Urban Depots only. The Chart shows Depot profitability using the recommended 2006 Handling Commissions. The DCA has removed the individual data points to protect Depot confidentiality.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**



For the derived volumes, Depot profitability is as shown in the table below, including profitability at current Handling Commission rates. Profitability was derived using the best fit regression line.

Municipality Population	Depot Volume	Profit at Proposed HC	Profit at Current HC
11,000	7,896,976	\$17,822	\$8,933
25,000	14,041,370	\$32,710	\$36,232
49,000	24,574,617	\$58,232	\$83,031

On page 89 of the 2006 Phase I Report Rev 0 the DCA attempted to estimate Collection Costs As Reported. Excluding Direct Labour cost that may be used for the collection containers from outside the Depot, the DCA estimated total 2005 As Reported Collection Costs of \$2.7 million. The DCA notes that a computation error was found for the Contract Labour costs where hours were reported on page 89 instead of costs. The corrected table is shown below:

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

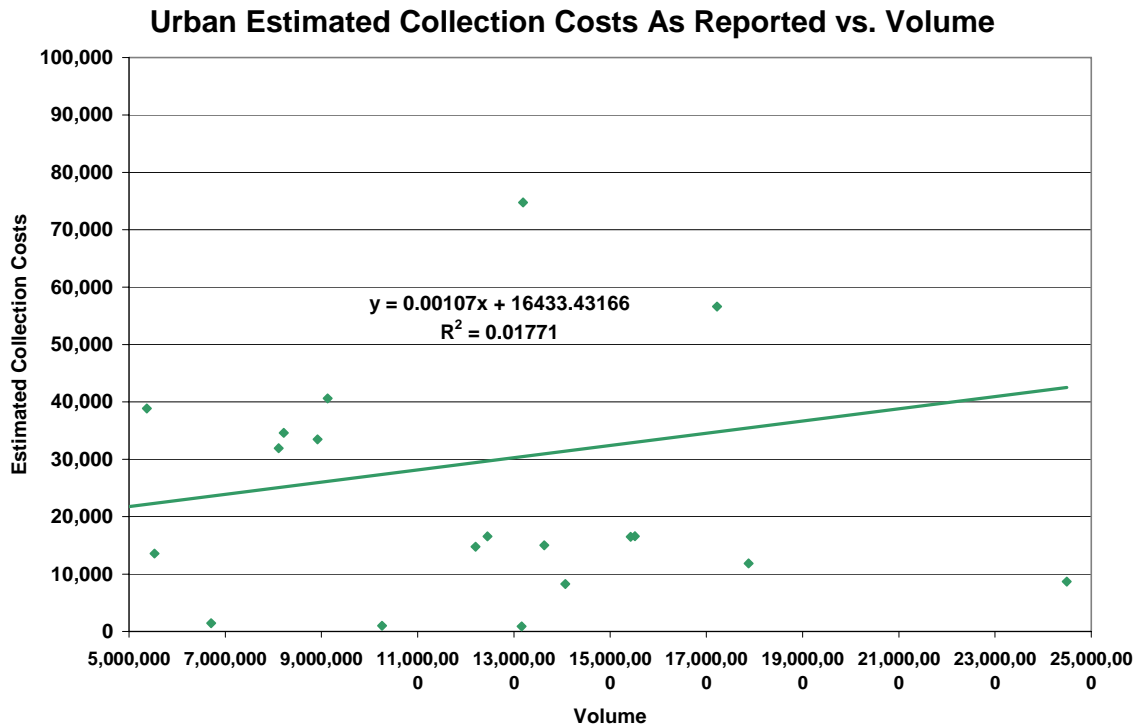
---

**As Reported Collection Costs**

	<u>Small</u>	<u>Large</u>	<u>Total</u>
<b>Labour</b>			
Direct Labour	?	?	?
Contract Labour	\$14,705	\$125,032	\$139,737
Overhead Labour	\$0	\$40,774	\$40,774
	<u>\$14,705</u>	<u>\$165,806</u>	<u>\$180,511</u>
<b>Vehicles</b>			
CCA	\$120,742	\$183,627	\$304,369
Loan Interest	\$3,894	\$3,922	\$7,816
Lease Payments	\$34,047	\$39,224	\$73,271
Operating Costs	\$344,366	\$821,564	\$1,165,930
	<u>\$503,048</u>	<u>\$1,048,337</u>	<u>\$1,551,385</u>
<b>Overheads</b>			
Non-labour collection costs	\$1,655	\$24,134	\$25,789
Deposit incentives	\$0	\$8,845	\$8,845
Table 9 Collections costs	\$0	\$365,355	\$365,355
Table 9 Cash & Shrinkage	\$40,001	\$648,705	\$688,706
	<u>\$41,656</u>	<u>\$1,047,039</u>	<u>\$1,088,695</u>
<b>Total</b>	<b>\$559,409</b>	<b>\$2,261,182</b>	<b>\$2,820,591</b>

The following chart shows these collection costs by Urban Depot, with one data outlier above \$100,000 per Depot and volume above 25 million containers per year not shown. From this analysis, the average collection costs per Urban Depot was \$29,200. Note the considerable variation in collection costs per Depot.

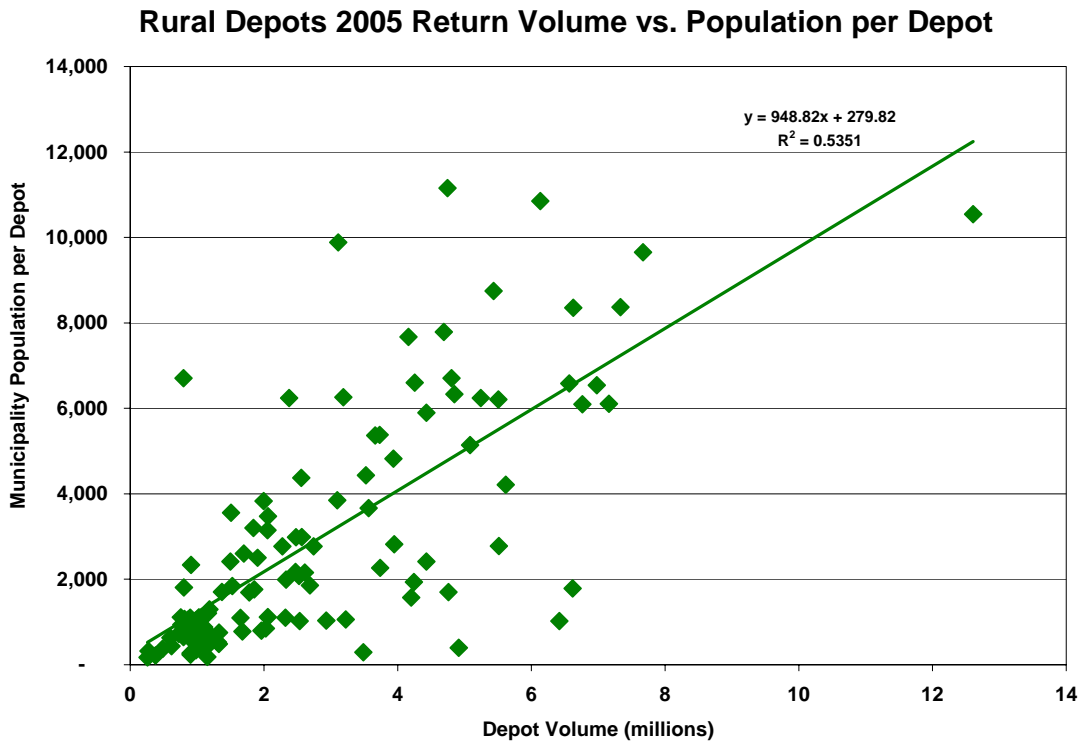
Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)



b) The chart below shows that there is a good correlation ( $R^2=54\%$ ) between Municipality Population per Depot and Depot volume for Rural Depots. Note that several outlier data points have been removed from the analysis, primarily to protect Depot confidentiality (which also improves the correlation). By using Population per Depot statistics and removing data outliers, the DCA is of the view that Interested parties will not be able to discern individual Depot statistics. From this analysis the DCA used the best fit regression line to correlate population to Depot volume.

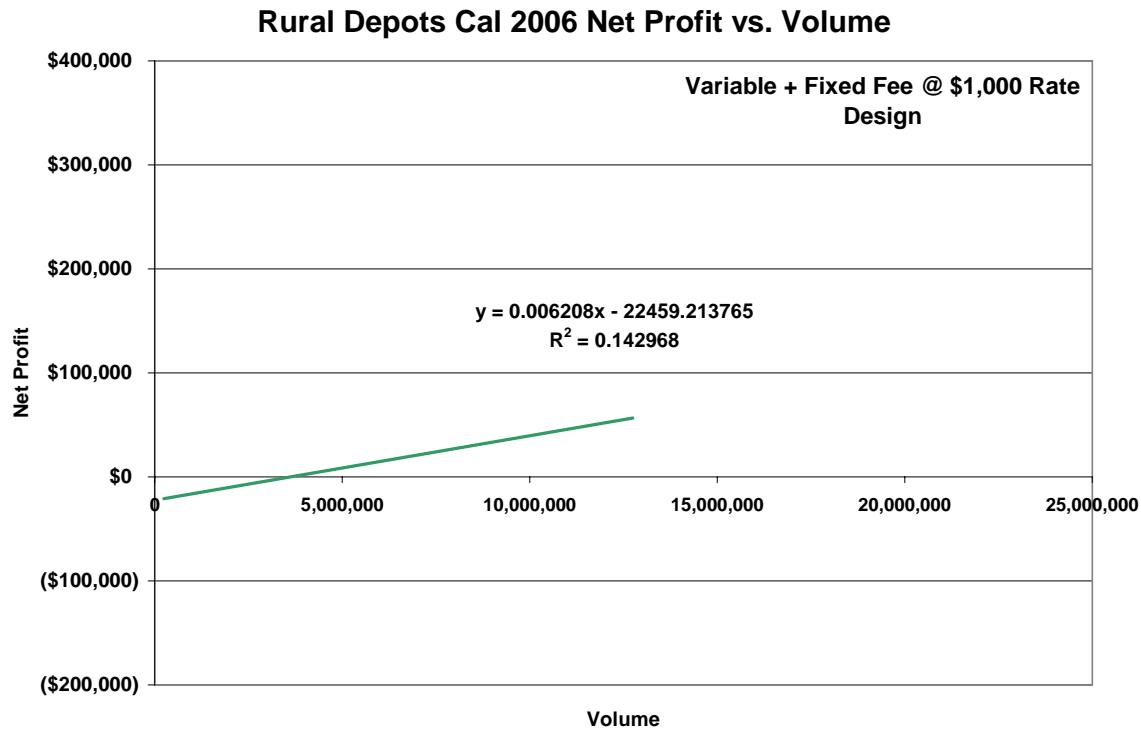


Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)



The next step is to compare Depot profitability over the derived Depot Volume ranges. The chart at the bottom of page 46 of the 2006 Phase II Report Rev 0 is shown below with data for Rural Depots only. The Chart shows Depot profitability using the recommended 2006 Handling Commissions. The DCA has removed the individual data points to protect Depot confidentiality.

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

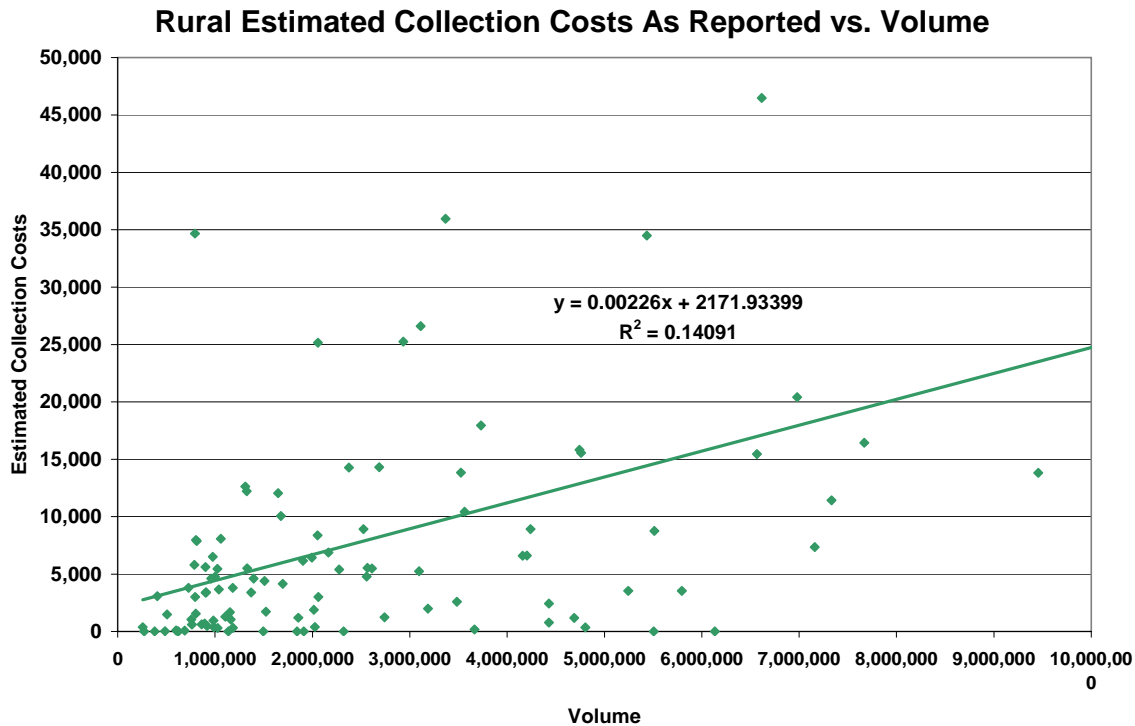


For the derived volumes, Depot profitability is as shown in the table below, including profitability at current Handling Commission rates. Profitability was derived using the best fit regression line.

<u>Municipality Population</u>	<u>Depot Volume</u>	<u>Profit at Proposed HC</u>	<u>Profit at Current HC</u>
2,000	1,812,968	-\$11,204	-\$30,384
5,000	4,974,790	\$8,424	-\$8,296
9,500	9,717,523	\$37,867	\$24,837

Excluding Direct Labour cost that may be used for the collection of containers from outside the Depot, the DCA estimated total 2005 As Reported Collection Costs of \$2.8 million. The following chart shows these collection costs by Rural Depot, with two data outliers above \$50,000 per Depot and volume above 10 million containers per year not shown. From this analysis, the average collection costs per Rural Depot were \$8,100.

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)



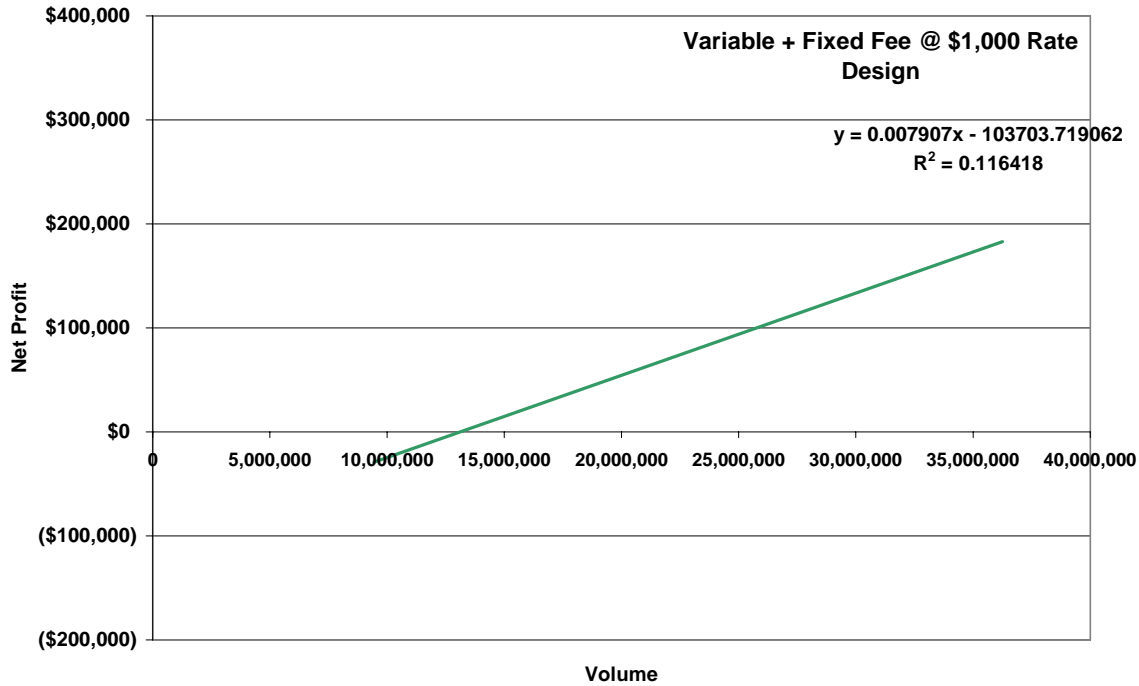
- c) By definition, all Metro Depots should be in the Cities of Edmonton and Calgary.<sup>12</sup> These Depots serve, on average, a population base of about 40,000 each. It is not possible for the DCA to ascertain if a certain Metro Depot serves a greater or lesser population base than the average, even though it is likely given the range of Metro Depot annual return volumes (from about 10 to 35 million containers per year). For example, utilizing population statistics by areas of the large cities and assigning to individual Depots would be arbitrary (where are the boundaries between Depots?) and problematic (some Metro Depots are only a few blocks from each other).

The following chart and table shows the profitability of Metro Depots assuming different annual return volumes.

<sup>12</sup> See footnote 22, p. 14. 2006 Phase I Report Rev 0

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

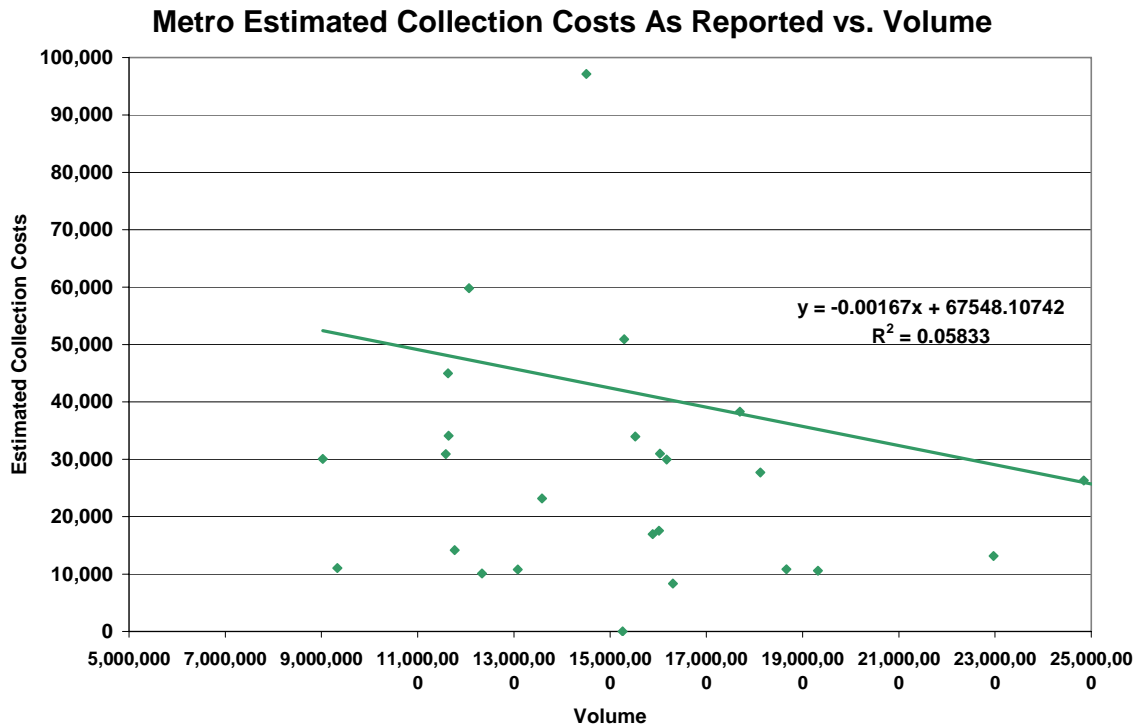
**Metro Depots Cal 2006 Net Profit vs. Volume**



Depot Volume	Profit at Proposed HC	Profit at Current HC
10,000,000	-\$24,634	-\$26,965
20,000,000	\$54,436	\$97,115
30,000,000	\$133,506	\$221,195
40,000,000	\$212,576	\$345,275

Excluding Direct Labour costs that may be used for the collection of containers from outside the Depot, the DCA estimated total 2005 As Reported Collection Costs of \$2.8 million. The following chart shows these collection costs by Metro Depot, with three data outliers above \$100,000 per Depot and volume above 25 million containers per year not shown. From this analysis, the average collection costs per Urban Depot were \$38,700. Note the considerable variation in collection costs per Depot.

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)



- d) The results of the response to this IR further demonstrate that the current variable Handling Commissions do not provide an appropriate opportunity for small volume Depots to earn a fair return, primarily due to the quantum of fixed costs that smaller volume Depots face. The DCA’s rate design analysis, as presented in section 5.2 of the 2006 Phase II Report Rev 0, discussed this issue and proposes a graduated fixed and variable rate design.

Revenue stability from year to year should be enhanced with the proposed 2006 Handling Commissions as a portion of the revenue will be fixed, providing a small amount of revenue certainty (e.g. a new Depot cannibalizing volumes from an existing Depot).

The DCA cautions that the above analysis based on the BCMB classification of Rural, Urban and Metro, contains depot classifications that are, in the DCA’s view, inappropriate, that can lead to results that are impacted by data outliers.

- e) From the above regression lines the following population bases have been imputed. Note that a Depot with an annual return volume of 35 million containers is likely a very large Metro Depot and the DCA is unable to ascertain the population base each Metro Depot serves.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

The regression line for Urban Depots is out of range for a 500,000 annual volume and returns a nonsensical negative population value.

<b>Depot Volume</b>	<b>Rural Depot Population Base</b>	<b>Urban Depot Population Base</b>
500,000	754	(5,854)
35,000,000	33,489	72,754

In response to HCRP-Desiderata-56 (Doc 01-031 page 112) the DCA estimated return volume by Depot size using an estimate of per capita returns (for Cal 2005 413 containers per capita or 1.13 containers per day per capita).

For 2006, the estimated Alberta population mid-year was 3.376 million.<sup>13</sup> Actual 2006 containers returned to the Depots were 1,429 million. Therefore the average returns to the depots in the Total System was about 423 containers per capita or about 1.16 containers per day per capita.

A depot with annual return volumes of 500,000 would serve a population base of about  $500,000 / 423 = 1,180$  people. A depot with annual return volumes of 35 million would serve a population of about  $35,000,000 / 423 = 82,700$  people.

---

<sup>13</sup> <http://www.statcan.ca/Daily/English/061221/d061221d.htm> "Alberta's population grew by 1.12% during the third quarter to reach 3,413,500 as of October 1, 2006." Therefore second quarter would be about 3,375,700.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-19****Reference:** Collection Costs

2006 Phase I Report Rev 0, pages 90-91

- Request:**
- a) Please explain why Collection Costs are recommended to be included in determining the 2006 Revenue Requirement.
  - b) Have there been any changes in circumstances or was additional information provided resulting in a different opinion than in the 2005 Phase I Report.

- Response:**
- a) The DCA is of the view that it is not possible to accurately segregate collection costs from other Depot costs. Instead of excluding an estimate of Collection Costs from the 2006 Revenue Requirement that was not verifiable nor supportable, the DCA made the determination to include Collection related costs in the 2006 Revenue Requirement and take this determination into consideration when making a recommendation on the appropriate level of Return to be included in the 2006 Revenue Requirement.
  - b) Yes. As noted on page 89 of the 2006 Phase I Report Rev 0, there was a material change in the level of collection costs reported by the Depots in the 2005 UCAs compared to the 2004 UCAs:

For Labour, it is felt that some Depots utilize Direct Labour employees for the collection of containers from outside the Depot. These costs were not captured as collection costs in the 2005 UCA. Under Contract and Overhead Labour, the DCA is of the view that collection related costs were not properly categorized for all Depots. For example, in the 2004 UCA process reported Contract Labour collection related costs were nearly \$300 thousand,<sup>14</sup> whereas for the 2005 UCA reported costs were only \$11 thousand.<sup>15</sup> Similarly, in the 2004 UCA process Depots reported collection Overhead Labour costs of \$88 thousand (excluding Owners), whereas for the 2005 UCA reported costs were only \$41 thousand including an allocation of Owner's reported labour costs. It appears to the DCA that some Depots were aware of the determinations in the 2005 Phase I Report to exclude collection costs.

Given the change in reported collection cost levels the DCA noted the

---

<sup>14</sup> Appendix I, Schedule 3, col b, line 1 + line 7

<sup>15</sup> Appendix I, Schedule 4, col c, line 2 + line 9

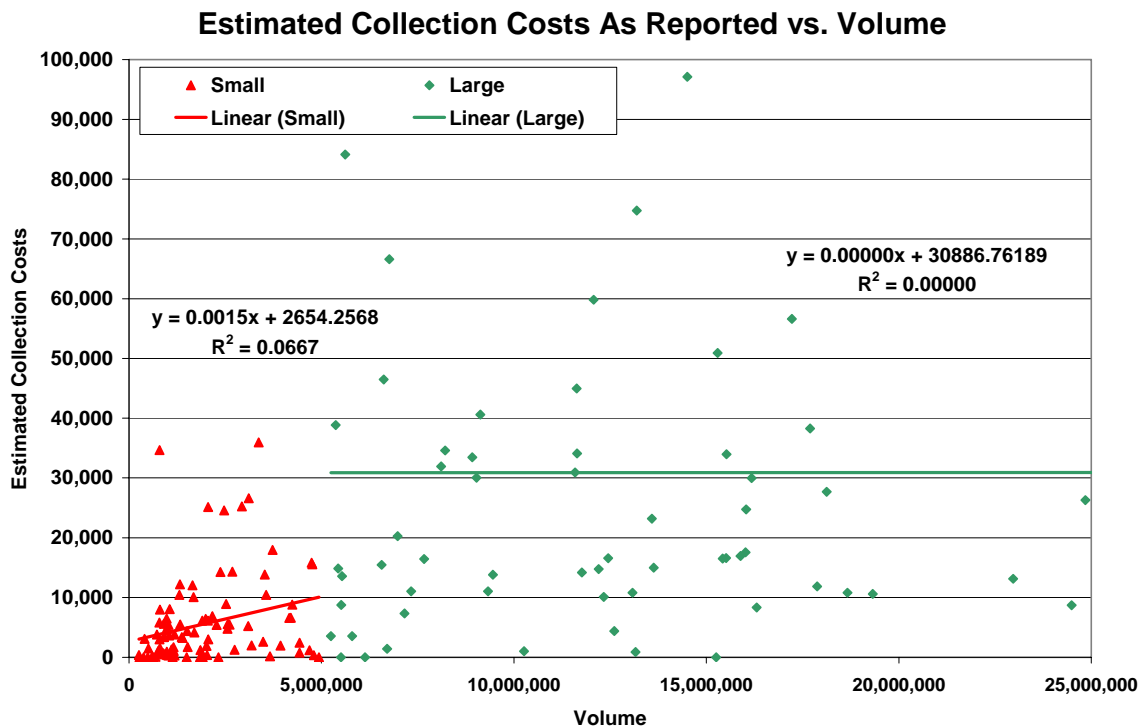
**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

following on page 91 of the 2006 Phase I Report Rev 0:

Given the data collected from the 2005 UCAs the DCA is of the view that an appropriate approximation of collection costs is not possible. As noted above, collection costs related to labour are thought to be understated, collection costs related to vehicles are thought to be overstated and collection costs relate to cash payments are not fully reconcilable (and not verifiable).

In light of the material change in the As Reported data from the 2004 UCAs to the 2005 UCAs, the DCA made the determination not to try and segregate Collection costs.

In responding to HCRP-DCA-2006-18, the DCA prepared charts that showed estimated collection costs by BCMB Depot classification. The following chart shows the same data using the DCA's classification, with four data outliers above \$100,000 per Depot and volume above 25 million containers per year not shown. From this analysis, the average collection costs per Small Depot were \$5,600 and \$30,900 per Large Depot.





**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-20****Reference:** Volume Forecasts

2006 Phase I Report Rev 0, pages 155-157

- Request:**
- a) Please prepare a schedule comparing forecast volume data for 2006 to the actual volume data for 2006 in total and for each of the eight highest volume container streams.
  - b) Please advise if there have been any changes to the Class D Depot system which may impact the beer volumes.
  - c) Please explain why a shift factor was applied to all Depots, rather than adjusting only the Depots for which volume growth had been capped at 140%.
  - d) Please discuss the practicality of a reasonability check of volume forecasts relative to previous year's sales volumes, adjusted by an average container return factor of 80%.

- Response:**
- a) Please see tables on next two pages. Please note that the most recent data supplied from BDL suggests that some Class D Depots were inadvertently included in the actual values supplied to the DCA for the period January to June 2006 (i.e. Jan to June 2006 forecast variances for Beer Cans and Beer Bottles).
  - b) BCMB staff have advised the DCA that there have been no changes to the Class D Depot system.
  - c) The shift factors were applied to Forecast Groups (Container Streams) for the Depots in the FY 2005 Study System. Specifically, for each Forecast Group shipped by each Study System Depot the DCA applied the algorithm as noted on page 154 and 155 of the 2006 Phase I Report Rev 0. To compensate for a few low volume container streams that exhibit very high growth rates (e.g. Polypropylene, new container stream introduced in 2005, see page 21 of Doc 10-019) the DCA found that by capping individual growth rates to 140% reasonable forecast results were obtained.
  - d) Post 2006 actual return volumes by Depot are available from the Manufacturers shipping data. A comparison of the 2006 volume forecast by Forecast Group by Depot to actual volume by Forecast Group by Depot could be performed. There would be no need to apply any adjustment factor.

For the 2006 Phase I Report Rev 1 to be issued on January 31, 2006 the DCA intends to use actual 2006 data by Depots thereby

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

eliminating the need for a 2006 forecast by Depots.

	<b>Forecast</b>	<b>Actual</b>	<b>Difference</b>	<b>% Difference</b>
2006-01	105,754,039	103,677,763	2,076,276	2.0%
2006-02	85,182,035	83,519,951	1,662,084	2.0%
2006-03	106,193,460	104,489,928	1,703,532	1.6%
2006-04	131,080,158	129,173,442	1,906,716	1.5%
2006-05	140,609,136	138,320,496	2,288,640	1.6%
2006-06	138,087,146	136,068,662	2,018,484	1.5%
2006-07	119,453,898	149,232,371	(29,778,473)	-24.9%
2006-08	119,952,527	145,988,566	(26,036,039)	-21.7%
2006-09	120,451,156	130,592,765	(10,141,609)	-8.4%
2006-10	120,933,746	115,322,434	5,611,312	4.6%
2006-11	121,432,374	100,541,420	20,890,954	17.2%
2006-12	121,914,964	92,025,500	29,889,464	24.5%
	<u>1,431,044,640</u>	<u>1,428,953,298</u>	<u>2,091,342</u>	<u>0.1%</u>

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

Monthly Volume Variance 2006 Volume Forecast

	Pop Cans				Beer Cans			
	Forecast	Actual	Difference	% Difference	Forecast	Actual	Difference	% Difference
2006-01	29,836,060	29,836,060	-	0.0%	24,957,324	23,705,784	1,251,540	5.0%
2006-02	23,662,847	23,662,847	-	0.0%	18,810,576	17,853,456	957,120	5.1%
2006-03	30,698,291	30,698,291	-	0.0%	21,035,220	19,975,548	1,059,672	5.0%
2006-04	38,066,416	38,066,416	-	0.0%	27,737,448	26,568,444	1,169,004	4.2%
2006-05	38,478,416	38,478,416	-	0.0%	32,434,068	31,048,644	1,385,424	4.3%
2006-06	36,683,992	36,683,992	-	0.0%	32,721,036	31,418,028	1,303,008	4.0%
2006-07	32,858,176	41,248,888	(8,390,712)	-25.5%	27,461,239	32,537,112	(5,075,873)	-18.5%
2006-08	32,884,786	37,809,835	(4,925,049)	-15.0%	27,581,738	36,868,920	(9,287,182)	-33.7%
2006-09	32,911,397	35,576,102	(2,664,705)	-8.1%	27,702,238	29,222,292	(1,520,054)	-5.5%
2006-10	32,937,148	29,659,112	3,278,036	10.0%	27,818,850	27,350,856	467,994	1.7%
2006-11	32,963,759	27,378,730	5,585,029	16.9%	27,939,350	20,389,956	7,549,394	27.0%
2006-12	32,989,510	24,972,204	8,017,306	24.3%	28,055,962	18,871,512	9,184,450	32.7%
	394,970,798	394,070,893	899,905	0.2%	324,255,049	315,810,552	8,444,497	2.6%

	PET 0 to 1 l				Beer Bottles			
	Forecast	Actual	Difference	% Difference	Forecast	Actual	Difference	% Difference
2006-01	14,422,366	14,422,366	-	0.0%	11,988,600	11,187,624	800,976	6.7%
2006-02	12,129,447	12,129,447	-	0.0%	10,394,832	9,707,988	686,844	6.6%
2006-03	16,598,032	16,598,032	-	0.0%	11,567,688	10,942,956	624,732	5.4%
2006-04	21,050,365	21,050,365	-	0.0%	13,853,316	13,125,540	727,776	5.3%
2006-05	22,810,059	22,810,059	-	0.0%	15,481,860	14,605,632	876,228	5.7%
2006-06	23,330,091	23,330,091	-	0.0%	15,276,552	14,579,448	697,104	4.6%
2006-07	18,991,269	29,141,039	(10,149,770)	-53.4%	13,151,141	13,722,144	(571,003)	-4.3%
2006-08	19,195,526	27,804,324	(8,608,798)	-44.8%	13,214,149	15,080,952	(1,866,803)	-14.1%
2006-09	19,399,784	25,703,673	(6,303,889)	-32.5%	13,277,156	12,563,448	713,708	5.4%
2006-10	19,597,453	20,764,004	(1,166,551)	-6.0%	13,338,131	13,068,036	270,095	2.0%
2006-11	19,801,710	18,135,819	1,665,891	8.4%	13,401,138	11,091,348	2,309,790	17.2%
2006-12	19,999,379	15,498,629	4,500,750	22.5%	13,462,113	10,624,476	2,837,637	21.1%
	227,325,480	247,387,848	(20,062,368)	-8.8%	158,406,675	150,299,592	8,107,083	5.1%

	Glass 0 to 1 l				Tetra 0 to 1 l			
	Forecast	Actual	Difference	% Difference	Forecast	Actual	Difference	% Difference
2006-01	7,625,163	7,625,163	-	0.0%	5,595,649	5,595,649	-	0.0%
2006-02	5,971,831	5,971,831	-	0.0%	5,085,788	5,085,788	-	0.0%
2006-03	7,658,938	7,658,938	-	0.0%	7,030,843	7,030,843	-	0.0%
2006-04	8,857,874	8,857,874	-	0.0%	7,736,617	7,736,617	-	0.0%
2006-05	9,178,032	9,178,032	-	0.0%	7,869,150	7,869,150	-	0.0%
2006-06	9,010,715	9,010,715	-	0.0%	7,283,213	7,283,213	-	0.0%
2006-07	8,195,107	10,439,613	(2,244,506)	-27.4%	6,555,360	6,772,911	(217,551)	-3.3%
2006-08	8,213,831	9,707,481	(1,493,650)	-18.2%	6,576,591	4,931,878	1,644,713	25.0%
2006-09	8,232,556	9,261,796	(1,029,240)	-12.5%	6,597,822	5,181,151	1,416,671	21.5%
2006-10	8,250,677	7,843,516	407,161	4.9%	6,618,368	5,500,858	1,117,510	16.9%
2006-11	8,269,402	7,190,814	1,078,588	13.0%	6,639,599	5,636,185	1,003,414	15.1%
2006-12	8,287,523	6,806,891	1,480,632	17.9%	6,660,145	5,195,114	1,465,031	22.0%
	97,751,649	99,552,664	(1,801,015)	-1.8%	80,249,143	73,819,357	6,429,786	8.0%

	PET Over 1 l				Import Beer			
	Forecast	Actual	Difference	% Difference	Forecast	Actual	Difference	% Difference
2006-01	4,630,137	4,630,137	-	0.0%	3,603,211	3,603,211	-	0.0%
2006-02	3,596,181	3,596,181	-	0.0%	2,953,929	2,953,929	-	0.0%
2006-03	4,548,444	4,548,444	-	0.0%	3,802,510	3,802,510	-	0.0%
2006-04	5,604,979	5,604,979	-	0.0%	4,386,598	4,386,598	-	0.0%
2006-05	5,486,315	5,486,315	-	0.0%	4,997,446	4,997,446	-	0.0%
2006-06	5,006,055	5,006,055	-	0.0%	5,056,747	5,056,747	-	0.0%
2006-07	4,582,475	5,330,350	(747,875)	-16.3%	4,264,521	6,107,959	(1,843,438)	-43.2%
2006-08	4,577,708	4,792,939	(215,231)	-4.7%	4,302,420	5,552,324	(1,249,904)	-29.1%
2006-09	4,572,941	4,458,447	114,494	2.5%	4,340,318	5,266,172	(925,854)	-21.3%
2006-10	4,568,327	3,815,644	752,683	16.5%	4,376,994	4,260,123	116,871	2.7%
2006-11	4,563,560	3,645,351	918,209	20.1%	4,414,893	4,004,120	410,773	9.3%
2006-12	4,558,947	3,445,643	1,113,304	24.4%	4,451,569	3,667,992	783,577	17.6%
	56,296,069	54,360,485	1,935,584	3.4%	50,951,155	53,659,131	(2,707,976)	-5.3%

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-21****Reference:** Peak Month Container Volume

- 2005 Final Phase II Report, redline version, pages 24 and 25
- 2006 Phase II Report Rev 0, page 12

**Request:** a) In the 2005 Final Phase II report redline version, the Peak Month Container Volume (Adjusted) for August 2005 was 108,576,940 and 131,372,692 in July 2004. In the 2006 Phase II Report Rev 0 Peak Month Container Volume for August 2005 is 134,318,473.

Please discuss:

- i. Factors contributing to the volume, such as number of week-ends in the month;
  - ii. Whether the 2004 or 2005 peaks were an anomaly;
  - iii. What adjustments were made to the August 2005 data in the 2005 Phase II Report and why;
  - iv. The suitability of an allocation factor with such a large variability from year to year; and
  - v. Whether the use of two or more peaks in a year is appropriate.
- b) What is the peak month for 2006 and what would the peak month container volume allocators be using 2006 data?
- c) Please provide graphical and tabular presentation of monthly container volumes for 2004, 2005 and 2006 for each of the eight top volume streams and in total. If readily available, please add volume data for 2002 and 2003.
- d) Is the "Peak Month Container Volume" an appropriate cost allocator for the costs for which it has been used? Please explain your reasoning.

**Response:** a)

- i. The DCA surmises that return volumes across the Total System within a month could vary due to the following factors:
  - Number of Manufacturer pickups per month and when the shipment are recorded
  - Number of weekends, which tend to have higher beverage container usage and returns to Depots
  - Presence of a long weekend (or just after a long weekend), which tend to have higher beverage container usage and

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

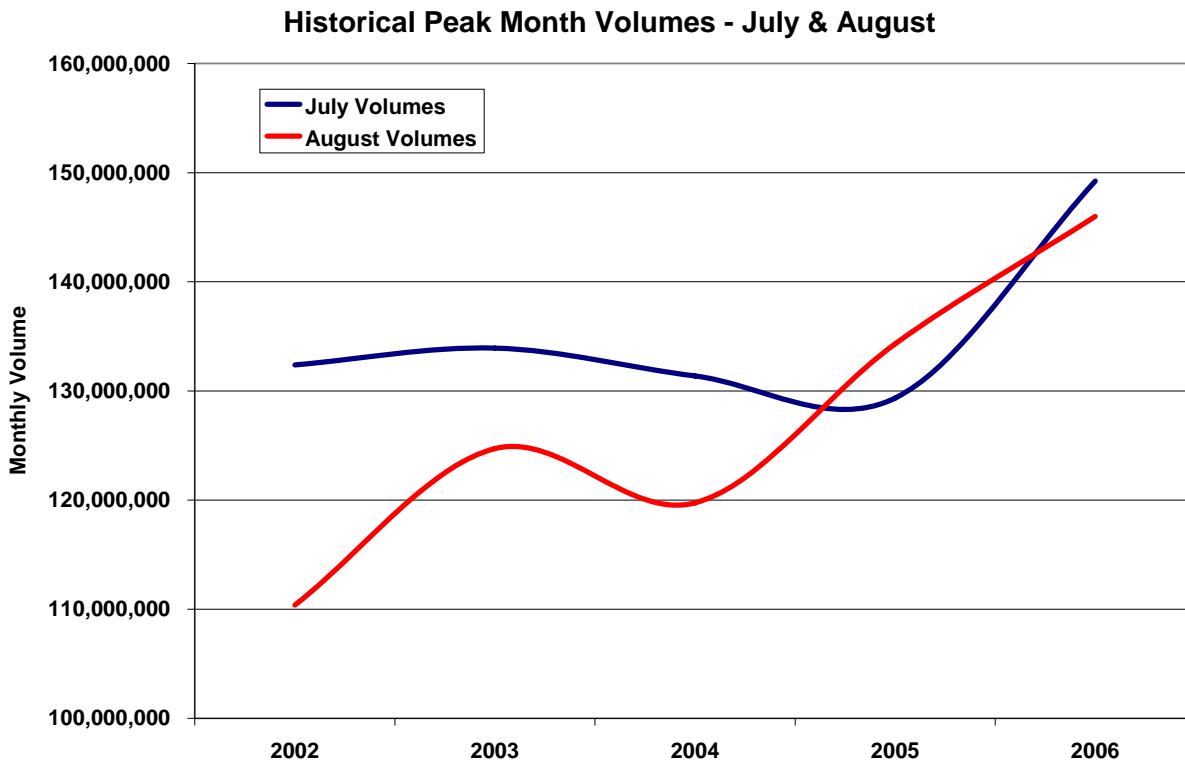
returns to Depots

- Weather, with warm temperatures leading to higher beverage container usage in the summer months and higher returns to Depots
  - The lag between consumer consumption and returning containers to a Depot
  - The lag between Depot receiving the container and the Manufacturer picking up the container and recording the shipment
  - External influences that could impact beverage container usage, e.g. sporting events, national holidays, etc.
- ii. The 2004 and 2005 peak months do not seem to be an anomaly. See ABDA-DCA-2006-8 b) chart that shows on an average basis over five years of data the peak month to be July, with August having the second highest volume and June the third.
- iii. No adjustments were made to the August 2005 Phase II Report data (Doc 01-032b, page 21). The data used appears to be erroneous. Actual August 2005 volume was 134,318,473 containers.
- iv. The variability from year to year for July and August volumes over the past six years is shown on the chart below.

The DCA is of the view that a single peak month is a good peak cost allocator. On page 26, line 31 to page 27, line 10 of the 2006 Phase II Report Rev 0 the DCA presented an analysis using different peak months (June, July & August 2005). The results showed that for the larger Forecast Groups the use of different peak months did not impact Handling Commissions to a large degree, however, for the smaller volume container streams the results were significant.

The results of this analysis, in part, lead the DCA to recommend that smaller volume Container Stream rates should be rounded up and to the nearest cent.

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)



- v. The DCA is aware of the issue raised by some Depot owners that peak volumes are a significant driver toward having larger Buildings resulting in higher system costs (for example the DCA assumes this issue is the rational behind ABDA-DCA-2006-14).

The DCA is of the view that the peak cost allocator should be based on an annual peak volume stored by each Depot. Unfortunately, the DCA has no way of determining peak volume by Depot. The best data the DCA has is Manufacturers shipping data that is summarized by shipping day for ABCRC and by month for BDL.

- b) Peak month for 2006 was July. Please see table below.

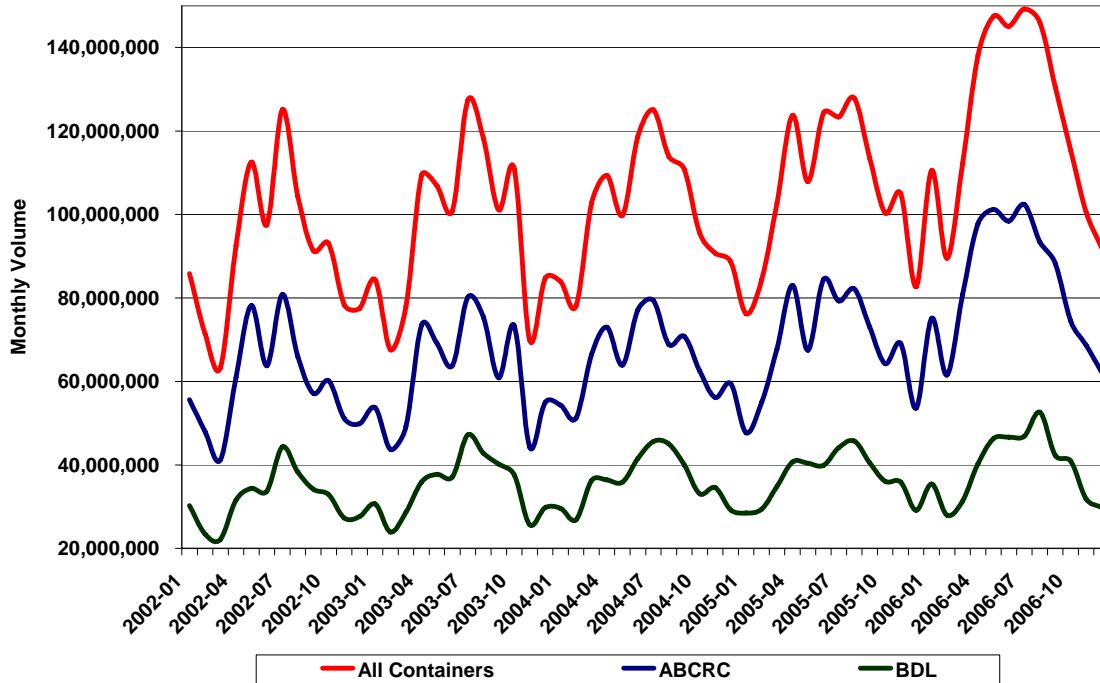
**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

Forecast Group	ID	Aug 2005 Peak Month Container Volume	Aug 2005 Peak Month Container Volume Allocator %	Jul 2006 Peak Month Container Volume	Jul 2006 Peak Month Container Volume Allocator %	Difference
Pop Cans	1	38,315,532	28.526%	41,248,888	27.641%	-3.1%
Beer Cans	2	32,090,292	23.891%	32,537,112	21.803%	-8.7%
PET 0 to 1 l	3	22,309,314	16.609%	29,141,039	19.527%	17.6%
Beer Bottles	4	12,925,644	9.623%	13,722,144	9.195%	-4.4%
Glass 0 to 1 l	5	9,777,696	7.279%	10,439,613	6.996%	-3.9%
Tetra 0 to 1 l	6	5,298,752	3.945%	6,772,911	4.538%	15.0%
PET Over 1 l	7	5,022,719	3.739%	5,330,350	3.572%	-4.5%
Import Beer	8	4,922,064	3.664%	6,107,959	4.093%	11.7%
Glass Over 1 l	9	743,976	0.554%	694,796	0.466%	-15.9%
Gable 0 to 1 l	10	659,399	0.491%	739,559	0.496%	0.9%
Drink Pouch	11	396,207	0.295%	499,997	0.335%	13.6%
HDPE Over 1 l	12	325,266	0.242%	353,322	0.237%	-2.2%
Polycups	13	248,521	0.185%	307,909	0.206%	11.5%
Bi Metal 0 to 1 l	14	242,140	0.180%	347,245	0.233%	29.1%
HDPE 0 to 1 l	15	150,127	0.112%	166,476	0.112%	-0.2%
Bi Metal Over 1 l	16	79,636	0.059%	71,597	0.048%	-19.1%
Gable Over 1 l	17	52,631	0.039%	55,311	0.037%	-5.4%
Bag in Box	18	19,536	0.015%	22,224	0.015%	2.4%
Tetra Over 1 l	19	8,549	0.006%	2,629	0.002%	-72.3%
PVC Over 1 l	20	9,385	0.007%	7,818	0.005%	-25.0%
Polypropylene	21	11,639	0.009%	24,580	0.016%	90.1%
PVC 0 to 1 l	22	1,016	0.001%	1,860	0.001%	64.8%
Other	23	72	0.000%	72	0.000%	-10.0%
Sleemans	24	701,892	0.523%	624,804	0.419%	-19.9%
Import Beer PET 0 to 1 l	25	612	0.000%	216	0.000%	-68.2%
Import Beer (Bi-Metal)	26	4,344	0.003%	9,012	0.006%	86.7%
Imports 0 to 1 l	27	1,512	0.001%	2,928	0.002%	74.3%
		134,318,473	100.000%	149,232,371	100.000%	0.0%

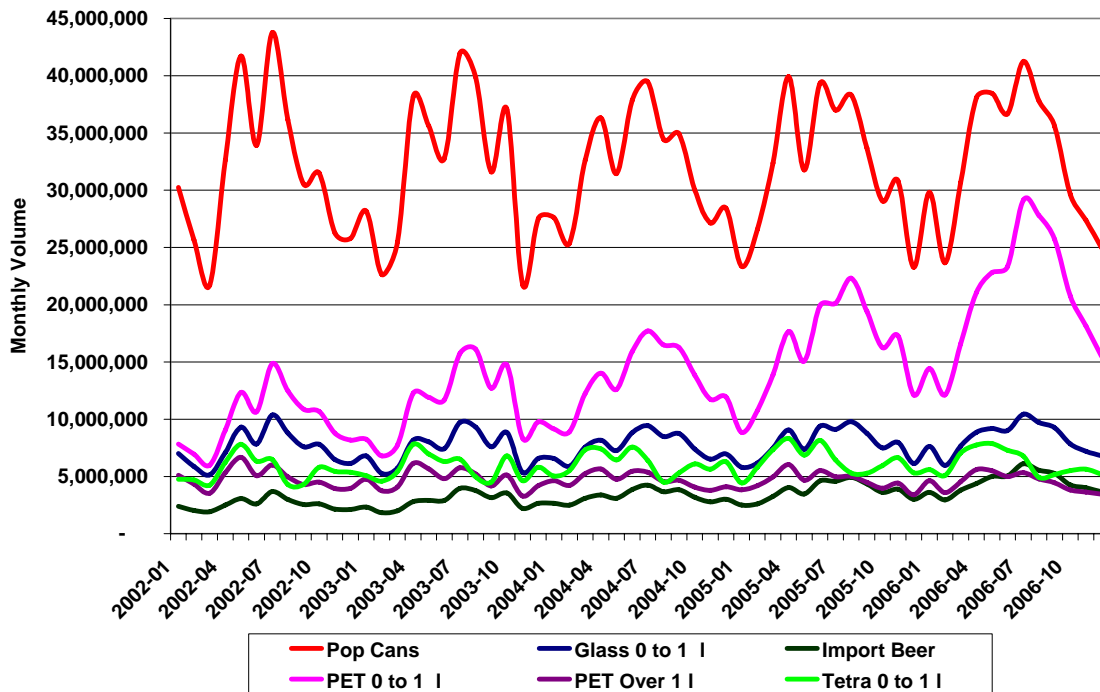
c) Please see the following four charts and table.

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

All Containers



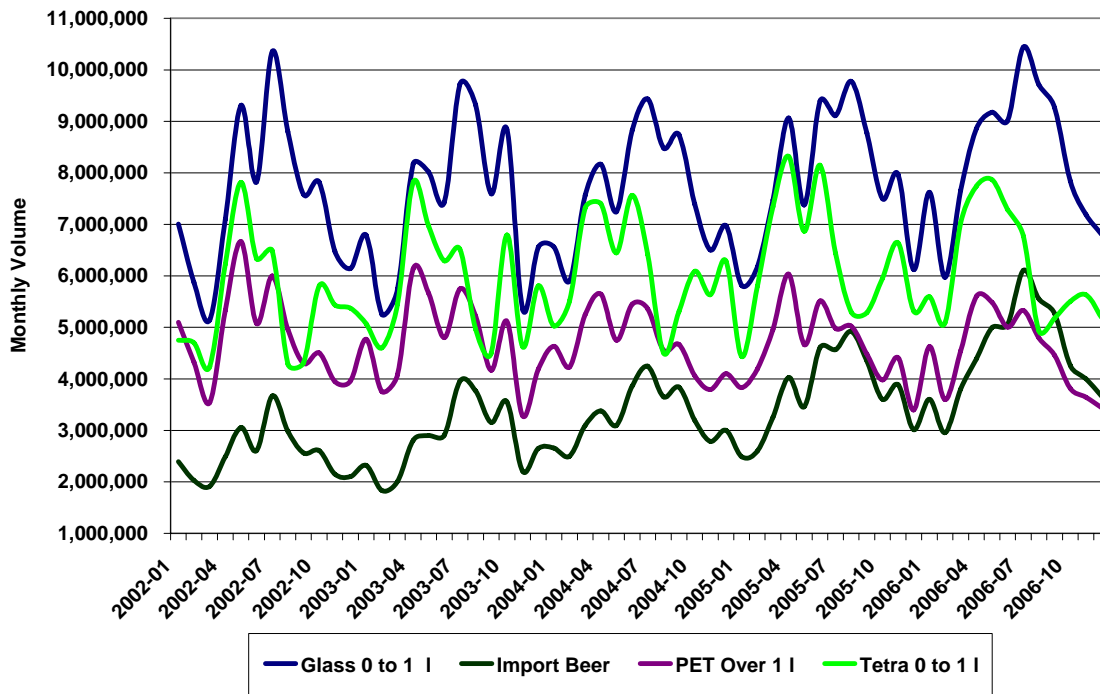
ABCRC Containers



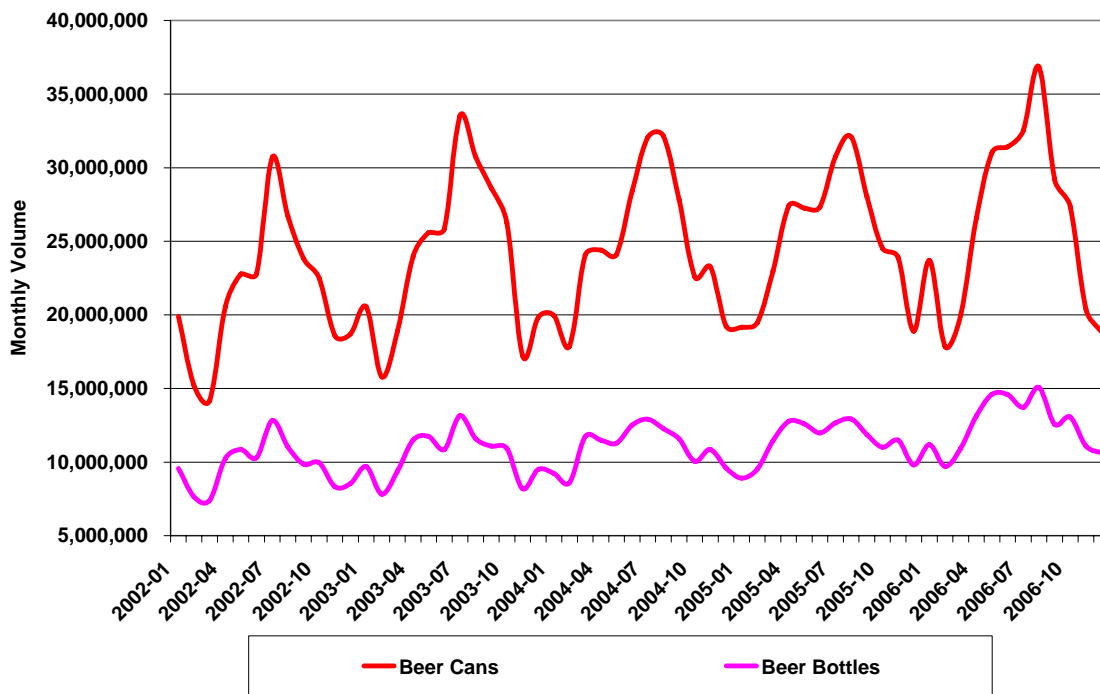


Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

### ABCRC Containers



### BDL Containers



**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

**Monthly Volume for Highest Volume Containers**

	Pop Cans	Beer Cans	PET 0 to 1 l	Beer Bottles	Class 0 to 1 l	Tetra 0 to 1 l	PET Over 1 l	Import Beer	All Containers
2002-01	30,245,546	19,887,768	7,835,675	10,029,528	7,006,406	4,748,967	5,096,615	2,393,640	89,891,350
2002-02	25,655,025	15,193,848	6,956,802	7,985,376	5,874,411	4,698,899	4,323,660	2,029,824	74,922,150
2002-03	21,717,276	14,187,576	5,984,016	7,760,832	5,147,330	4,238,361	3,542,970	1,913,484	66,561,941
2002-04	32,625,909	20,532,960	9,051,670	10,688,124	7,095,135	6,226,792	5,328,518	2,491,476	96,857,546
2002-05	41,718,116	22,776,048	12,342,431	11,249,184	9,311,496	7,815,909	6,667,855	3,056,568	118,447,194
2002-06	33,911,199	22,777,632	10,642,417	10,583,628	7,825,287	6,330,696	5,073,218	2,606,580	102,642,694
2002-07	43,778,624	30,726,408	14,860,528	13,082,040	10,359,975	6,482,224	5,997,544	3,669,757	132,387,373
2002-08	36,148,479	26,710,296	12,483,443	11,163,420	8,798,628	4,288,342	4,962,621	2,984,473	110,369,766
2002-09	30,539,941	23,821,776	10,871,919	9,958,320	7,578,867	4,318,114	4,302,398	2,560,248	96,506,860
2002-10	31,507,361	22,477,404	10,686,355	10,026,156	7,818,623	5,807,372	4,505,599	2,606,571	98,170,484
2002-11	26,265,382	18,583,116	8,779,119	8,360,640	6,475,886	5,435,017	3,948,369	2,151,594	82,548,180
2002-12	25,775,480	18,705,240	8,185,523	8,572,092	6,140,917	5,372,511	3,961,360	2,104,428	81,261,540
2003-01	28,179,489	20,552,460	8,248,043	9,711,300	6,789,416	5,066,108	4,771,418	2,322,777	88,252,790
2003-02	22,630,996	15,786,648	6,792,091	7,839,408	5,253,265	4,600,619	3,753,558	1,834,209	70,718,186
2003-03	25,474,604	18,912,480	7,735,461	9,410,352	5,745,696	5,445,569	4,083,592	2,009,200	81,376,489
2003-04	38,155,021	23,981,388	12,257,663	11,523,060	8,174,262	7,813,485	6,136,253	2,805,420	114,385,648
2003-05	35,617,888	25,581,612	11,909,747	11,758,224	8,017,737	6,965,351	5,662,382	2,900,730	111,811,010
2003-06	32,782,968	25,839,960	11,678,509	10,867,440	7,432,448	6,291,730	4,800,018	2,909,298	105,757,939
2003-07	41,960,148	33,522,276	15,724,530	13,166,448	9,720,522	6,518,824	5,746,024	3,956,264	133,919,416
2003-08	39,861,769	30,739,164	16,113,453	11,598,132	9,313,989	4,959,328	5,215,731	3,764,377	124,721,078
2003-09	31,604,620	28,619,232	12,698,135	11,105,664	7,592,316	4,500,786	4,166,713	3,153,309	106,210,846
2003-10	37,053,385	26,223,744	14,725,759	10,943,916	8,839,934	6,797,763	5,118,725	3,554,704	116,715,043
2003-11	21,762,215	17,216,592	8,348,435	8,190,348	5,354,954	4,623,606	3,283,115	2,209,315	73,370,790
2003-12	27,531,378	19,837,032	9,764,478	9,508,032	6,557,075	5,804,995	4,188,871	2,649,641	88,683,871
2004-01	27,620,130	19,958,520	9,149,923	9,227,004	6,565,701	5,029,976	4,632,173	2,657,160	87,635,530
2004-02	25,374,071	17,883,432	8,899,968	8,605,068	5,899,065	5,518,299	4,229,316	2,498,086	81,538,286
2004-03	32,615,977	24,047,052	12,244,280	11,736,828	7,564,186	7,317,275	5,246,923	3,094,345	107,321,897
2004-04	36,320,474	24,405,180	14,027,395	11,488,452	8,170,340	7,403,092	5,646,171	3,376,631	114,420,030
2004-05	31,440,686	24,093,156	12,597,574	11,284,776	7,243,887	6,447,751	4,752,014	3,097,896	104,358,610
2004-06	37,858,161	28,416,528	15,914,162	12,518,640	8,824,380	7,566,334	5,450,157	3,862,601	124,370,296
2004-07	39,469,326	32,061,960	17,710,317	12,912,360	9,434,475	6,413,117	5,360,616	4,244,988	131,365,898
2004-08	34,453,087	32,143,308	16,486,761	12,264,852	8,479,768	4,504,648	4,556,843	3,651,836	119,737,260
2004-09	34,937,735	27,840,012	16,253,454	11,578,464	8,739,770	5,313,198	4,667,233	3,838,929	116,558,036
2004-10	30,027,412	22,572,660	13,850,957	10,051,044	7,390,829	6,087,440	4,062,415	3,192,983	100,310,663
2004-11	27,140,992	23,268,792	11,739,708	10,854,792	6,503,034	5,635,033	3,791,604	2,786,763	94,770,362
2004-12	28,417,117	19,234,572	11,939,293	9,599,700	6,973,514	6,284,629	4,103,063	3,002,347	92,781,193
2005-01	23,359,881	19,166,676	8,843,756	8,917,128	5,814,769	4,435,444	3,833,386	2,491,352	79,377,702
2005-02	26,587,479	19,479,528	10,762,086	9,531,456	6,176,853	5,802,388	4,194,111	2,599,639	87,943,502
2005-03	32,361,635	22,974,444	13,876,812	11,452,716	7,477,207	7,342,283	4,961,187	3,256,240	107,109,558
2005-04	39,937,869	27,407,592	17,667,718	12,781,128	9,064,762	8,320,393	6,033,642	4,026,955	129,151,163
2005-05	31,766,496	27,257,532	15,061,604	12,592,980	7,374,913	6,865,078	4,664,065	3,458,549	112,418,697
2005-06	39,328,339	27,344,244	19,919,160	11,975,268	9,397,296	8,147,281	5,512,855	4,609,309	130,176,864
2005-07	36,987,425	30,780,504	20,140,445	12,664,356	9,109,652	6,436,890	4,980,011	4,567,841	129,342,333
2005-08	38,315,532	32,090,292	22,309,314	12,925,644	9,777,696	5,298,752	5,022,719	4,922,064	134,318,473
2005-09	33,677,792	28,043,388	19,432,674	11,875,536	8,768,994	5,288,038	4,478,948	4,349,409	119,167,299
2005-10	29,068,031	24,536,400	16,261,470	11,015,412	7,499,014	5,949,583	3,980,751	3,603,822	105,000,129
2005-11	30,799,935	23,901,912	17,257,089	11,485,668	7,967,700	6,639,284	4,409,918	3,887,856	109,750,178
2005-12	23,261,887	18,889,200	12,127,912	9,807,288	6,118,516	5,318,792	3,398,819	3,014,562	84,598,175
2006-01	29,836,060	23,705,784	14,422,366	11,187,624	7,625,163	5,595,649	4,630,137	3,603,211	103,677,763
2006-02	23,662,847	17,853,456	12,129,447	9,707,988	5,971,831	5,085,788	3,596,181	2,953,929	83,519,951
2006-03	30,698,291	19,975,548	16,598,032	10,942,956	7,658,938	7,030,843	4,548,444	3,802,510	104,489,928
2006-04	38,066,416	26,568,444	21,050,365	13,125,540	8,857,874	7,736,617	5,604,979	4,386,598	129,173,442
2006-05	38,478,416	31,048,644	22,810,059	14,605,632	9,178,032	7,869,150	5,486,315	4,997,446	138,320,496
2006-06	36,683,992	31,418,028	23,330,091	14,579,448	9,010,715	7,283,213	5,006,055	5,056,747	136,068,662
2006-07	41,248,888	32,537,112	29,141,039	13,722,144	10,439,613	6,772,911	5,330,350	6,107,959	149,232,371
2006-08	37,809,835	36,868,920	27,804,324	15,080,952	9,707,481	4,931,878	4,792,939	5,552,324	145,988,566
2006-09	35,576,102	29,222,292	25,703,673	12,563,448	9,261,796	5,181,151	4,458,447	5,266,172	130,592,765
2006-10	29,659,112	27,350,856	20,764,004	13,068,036	7,843,516	5,500,858	3,815,644	4,260,123	115,322,434
2006-11	27,378,730	20,389,956	18,135,819	11,091,348	7,190,814	5,636,185	3,645,351	4,004,120	100,541,420
2006-12	24,972,204	18,871,512	15,498,629	10,624,476	6,806,891	5,195,114	3,445,643	3,667,992	92,025,500

d) Yes. See response to a) v. above. The DCA notes that there is variation from year to year and that the peak volume allocator by Container Stream will vary depending on data for the month in question. This type of variance is common in utility rate setting processes where a peak demand type allocator is used. If variability

**Information Request Response #1 to Desiderata Energy Consulting  
Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

is of a concern, an average using the annual peak month averaged over multiple years could be utilized. Using more than one peak month per year could also be used, however, the DCA is of the view that using an annual monthly peak averaged over multiple years would provide a better allocator.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-22****Reference:** Cost Allocation

- Final Straw Dog Report 6.4.6.1
- 2006 Phase II Report Rev 0, pages 18 and 21

**Request:**

- a) Please advise which expert or experts were retained to review and approve the allocation methodologies for labour, building costs, and overhead, and provide any reports not previously available.
- b) In view of the results of the MVLN analysis, was the possibility of a fixed component of direct labour cost examined? Specifically, please comment on the possibility of the hours of Depot operation and the number of count stations being independent variables. If it is concluded that either or both of these could be an independent variable, please prepare an analysis including these variables.
- c) Please discuss the suitability of allocation of labour costs by volume as a default due to concerns with the results of the MVLN.
- d) Please explain how an allocation of labour costs by volume is reasonable in view of the significant findings summarized on page 18 of the 2006 Phase II Report Rev 0.
- e) Please confirm that the references to overhead allocation of 50% using the Direct Labour Regression allocators at page 21 is an error.

**Response:**

- a) The BCMB retained the DCA to review the 2005 UCA data and make recommendations on the allocation of costs and develop handling commissions. No other third parties were retained to perform these tasks and there are no additional reports other than those noted in the 2006 Phase I and II Rev 0 Reports.
- b) The MVLN equations tested by Mr. Li and the DCA checked for the presence of a fixed component by testing if the MVLN equations had a constant. If a regression equation developed was found to be statistically valid and a positive constant was present it may suggest a fixed cost component. Valid regression scenarios 113, 116, 132 and 135 (see page 18, 2006 Phase I Report Rev 0) all had negative constants. The DCA therefore can not conclude that a fixed component of Direct Labour is present from these scenarios.  
  
In order to allocate Direct Labour costs in a manner other than by volume, a MVLN equation needs to have more than one coefficient that correlates Direct Labour Hours to Volume. If another independent variable is considered (e.g. operating hours), then at a minimum a three independent variable equation is required.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

The DCA re-tested Scenarios 101 to 118 (original 2 independent variables) with the addition of a third independent variable of As Reported operating hours. The application of the DCA's criteria A, B and C resulted in same results as the original Scenarios (e.g. 113, 114, 116 & 117 were valid, same results as page 1 of Doc 10-025). The DCA therefore concludes that the addition of operating hours as a third independent variable does not improve the MVLR results.

The DCA re-tested Scenarios 101 to 105 (original 2 independent variables) with the addition of a third independent variable of As Reported counting stations and found the same results as noted above for operating hours.

- c) The results from both the analysis of the 2004 UCAs and the 2005 UCAs suggest that there is reasonable correlation between Direct Labour hours and volume. The DCA is of the view that the quantity of containers returned is the most significant variable in driving Direct Labour costs. In the absence of confidence in the MVLR equations the DCA is of the view that allocating Direct Labour costs on a volume basis is the most appropriate course of action for the 2006 Handling Commissions.
- d) As noted on page 18 of the 2006 Phase II Report Rev 0, the DCA analyzed 96 rational combinations of 2 and 3 independent variable combinations and found that eight met the initial criteria. Of these eight regressions the 5 or 6 container streams represented in the VarA independent variable represented between about 82% to 94% of the total Study System volume. Utilization of these regression coefficients would have a minor impact on handling commissions as only a small amount of additional Direct Labour costs would have been allocated to the low volume container streams.

In addition, there were 44 regression equations tested that met Criteria A & C (positive coefficients and valid p statistics values), however, they did not meet Criteria B (high volume container streams are faster to process than of volume container streams). Hence, there were more scenarios (44) where the low volume containers were faster to process than the other way around (8). This result, in part, led the DCA to the conclusion that the application of MVLR is not appropriate.

From the analysis performed the DCA lacked confidence that there was a material difference in the number of labour seconds to process the highest volume 5 or 6 container streams (that represent the vast majority of the Total System volume) and the remaining smaller volume container streams.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

The DCA did take into consideration the directional results that the highest volume container streams were likely somewhat faster to process in setting the 2006 Handling Commissions (see lines 6-8, page 28, 2006 Phase II Report Rev 0).

- e) Fifty percent of the Overhead Labour costs were allocated in the same manner as Direct Labour costs, which were based on the Regression allocators. Due to the lack of confidence in the MVRL results, the Regression allocators (VAR1 and VAR2) were set at the same value of 4.864 seconds per container (see line 32 &33, Schedule 2.0, Appendix I, 2006 Phase II Report Rev 0).

Setting the Regression allocators at the same value has the same effect as allocating Direct Labour costs based on container volume.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-23****Reference:** Rate Design

2006 Phase II Report Rev 0, pages 28 to 50

- Request:**
- a) Please comment on the statistical validity of the regression analysis at page 33, given the low  $R^2$  values.
  - b) Please identify and describe methods, other than the zero intercept method, of determining fixed charges which have been accepted in other regulatory proceedings, and discuss their applicability in the current proceeding.
  - c) Please prepare a graph in the same format as Cal 2006 Net Profit vs. Volume at page 33 of the Phase II Report, for each of the 2005 Fiscal Year As Reported and 2005 as Adjusted, for Earnings before Taxes vs. Volume for each of the three classifications of Metro, Urban and Rural.
  - d) What are the fixed operating expenses for each of Metro, Urban and Rural Depot classifications necessary to meet the minimum BCMB permit requirements, including hours of operation, square footage and number of counting stations? If actual data is not available, please estimate the fixed costs.

- Response:**
- a) The low  $R^2$  values, especially for the Small Depots, would suggest that utilization of the zero-intercept method to allocate fixed costs may not be appropriate. The DCA has used the zero-intercept method only as a guide in coming to a determination of an appropriate level of fixed charges for the 2006 Handling Commissions.
  - b) The following response was provided to the DCA by PEG.

In his seminal treatise "Principles of Public Utility Rates" James C. Bonbright describes the two primary methods for customer cost allocation. In the minimum system method, annual costs of a "phantom, minimum-sized distribution system are treated as customer costs and are deducted from the annual costs of the existing system, only the balance being included among those demand-related costs...Alternately, they are calculated by the 'zero-intercept' method whereby regression equations are run relating cost to various sizes of equipment and eventually solving for the cost of a zero-sized system." (Bonbright 491). Thus, in the U.S. the two primary methodologies used are the minimum system and zero intercept.

The DCA has used the zero-intercept method as a guide in estimating

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

the fixed customer related charges at zero volume for various cost categories.

The minimum system method could be used by trying to approximate the cost of a phantom minimum-sized Depot and treat those costs as fixed customer related charges.

Under section 5.2.2.2 of the 2006 Phase II Report Rev 0 the DCA analyzed the fixed costs using the zero-intercept method for the Small Depots, which could be argued provide the minimum-sized Depots. The DCA submits that while the analysis and approach used may not be conventional, there are few if any precedents the DCA could have utilized that apply to the bottle depot industry and have been tested by a regulator. For this reason the DCA used these methods as a guide, along with the application of the rate design principles, to develop the 2006 Handling Commissions.

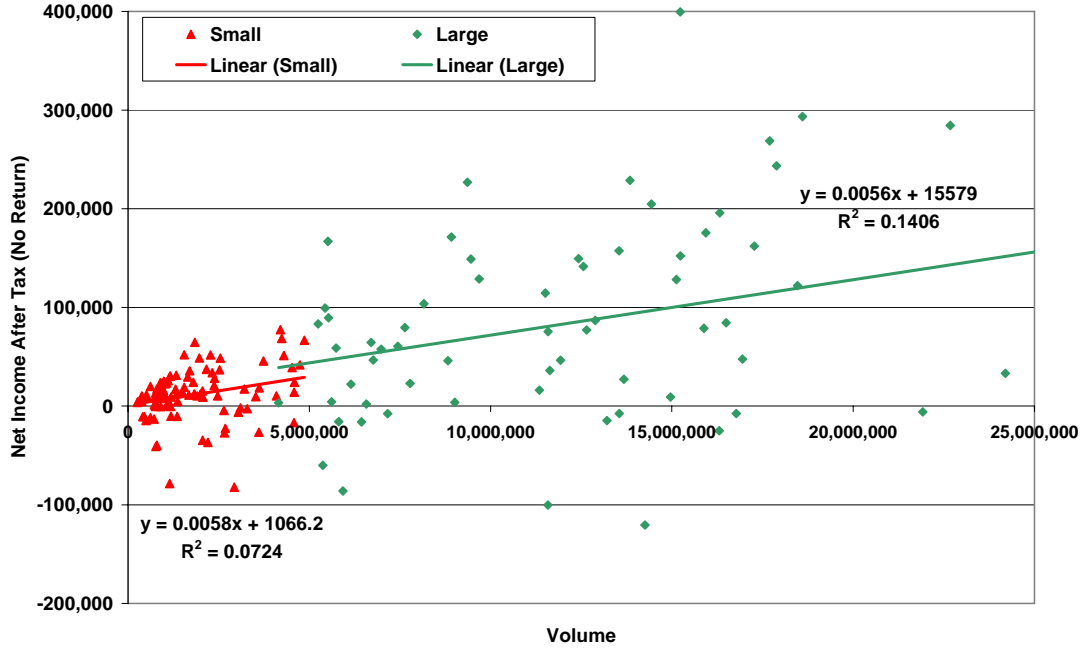
- c) The following charts show the information as requested. These charts are similar to those presented on page 116 & 118 of the 2006 Phase I Report Rev 0 as they do not contain the Return component.

The DCA has firstly provided a chart for the Small and Large Depot classification on a before tax basis for comparison purposes. For the BCMB classification charts, the individual data points have been removed to protect Depot confidentiality. The DCA cautions that the charts below based on the BCMB classification of Rural, Urban and Metro, contains depot classifications that are, in the DCA's view, inappropriate, and can lead to results that are impacted by data outliers.

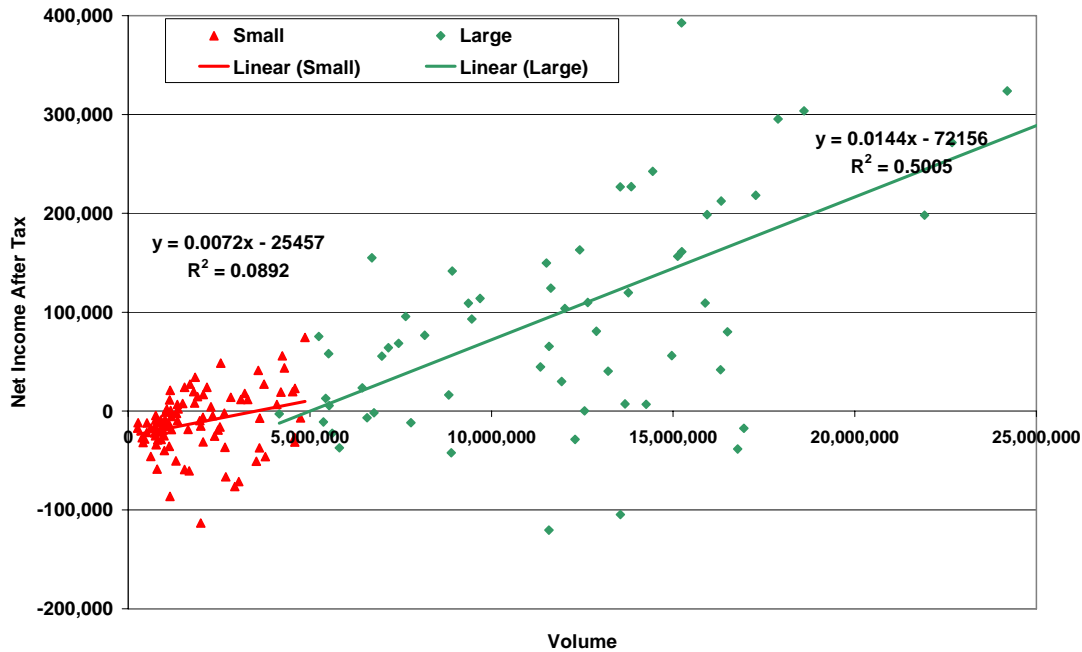


Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

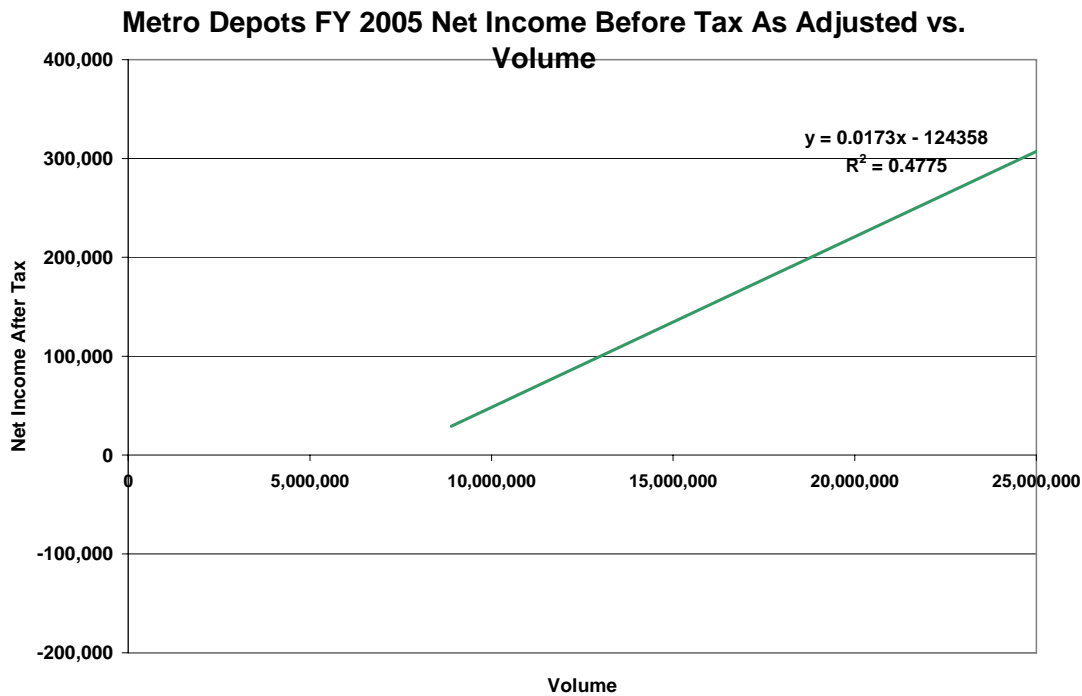
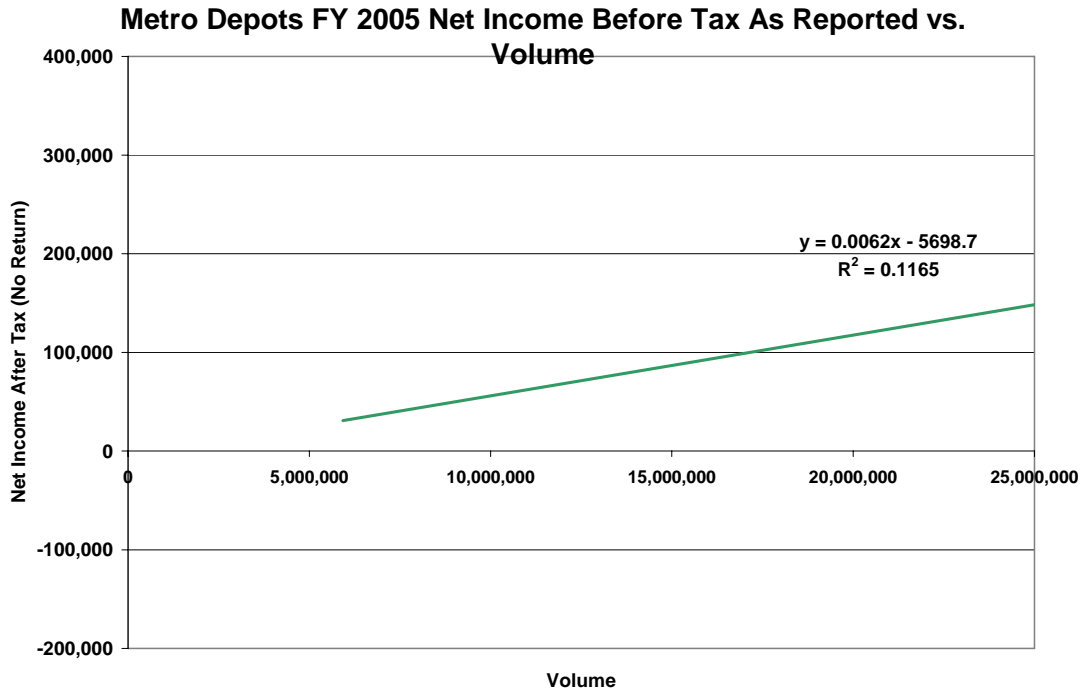
FY 2005 Net Income Before Tax As Reported vs. Volume



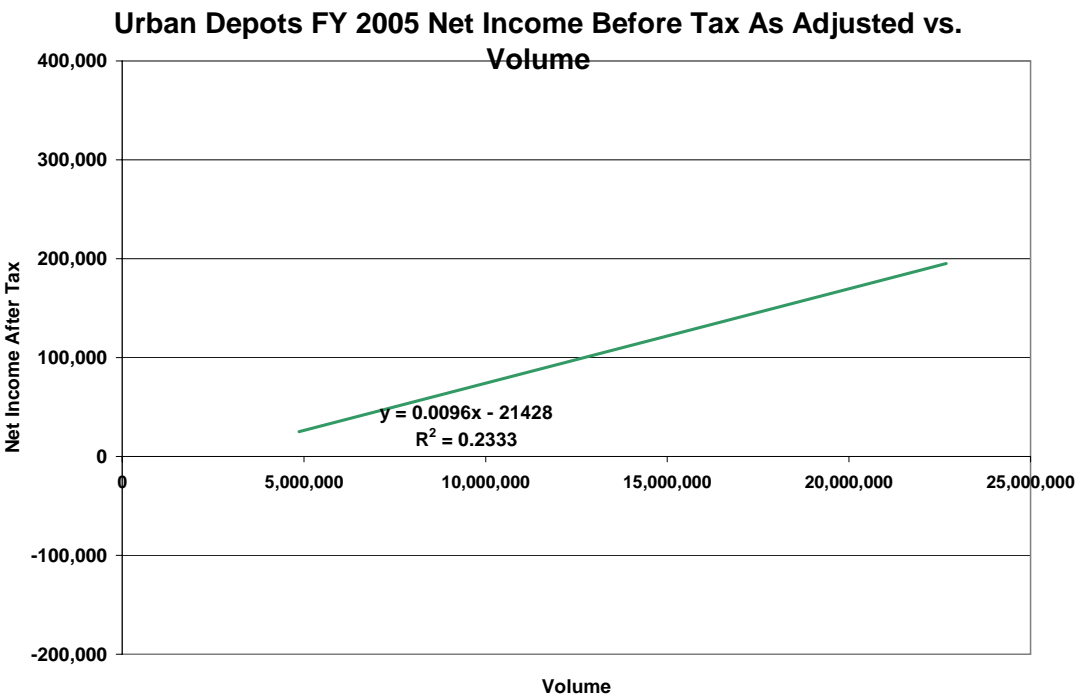
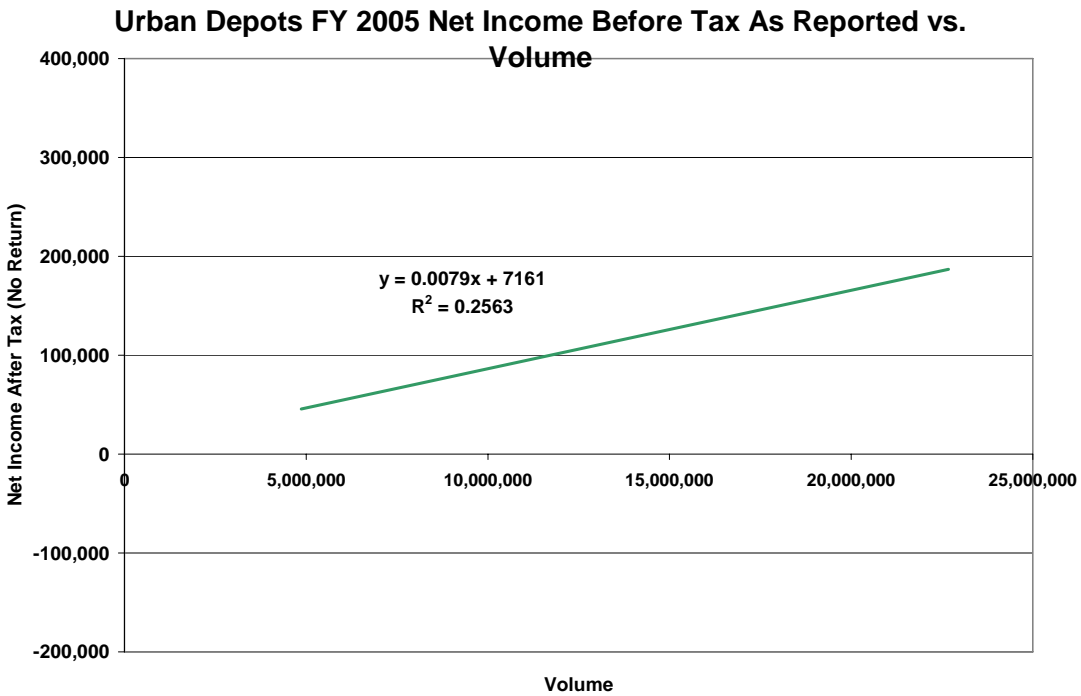
FY 2005 Net Income Before Tax As Adjusted vs. Volume



Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

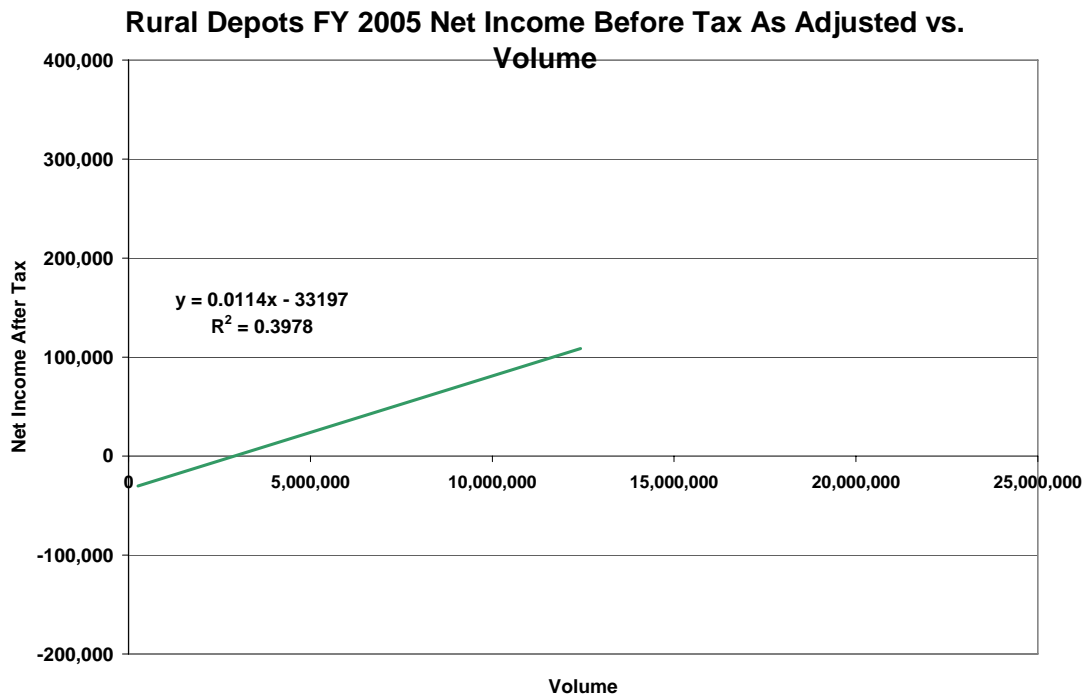
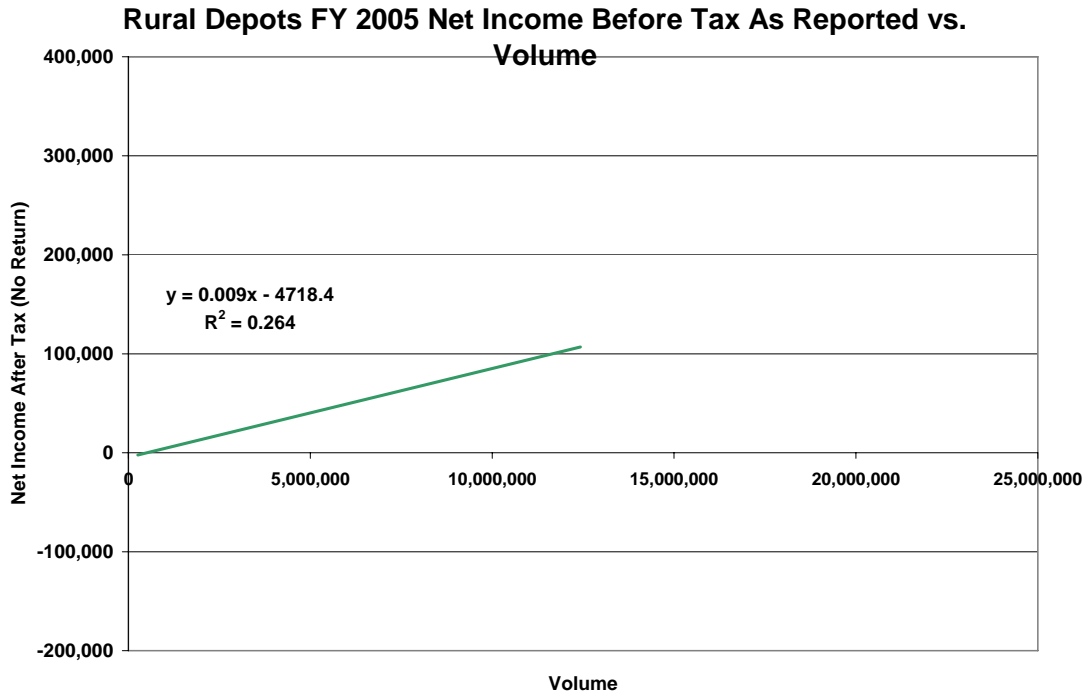


Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)



Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

---



**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

d) The DCA has expanded on the analysis provided in HCRP-Desiderata-41 (Doc 01-031, p. 72-73) by utilizing 2005 UCA data and modified assumptions to estimate fixed costs by Depot based on a minimalist approach. The assumptions used were:

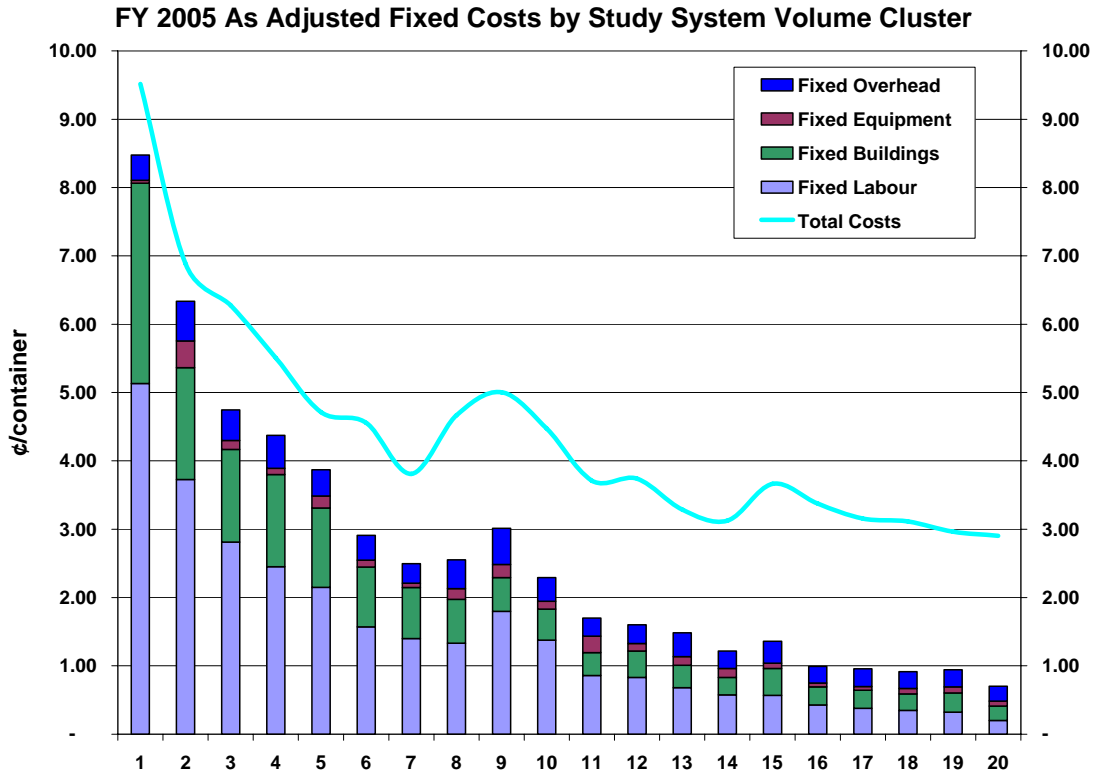
- FY 2005 As Adjusted data by Depot
- Fixed Labour costs = cost of a single Lead Head at the deemed rate of \$17.42 over the reported operating hours per year (excluding reported stat holidays). The rationale is that for a Depot to be open for business a supervisory person is required at all times the Depot is operational, even if no containers are processed, and the cost of the supervisor could be considered a fixed cost.
- Fixed Building costs = deemed 2005 lease cost of \$7.27/SF times the BCMB minimum building size criteria plus As Adjusted Building Insurance and Maintenance costs.
- Fixed Equipment Costs = FY 2005 As Adjusted Equipment costs excluding Vehicle and Equipment operating costs.
- Fixed Overhead costs = FY 2005 As Adjusted Overhead costs times the estimated fixed cost portion as shown below:

	FY 2005 As Adjusted	Deemed Portion Fixed	FY 2005 Fixed Costs
Office Expenses	\$353,764	90%	\$318,388
Shop Supplies	\$377,065	60%	\$226,239
Telephone	\$431,819	90%	\$388,637
Charitable Donations	\$0	0%	\$0
Internet	\$10,824	100%	\$10,824
Bank Charges	\$235,394	90%	\$211,855
Professional Fees (Accounting/Legal)	\$431,596	100%	\$431,596
Training Courses (3rd Party)	\$14,986	100%	\$14,986
Marketing and Promotions	\$178,862	50%	\$89,431
Advertising	\$316,035	50%	\$158,017
Other Insurance (non-property)	\$242,597	100%	\$242,597
Municipal Taxes & License Fees	\$200,182	100%	\$200,182
Other Office costs	\$136,389	50%	\$68,194
BCMB Fees	\$497,695	100%	\$497,695
ABDA Fees	\$153,317	100%	\$153,317
Non-labour collection costs (e.g. contractors)	\$25,789	0%	\$0
Deposit incentives	\$10,405	0%	\$0
Shrinkage	\$137,243	0%	\$0
Other costs	\$283,160	0%	\$0
Table 9 Collections costs	\$1,070,645	0%	\$0
	\$5,107,767	59%	\$3,011,958

From this analysis 37.8% of the FY 2005 As Adjusted costs were deemed to be fixed. On a per container basis, by Study System

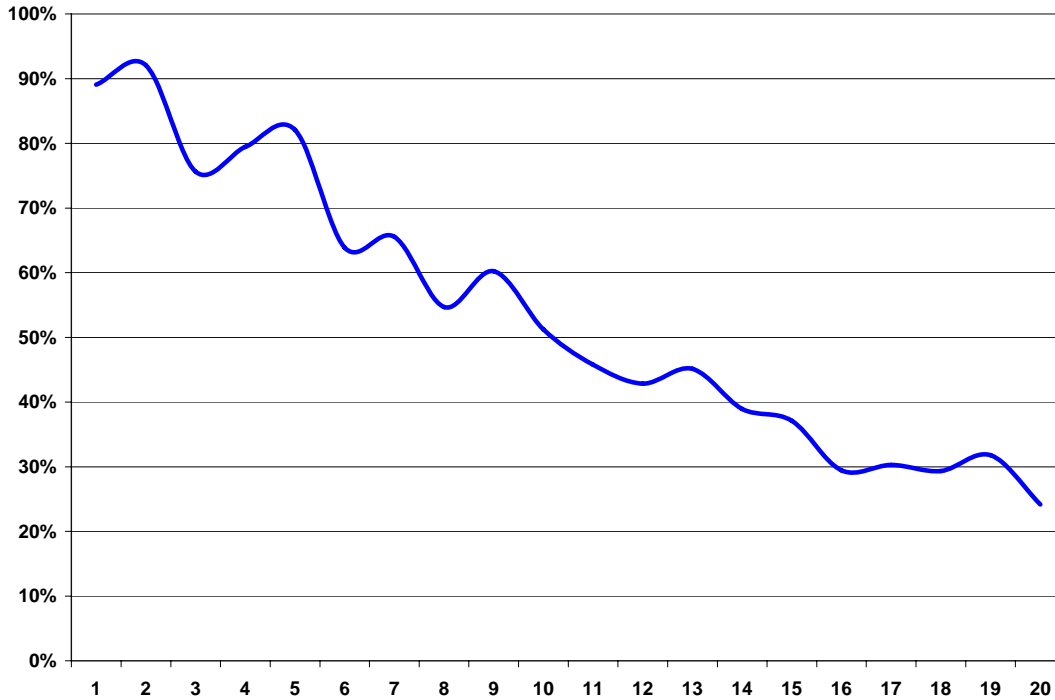
Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

Volume Cluster, the fixed costs are significantly higher for the smaller Depots as noted in the following two charts:



Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

**FY 2005 As Adjusted Fixed Costs / All FY 2005 As Adjusted Costs by Study System Volume Cluster**



The deemed FY 2005 As Adjusted Fixed Costs by BCMB Classification is shown in the table below:

	FY 2005 Volume	FY 2005 Deemed Fixed Costs	FY 2005 Deemed Unit Fixed Costs (¢/container)	FY 2005 Total Costs	FY 2005 Total Unit Fixed Costs (¢/container)	% Fixed
Metro	576,154,220	\$5,336,416	0.93	\$17,887,726	3.10	29.8%
Urban	245,877,027	\$2,403,108	0.98	\$7,845,689	3.19	30.6%
Rural	283,957,395	\$6,382,373	2.25	\$11,655,234	4.10	54.8%
	1,105,988,642	\$14,121,897	1.28	\$37,388,648	3.38	37.8%

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-24****Reference:** Drive-Thru Depots

2006 Phase I Report Rev 0, pages 20, 21

**Request:** Please clarify whether the drive-thru Depots also have counter service and if not, please determine any differences in cost structure between drive-thru and walk-in Depots.**Response:** A total of 135 Depots (131 in the 2006 Study System) reported being a Walk-In Depot on line 125 of the 2005 UCA. A total of 24 Depots reported being a Drive-Thru Depot on line 125 of the 2005 UCA. A total of 8 Depots reported being both a Walk-In and a Drive-Thru Depot on line 125 of the 2005 UCA. These statistics were not verified by the DCA and the DCA notes that 18 Depots did not indicate being either a Walk-In or a Drive-Thru Depot.

The following two tables show the As Reported costs for the Walk-In and Drive-Thru Depots segregated from the remaining Study System.

For the 131 Walk-In Depots, the cost structure is similar to the Study System with Total Operating Expenses = 3.36¢/container. This is a rational result since the sample of Walk-In Depots is relatively evenly distributed by volume from the 2006 Study System (see chart on top of page 21 of 2006 Phase I Report Rev 0). Note that the Small Non-Walk-In Depots tend to be less profitable.

For the 24 Drive-Thru Depots, the cost structure is 1.6% higher (Total Operating Expenses = at 3.40¢/container) compared to the remaining Study System (Total Operating Expenses = 3.35¢/container). This is not a rational result since the sample of Drive-Thru Depots is more heavily weighted by larger Depots (see chart on bottom of page 21 of 2006 Phase I Report Rev 0), however, the sample set is small and the difference is relatively small at 1.6%. Note that Drive-Thru Depots tend to have higher collection costs and that the Small Drive-Thru Depots tend to be less profitable.



**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

	Report Volume	233,605,289 or 18% Total System	845,573,150 or 65% Total System			
	Report Depots	34 or 16% Total System	131 or 61% Total System			
	Non-Walk In Depots 2005 Fiscal Year As Reported		Walk-In Depots 2005 Fiscal Year As Reported		Difference	Percent Difference
	\$	¢ per container	\$	¢ per container	¢ per container	
	(a)	(b)	(c)	(d)	(f)	(g)
<b>Revenue</b>						
Revenue	\$27,409,937	11.73	\$98,716,341	11.67	(0.06)	-0.5%
Less Purchases	\$18,140,384	7.77	\$64,842,752	7.67	(0.10)	-1.2%
Gross Margin (HC)	\$9,269,553	3.97	\$33,873,589	4.01	0.04	1.0%
Misc Revenue	\$151,022	0.06	\$241,946	0.03	(0.04)	-55.7%
Total Margin	\$9,420,575	4.03	\$34,115,535	4.03	0.00	0.0%
<b>Expenses</b>						
Direct Labour	\$2,859,864	1.22	\$11,080,648	1.31	0.09	7.0%
Contract Labour	\$201,609	0.09	\$1,321,459	0.16	0.07	81.1%
Overhead Labour	\$2,081,837	0.89	\$5,746,611	0.68	(0.21)	-23.7%
Labour Subtotal	\$5,143,310	2.20	\$18,148,719	2.15	(0.06)	-2.5%
Building	\$1,048,347	0.45	\$4,668,079	0.55	0.10	23.0%
Equipment	\$536,258	0.23	\$1,824,893	0.22	(0.01)	-6.0%
Overhead (Ex-Collections)	\$769,202	0.33	\$2,623,157	0.31	(0.02)	-5.8%
Collections	\$353,282	0.15	\$1,135,067	0.13	(0.02)	-11.2%
<b>Total Operating Expenses</b>	<b>\$7,850,398</b>	<b>3.36</b>	<b>\$28,399,916</b>	<b>3.36</b>	<b>(0.00)</b>	<b>-0.1%</b>
<b>Earnings before taxes</b>	<b>\$1,570,176</b>	<b>0.67</b>	<b>\$5,715,619</b>	<b>0.68</b>	<b>0.00</b>	<b>0.6%</b>
Income Taxes	\$520,122	0.22	\$1,683,117	0.20	(0.02)	-10.6%
<b>Net Income</b>	<b>\$1,050,054</b>	<b>0.45</b>	<b>\$4,032,502</b>	<b>0.48</b>	<b>0.03</b>	<b>6.1%</b>
Net Income - Small	-\$21,566	(0.10)	\$700,440	0.46	0.56	-574.5%
Net Income - Large	\$1,071,620	0.51	\$3,332,062	0.48	(0.03)	-5.2%
<b>Net Income - Total</b>	<b>\$1,050,054</b>	<b>0.45</b>	<b>\$4,032,502</b>	<b>0.48</b>	<b>0.03</b>	<b>6.1%</b>
Return Margin - Small	-0.8%		4.0%			
Return Margin - Large	4.3%		4.1%			
<b>Return Margin - Total</b>	<b>3.8%</b>		<b>4.1%</b>			

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

	Report Volume	892,822,024 or 69% Total System	186,356,415 or 14% Total System			
	Report Depots	141 or 65% Total System	24 or 11% Total System			
	Drive-Thru In Depots 2005 Fiscal Year As Reported		Drive-Thru Depots 2005 Fiscal Year As Reported		Difference	Percent Difference
	\$	¢ per container	\$	¢ per container	¢ per container	
	(a)	(b)	(c)	(d)	(f)	(g)
<b>Revenue</b>						
Revenue	\$104,222,221	11.67	\$21,904,058	11.75	0.08	0.7%
Less Purchases	\$68,502,196	7.67	\$14,480,940	7.77	0.10	1.3%
Gross Margin (HC)	\$35,720,024	4.00	\$7,423,118	3.98	(0.02)	-0.4%
Misc Revenue	\$246,303	0.03	\$146,665	0.08	0.05	185.3%
Total Margin	\$35,966,327	4.03	\$7,569,783	4.06	0.03	0.8%
<b>Expenses</b>						
Direct Labour	\$11,868,591	1.33	\$2,071,921	1.11	(0.22)	-16.4%
Contract Labour	\$1,315,911	0.15	\$207,157	0.11	(0.04)	-24.6%
Overhead Labour	\$6,187,893	0.69	\$1,640,555	0.88	0.19	27.0%
Labour Subtotal	\$19,372,395	2.17	\$3,919,634	2.10	(0.07)	-3.1%
Building	\$4,806,392	0.54	\$910,034	0.49	(0.05)	-9.3%
Equipment	\$1,918,298	0.21	\$442,852	0.24	0.02	10.6%
Overhead (Ex-Collections)	\$2,854,956	0.32	\$537,403	0.29	(0.03)	-9.8%
Collections	\$956,522	0.11	\$531,827	0.29	0.18	166.4%
<b>Total Operating Expenses</b>	\$29,908,564	3.35	\$6,341,750	3.40	0.05	1.6%
<b>Earnings before taxes</b>	\$6,057,763	0.68	\$1,228,033	0.66	(0.02)	-2.9%
Income Taxes	\$1,814,865	0.20	\$388,374	0.21	0.01	2.5%
<b>Net Income</b>	\$4,242,898	0.48	\$839,658	0.45	(0.02)	-5.2%
Net Income - Small	\$701,224	0.44	-\$22,350	(0.16)	(0.60)	-136.3%
Net Income - Large	\$3,541,674	0.48	\$862,009	0.50	0.02	3.5%
<b>Net Income - Total</b>	\$4,242,898	0.48	\$839,658	0.45	(0.02)	-5.2%
Return Margin - Small	3.8%		-1.4%			
Return Margin - Large	4.1%		4.3%			
<b>Return Margin - Total</b>	4.1%		3.8%			

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

---

**HCRP-DCA-2006-25****Reference:** Cost Revisions

- 2006 Phase I Report Rev 0, page 119
- 2006 Phase II Report Rev 0, page 55 lines 5-7

- Request:**
- a) Please calculate the Total System Revenue Requirement for 2006 based on the following assumptions, showing the impact of each of the following adjustments and the combined impact on a cumulative basis:
    - i. Excluding multi-business Depots and Not for Profit Depots;
    - ii. Excluding collection costs and pick-up fees from miscellaneous revenue;
    - iii. Excluding vehicle costs but including a mileage charge similar to the 2005 report;
    - iv. Substituting the P10 Base Salary for all participants in the Watson Wyatt Study for the wage rate for overhead labour;
    - v. Capping the owner and management hours for the small Depots at 120% of the operating hours;
    - vi. Capping the square footage for the Depot deemed lease building costs at BCMB minimum plus 33 1/3% for each of the Metro, Urban and Rural classifications;
    - vii. Excluding the return margin on purchases;
    - viii. For building costs, for those Depots which lease, using the lower of the actual and deemed rates for lease, utility and occupancy costs; and
    - ix. Using an after tax return margin on operating expenses and calculating income taxes on an aggregate system basis reflecting a 26.52% tax rate.
  - b) Please recalculate the volume point of profitability comparable to the 7 million containers on page 55 line 5 of the Phase II report.
  - c) Please comment on the significant increase in volume to break even from the 1 million containers in the FY 2005 As Adjusted data on page 119 of the Phase I report to the 7 million volume of the 2006 system forecast at page 55 of the Phase II report.
  - d) Please prepare the graphs asked for in HCRP – DCA – 06 - 23 c) using this data.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

- Response:** a) The DCA has used the HCRP-DCA-2006-17a) Option 2 2006 Revenue Requirement of \$57.8 million as the base case for comparison to the following adjustments.
- i. Similar to the analysis provided in sections 6.14 and 6.15 the DCA determined the Cal 2006 Study System costs excluding the Multi-Business and Non-Profit Depots. A total of 52 Depots were excluded from the 2006 Study System (there were 42 Multi-Business Depots and 14 Non-Profit Depots in the 2006 Study System, however, four Depots were both Multi-Business & Non-Profit). The cost structure for the excluded Depots is shown in the following table:

	Report Volume Report Depots	887,755,815 or 113 or	68% Total System 52% Total System	292,942,073 or 52 or	23% Total System 24% Total System
	<u>Study System less Non-Profit &amp; Multi-Business Depots Cal 2006</u>		<u>Non-Profit &amp; Multi-Business Depots Cal 2006</u>		
	<u>\$</u>	<u>¢ per container</u>	<u>\$</u>	<u>¢ per container</u>	
	(a)	(b)	(c)	(d)	
<b>Revenue</b>					
Revenue	\$104,092,534	11.73	\$34,131,985	11.65	
Less Purchases	\$68,183,307	7.68	\$22,629,090	7.72	
Gross Margin (HC)	\$35,909,227	4.04	\$11,502,895	3.93	
Misc Revenue	\$143,723	0.02	\$268,337	0.09	
Total Margin	\$36,052,950	4.06	\$11,771,233	4.02	
<b>Expenses</b>					
Direct Labour	\$15,856,269	1.79	\$6,417,497	2.19	
Contract Labour	\$0	-	\$0	-	
Overhead Labour	\$4,369,840	0.49	\$1,748,981	0.60	
Labour Subtotal	\$20,226,110	2.28	\$8,166,478	2.79	
Building	\$5,296,815	0.60	\$2,030,802	0.69	
Equipment	\$2,020,004	0.23	\$498,723	0.17	
Overhead (Ex-Collections)	\$4,383,728	0.49	\$916,329	0.31	
Collections	\$0	-	-	-	
<b>Total Operating Expenses</b>	<b>\$31,926,658</b>	<b>3.60</b>	<b>\$11,612,332</b>	<b>3.96</b>	
<b>Earnings before taxes</b>	<b>\$4,126,292</b>	<b>0.46</b>	<b>\$158,901</b>	<b>0.05</b>	
Income Taxes	\$1,857,455	0.21	\$337,418	0.12	
<b>Net Income</b>	<b>\$2,268,838</b>	<b>0.26</b>	<b>-\$178,517</b>	<b>(0.06)</b>	
Net Income - Small	-\$1,641,332	(0.85)	-\$640,590	(1.15)	
Net Income - Large	\$3,972,673	0.40	\$399,543	0.19	
<b>Net Income - Total</b>	<b>\$2,331,342</b>	<b>0.26</b>	<b>-\$241,047</b>	<b>(0.08)</b>	
Return Margin - Small	-7.3%		-9.9%		
Return Margin - Large	3.4%		1.6%		
<b>Return Margin - Total</b>	<b>2.2%</b>		<b>-0.7%</b>		

Note that the Operating Expenses for the 2006 Study System without Multi-Business and Non-Profit Depots reduces from

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

3.69¢/container to 3.60¢/container. The following table shows that excluding the Multi-Business and Non-Profit Depots reduces the 2006 Revenue Requirement by \$1.2 million or 2.0%. Note that 2006 Study System costs are escalated by 33% (from 21%) to derive the 2006 Total System with 52 Depots removed from the Study System.

	Base - HCRP-DCA-2006-17a)		Case i No Multi-Bus & Non-Profits		Difference		Percent Difference	
	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System
Direct Labour	\$22,273,766	\$26,996,537	\$15,856,269	\$25,559,990	-\$6,417,497	-\$1,436,547	-28.8%	-5.3%
Overhead Labour	\$6,118,822	\$7,416,213	\$4,369,840	\$7,044,095	-\$1,748,981	-\$372,117	-28.6%	-5.0%
Building	\$7,327,617	\$8,881,313	\$5,296,815	\$8,538,361	-\$2,030,802	-\$342,952	-27.7%	-3.9%
Equipment	\$2,518,727	\$3,052,780	\$2,020,004	\$3,256,207	-\$498,723	\$203,427	-19.8%	6.7%
Overhead	\$5,300,057	\$6,423,844	\$4,383,728	\$7,066,482	-\$916,329	\$642,638	-17.3%	10.0%
Return	\$2,649,684	\$3,211,504	\$1,958,899	\$3,211,504	-\$690,784	\$0	-26.1%	0.0%
Income Tax	\$1,917,255	\$2,323,777	\$1,822,970	\$2,209,500	-\$94,285	-\$114,277	-4.9%	-4.9%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$143,723	-\$231,678	\$268,337	\$267,752	-65.1%	-53.6%
2006 Rev. Requirement	\$47,693,868	\$57,806,536	\$35,564,804	\$56,654,459	-\$12,129,064	-\$1,152,076	-25.4%	-2.0%

ii. Excluding the Collection Costs as identified on page 89 of the 2006 Phase I Report Rev 0 (and modified as noted in HCRP-DCA-2006-18 a) and removing pick-up fees from Miscellaneous Revenue reduces the 2006 Revenue Requirement by \$3.2 million or 5.6% as noted in the following table:

	Base - HCRP-DCA-2006-17a)		Case ii No Collection Costs		Difference		Percent Difference	
	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System
Direct Labour	\$22,273,766	\$26,996,537	\$22,110,896	\$26,799,133	-\$162,870	-\$197,404	-0.7%	-0.7%
Overhead Labour	\$6,118,822	\$7,416,213	\$5,998,369	\$7,270,221	-\$120,452	-\$145,992	-2.0%	-2.0%
Building	\$7,327,617	\$8,881,313	\$7,327,617	\$8,881,313	\$0	\$0	0.0%	0.0%
Equipment	\$2,518,727	\$3,052,780	\$927,831	\$1,124,562	-\$1,590,896	-\$1,928,218	-63.2%	-63.2%
Overhead	\$5,300,057	\$6,423,844	\$4,130,744	\$5,006,598	-\$1,169,313	-\$1,417,246	-22.1%	-22.1%
Return	\$2,649,684	\$3,211,504	\$2,527,942	\$3,063,949	-\$121,741	-\$147,554	-4.6%	-4.6%
Income Tax	\$1,917,255	\$2,323,777	\$2,364,462	\$2,865,806	\$447,207	\$542,029	23.3%	23.3%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$349,501	-\$423,607	\$62,559	\$75,823	-15.2%	-15.2%
Cal 2006 Rev. Requirement	\$47,693,868	\$57,806,536	\$45,038,361	\$54,587,974	-\$2,655,507	-\$3,218,562	-5.6%	-5.6%

iii. Excluding Vehicle related costs as identified in the middle of the table on page 89 of the 2006 Phase I Report Rev 0 and including a mileage charge of 47.5¢/km<sup>16</sup> as noted below (add mileage expense of \$3,952/Depot) reduces the 2006 Revenue Requirement by \$0.94 million or 1.6% as noted in the following tables:

<sup>16</sup> <http://www.cra-arc.gc.ca/tax/individuals/topics/income-tax/return/completing/deductions/lines248-260/255/rates-e.html>

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

Deemed Mileage Charges	Cal 2006 Study System	Cal 2006 Total System
	Trips / week	5
Weeks	52	52
# Depots	165	215
Round-Trip Distance (km)	32	32
CCRA Rate (¢/km)	47.5	47.5
Deemed Mileage Costs	\$652,080	\$849,680

	Base - HCRP-DCA-2006-17a)		Case iii Exclude Vehicle + Miles		Difference		Percent Difference	
	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System
Direct Labour	\$22,273,766	\$26,996,537	\$22,273,766	\$26,996,537	\$0	\$0	0.0%	0.0%
Overhead Labour	\$6,118,822	\$7,416,213	\$6,118,822	\$7,416,213	\$0	\$0	0.0%	0.0%
Building	\$7,327,617	\$8,881,313	\$7,327,617	\$8,881,313	\$0	\$0	0.0%	0.0%
Equipment	\$2,518,727	\$3,052,780	\$1,680,957	\$2,037,375	-\$837,770	-\$1,015,405	-33.3%	-33.3%
Overhead	\$5,300,057	\$6,423,844	\$5,300,057	\$6,423,844	\$0	\$0	0.0%	0.0%
Return	\$2,649,684	\$3,211,504	\$2,616,173	\$3,170,887	-\$33,511	-\$40,616	-1.3%	-1.3%
Income Tax	\$1,917,255	\$2,323,777	\$2,011,500	\$2,438,004	\$94,245	\$114,228	4.9%	4.9%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$412,060	-\$499,430	\$0	\$0	0.0%	0.0%
Cal 2006 Rev. Requirement	\$47,693,868	\$57,806,536	\$46,916,832	\$56,864,743	-\$777,036	-\$941,793	-1.6%	-1.6%

iv. P10 data segregated by Province is not available in the Watson Wyatt survey (for example see page 31 of Doc 10-012 for Lead Hand). The DCA used the lowest P25 Base Salary for Alberta statistics to derive the deemed overhead hourly rates.

P10 data is available for Canada wide survey respondents. The DCA used Canada wide P10 Incumbent Weighted values (for example, an annual base salary of \$28,000 for a Lead Hand, see page 30 of Doc 10-012), to derive an average Lead Hand rate of \$14.94/h and a Manager rate of \$23.54/h. These changes reduce the 2006 Revenue Requirement by \$1.7 million or 2.9% as noted in the following table:

	Base - HCRP-DCA-2006-17a)		Case iv Watson Wyatt P10		Difference		Percent Difference	
	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System
Direct Labour	\$22,273,766	\$26,996,537	\$21,794,152	\$26,415,228	-\$479,615	-\$581,309	-2.2%	-2.2%
Overhead Labour	\$6,118,822	\$7,416,213	\$5,358,206	\$6,494,321	-\$760,616	-\$921,892	-12.4%	-12.4%
Building	\$7,327,617	\$8,881,313	\$7,327,617	\$8,881,313	\$0	\$0	0.0%	0.0%
Equipment	\$2,518,727	\$3,052,780	\$2,518,727	\$3,052,780	\$0	\$0	0.0%	0.0%
Overhead	\$5,300,057	\$6,423,844	\$5,300,057	\$6,423,844	\$0	\$0	0.0%	0.0%
Return	\$2,649,684	\$3,211,504	\$2,600,074	\$3,151,376	-\$49,609	-\$60,128	-1.9%	-1.9%
Income Tax	\$1,917,255	\$2,323,777	\$1,809,023	\$2,192,595	-\$108,233	-\$131,182	-5.6%	-5.6%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$412,060	-\$499,430	\$0	\$0	0.0%	0.0%
Cal 2006 Rev. Requirement	\$47,693,868	\$57,806,536	\$46,295,795	\$56,112,025	-\$1,398,073	-\$1,694,510	-2.9%	-2.9%

v. Capping Small Depot Manager hours at 120% of operating hours

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

reduces the number of Small Depot Manager hours by 4.2% and reduces the 2006 Revenue Requirement by \$0.1 million or 0.2% as noted in the following tables:

Manager Hours	As Reported	As Adjusted	Diff.	Case v	Diff.
Small	77,090	77,090	0.0%	73,516	-4.6%
Large	193,583	127,556	-34.1%	127,556	-34.1%
	270,673	204,646	-24.4%	201,072	-25.7%

	Base - HCRP-DCA-2006-17a)		Case v Small Man @ 120% hrs		Difference		Percent Difference	
	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System
Direct Labour	\$22,273,766	\$26,996,537	\$22,273,766	\$26,996,537	\$0	\$0	0.0%	0.0%
Overhead Labour	\$6,118,822	\$7,416,213	\$6,057,296	\$7,341,642	-\$61,525	-\$74,571	-1.0%	-1.0%
Building	\$7,327,617	\$8,881,313	\$7,327,617	\$8,881,313	\$0	\$0	0.0%	0.0%
Equipment	\$2,518,727	\$3,052,780	\$2,518,727	\$3,052,780	\$0	\$0	0.0%	0.0%
Overhead	\$5,300,057	\$6,423,844	\$5,300,057	\$6,423,844	\$0	\$0	0.0%	0.0%
Return	\$2,649,684	\$3,211,504	\$2,647,223	\$3,208,521	-\$2,461	-\$2,983	-0.1%	-0.1%
Income Tax	\$1,917,255	\$2,323,777	\$1,901,226	\$2,304,348	-\$16,029	-\$19,428	-0.8%	-0.8%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$412,060	-\$499,430	\$0	\$0	0.0%	0.0%
Cal 2006 Rev. Requirement	\$47,693,868	\$57,806,536	\$47,613,853	\$57,709,554	-\$80,016	-\$96,981	-0.2%	-0.2%

vi. The DCA notes a typographical error in the Table in page 78 (line 5) of the 2006 Phase I Report Rev 0 where the DCA Maximum Size for Urban Depots is 5,000 SF, not 7,500 SF.

Capping the square footage of all Depot Buildings at the BCMB minimum size plus 33 1/3% reduces the total 2006 Study System square footage by 28% from As Reported values and an additional 11% from the DCA's determinations (see Table below).

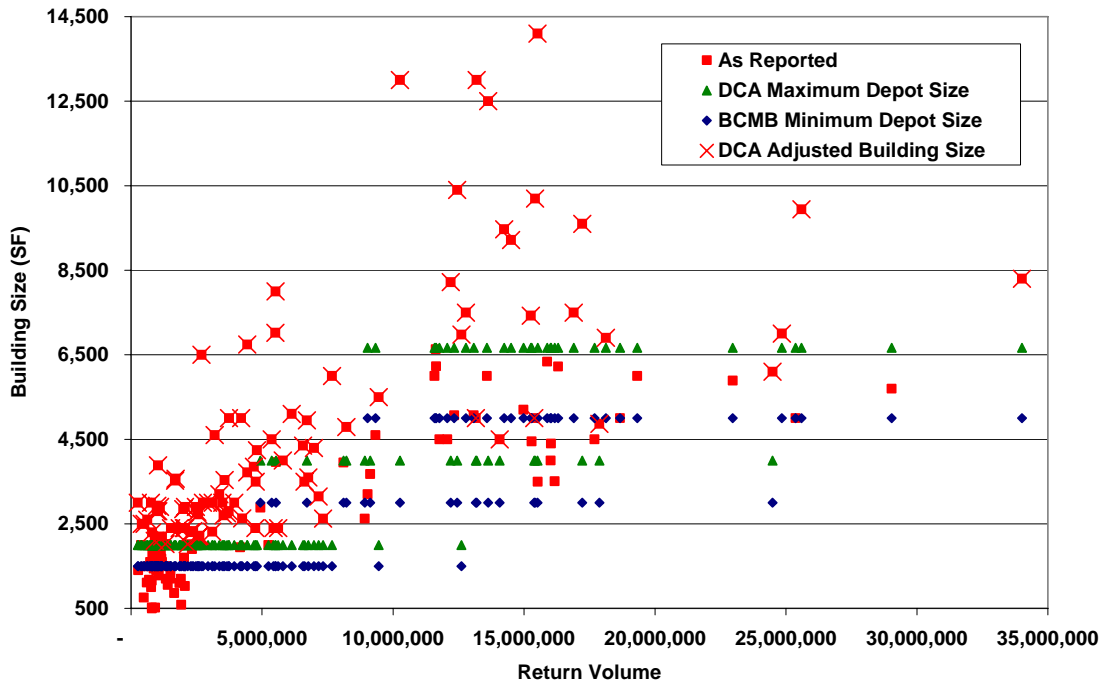
The number of Buildings with the size reduced from the As Reported values increases from 39 to 93. In addition, the lower square footage reduces Cal 2006 Study System utility costs from \$0.83 million to \$0.72 million (13% Reduction).

The revised chart from page 79 of the 2006 Phase I Report Rev 0 is also shown below.

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

Depot Size (SF)	As Reported	As Adjusted	Diff.	Case v	Diff.
Small	219,497	200,639	-8.6%	163,571	-25.5%
Large	417,509	332,984	-20.2%	298,391	-28.5%
	637,006	533,623	-16.2%	461,962	-27.5%
Metro	201,665	194,736	-3.4%	188,175	-6.7%
Urban	147,810	95,704	-35.3%	81,096	-45.1%
Rural	287,531	243,183	-15.4%	192,691	-33.0%
	637,006	533,623	-16.2%	461,962	-27.5%

DCA Building Size Analysis



The net impact of reducing deemed Building sizes further reduces the 2006 Revenue Requirement by \$1.1 million or 2.0% as noted in the following table:



**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

	Base - HCRP-DCA-2006-17a)		Case vi Buildings Size + 1/3		Difference		Percent Difference	
	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System
Direct Labour	\$22,273,766	\$26,996,537	\$22,273,766	\$26,996,537	\$0	\$0	0.0%	0.0%
Overhead Labour	\$6,118,822	\$7,416,213	\$6,118,822	\$7,416,213	\$0	\$0	0.0%	0.0%
Building	\$7,327,617	\$8,881,313	\$6,489,791	\$7,865,839	-\$837,827	-\$1,015,473	-11.4%	-11.4%
Equipment	\$2,518,727	\$3,052,780	\$2,518,727	\$3,052,780	\$0	\$0	0.0%	0.0%
Overhead	\$5,300,057	\$6,423,844	\$5,300,057	\$6,423,844	\$0	\$0	0.0%	0.0%
Return	\$2,649,684	\$3,211,504	\$2,616,170	\$3,170,885	-\$33,513	-\$40,619	-1.3%	-1.3%
Income Tax	\$1,917,255	\$2,323,777	\$1,851,610	\$2,244,212	-\$65,646	-\$79,565	-3.4%	-3.4%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$412,060	-\$499,430	\$0	\$0	0.0%	0.0%
Cal 2006 Rev. Requirement	\$47,693,868	\$57,806,536	\$46,756,883	\$56,670,879	-\$936,985	-\$1,135,657	-2.0%	-2.0%

vii. Removing the 1% After Tax Return Margin on Purchases reduces the 2006 Revenue Requirement by \$1.4 million or 2.4% as noted in the following table:

	Base - HCRP-DCA-2006-17a)		Case vii No MR on Purchases		Difference		Percent Difference	
	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System
Direct Labour	\$22,273,766	\$26,996,537	\$22,273,766	\$26,996,537	\$0	\$0	0.0%	0.0%
Overhead Labour	\$6,118,822	\$7,416,213	\$6,118,822	\$7,416,213	\$0	\$0	0.0%	0.0%
Building	\$7,327,617	\$8,881,313	\$7,327,617	\$8,881,313	\$0	\$0	0.0%	0.0%
Equipment	\$2,518,727	\$3,052,780	\$2,518,727	\$3,052,780	\$0	\$0	0.0%	0.0%
Overhead	\$5,300,057	\$6,423,844	\$5,300,057	\$6,423,844	\$0	\$0	0.0%	0.0%
Return	\$2,649,684	\$3,211,504	\$1,741,560	\$2,110,827	-\$908,124	-\$1,100,676	-34.3%	-34.3%
Income Tax	\$1,917,255	\$2,323,777	\$1,690,387	\$2,048,804	-\$226,869	-\$274,972	-11.8%	-11.8%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$412,060	-\$499,430	\$0	\$0	0.0%	0.0%
Cal 2006 Rev. Requirement	\$47,693,868	\$57,806,536	\$46,558,875	\$56,430,887	-\$1,134,993	-\$1,375,649	-2.4%	-2.4%

viii. Using the lower of the As Reported lease cost for Leased Buildings and the DCA's deemed lease rate times the DCA's deemed building size reduces the As Adjusted lease costs by an additional 23%.

Using the lower of the As Reported utility costs and the DCA's deemed utility costs per square feet times the DCA's deemed building size reduces the As Adjusted utility costs by an additional 22%.

The As Adjusted occupancy costs were not adjusted as the DCA did not use deemed values for these cost items – As Reported Costs were utilized and only adjusted for Stub Fiscal Years.

With these adjustments the 2006 Revenue Requirement is reduced by \$1.0 million or 1.8% as noted in the following tables.

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

**Lease Payments  
for Leased  
Buildings**

	<b>As Reported</b>	<b>As Adjusted</b>	<b>Diff.</b>	<b>Case viii</b>	<b>Diff.</b>
Small	\$197,368	\$457,881	132.0%	\$188,008	-4.7%
Large	\$2,213,005	\$1,899,321	-14.2%	\$1,608,841	-27.3%
	<u>\$2,410,373</u>	<u>\$2,357,201</u>	<u>-2.2%</u>	<u>\$1,796,849</u>	<u>-25.5%</u>

**Utilites**

	<b>As Reported</b>	<b>As Adjusted</b>	<b>Diff.</b>	<b>Case viii</b>	<b>Diff.</b>
Small	\$256,600	\$260,830	1.6%	\$189,341	-26.2%
Large	\$605,277	\$536,104	-11.4%	\$420,129	-30.6%
	<u>\$861,877</u>	<u>\$796,934</u>	<u>-7.5%</u>	<u>\$609,470</u>	<u>-29.3%</u>

	<b>Base - HCRP-DCA-2006-17a)</b>		<b>Case viii Min Leases Costs</b>		<b>Difference</b>		<b>Percent Difference</b>	
	<b>Cal 2006 Study System</b>	<b>Cal 2006 Total System</b>	<b>Cal 2006 Study System</b>	<b>Cal 2006 Total System</b>	<b>Cal 2006 Study System</b>	<b>Cal 2006 Total System</b>	<b>Cal 2006 Study System</b>	<b>Cal 2006 Total System</b>
Direct Labour	\$22,273,766	\$26,996,537	\$22,273,766	\$26,996,537	\$0	\$0	0.0%	0.0%
Overhead Labour	\$6,118,822	\$7,416,213	\$6,118,822	\$7,416,213	\$0	\$0	0.0%	0.0%
Building	\$7,327,617	\$8,881,313	\$6,571,472	\$7,964,840	-\$756,145	-\$916,473	-10.3%	-10.3%
Equipment	\$2,518,727	\$3,052,780	\$2,518,727	\$3,052,780	\$0	\$0	0.0%	0.0%
Overhead	\$5,300,057	\$6,423,844	\$5,300,057	\$6,423,844	\$0	\$0	0.0%	0.0%
Return	\$2,649,684	\$3,211,504	\$2,619,438	\$3,174,845	-\$30,246	-\$36,659	-1.1%	-1.1%
Income Tax	\$1,917,255	\$2,323,777	\$1,840,954	\$2,231,297	-\$76,301	-\$92,480	-4.0%	-4.0%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$412,060	-\$499,430	\$0	\$0	0.0%	0.0%
Cal 2006 Rev. Requirement	<u>\$47,693,868</u>	<u>\$57,806,536</u>	<u>\$46,831,176</u>	<u>\$56,760,924</u>	<u>-\$862,693</u>	<u>-\$1,045,612</u>	<u>-1.8%</u>	<u>-1.8%</u>

ix. The base case HCRP-DCA-2006-17a) Option 2 2006 Revenue Requirement of \$57.87 million used an After Tax Return Margin. Limiting Income Tax expense to 26.52% of the Return Margin (Option 1) reduces the 2006 Revenue Requirement by \$1.1 million or 2.0% as noted in the following tables.

	<b>Study System</b>	<b>Total System</b>
After Tax Return Margin	\$2,649,684	\$3,211,504
Before Tax Return Margin	\$3,605,993	\$4,370,582
Income Tax	\$956,309	\$1,159,078

	<b>Base - HCRP-DCA-2006-17a)</b>		<b>Case ix AT RM + Agg 26% Tax</b>		<b>Difference</b>		<b>Percent Difference</b>	
	<b>Cal 2006 Study System</b>	<b>Cal 2006 Total System</b>	<b>Cal 2006 Study System</b>	<b>Cal 2006 Total System</b>	<b>Cal 2006 Study System</b>	<b>Cal 2006 Total System</b>	<b>Cal 2006 Study System</b>	<b>Cal 2006 Total System</b>
Direct Labour	\$22,273,766	\$26,996,537	\$22,273,766	\$26,996,537	\$0	\$0	0.0%	0.0%
Overhead Labour	\$6,118,822	\$7,416,213	\$6,118,822	\$7,416,213	\$0	\$0	0.0%	0.0%
Building	\$7,327,617	\$8,881,313	\$7,327,617	\$8,881,313	\$0	\$0	0.0%	0.0%
Equipment	\$2,518,727	\$3,052,780	\$2,518,727	\$3,052,780	\$0	\$0	0.0%	0.0%
Overhead	\$5,300,057	\$6,423,844	\$5,300,057	\$6,423,844	\$0	\$0	0.0%	0.0%
Return	\$2,649,684	\$3,211,504	\$2,649,684	\$3,211,504	\$0	\$0	0.0%	0.0%
Income Tax	\$1,917,255	\$2,323,777	\$956,309	\$1,159,078	-\$960,946	-\$1,164,698	-50.1%	-50.1%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$412,060	-\$499,430	\$0	\$0	0.0%	0.0%
Cal 2006 Rev. Requirement	<u>\$47,693,868</u>	<u>\$57,806,536</u>	<u>\$46,732,922</u>	<u>\$56,641,837</u>	<u>-\$960,946</u>	<u>-\$1,164,698</u>	<u>-2.0%</u>	<u>-2.0%</u>

Combining the impacts of cases ii to ix reduces the 2006 Revenue

**Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

requirement by \$8.9 million or 15.5%, as noted in the following table.

	Base - HCRP-DCA-2006-17a)		Cases ii to ix		Difference		Percent Difference	
	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System
Direct Labour	\$22,273,766	\$26,996,537	\$21,631,281	\$26,217,824	-\$642,485	-\$778,713	-2.9%	-2.9%
Overhead Labour	\$6,118,822	\$7,416,213	\$5,195,340	\$6,296,923	-\$923,481	-\$1,119,289	-15.1%	-15.1%
Building	\$7,327,617	\$8,881,313	\$5,924,297	\$7,180,442	-\$1,403,320	-\$1,700,870	-19.2%	-19.2%
Equipment	\$2,518,727	\$3,052,780	\$1,680,957	\$2,037,375	-\$837,770	-\$1,015,405	-33.3%	-33.3%
Overhead	\$5,300,057	\$6,423,844	\$4,130,744	\$5,006,598	-\$1,169,313	-\$1,417,246	-22.1%	-22.1%
Return	\$2,649,684	\$3,211,504	\$1,542,505	\$1,869,567	-\$1,107,179	-\$1,341,937	-41.8%	-41.8%
Income Tax	\$1,917,255	\$2,323,777	\$556,712	\$674,754	-\$1,360,543	-\$1,649,023	-71.0%	-71.0%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$349,501	-\$423,607	\$62,559	\$75,823	-15.2%	-15.2%
Cal 2006 Rev. Requirement	\$47,693,868	\$57,806,536	\$40,312,336	\$48,859,876	-\$7,381,532	-\$8,946,660	-15.5%	-15.5%

Including the cumulative effect of case i would require a significant manual effort to remove all Multi-Business and Non-Profit Depots base data from each of about 13 spreadsheet models. Given the effort required to complete this task the DCA instead determined an estimate excluding the Multi-Business and Non-Profit Depots. The results show that in addition to the impacts from cases ii to ix excluding the Multi-Business and Non-Profit Depots would reduce the 2006 Revenue requirement by about \$10.1 million or 17.5%.

Note that the impact of excluding Vehicle Costs in Case ii and Case iii are not cumulative, i.e., vehicle costs were only removed once.

	Base - HCRP-DCA-2006-17a)		Cases i to ix Estimated		Difference		Percent Difference	
	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System	Cal 2006 Study System	Cal 2006 Total System
Direct Labour	\$22,273,766	\$26,996,537	\$20,480,232	\$24,822,714	-\$1,793,535	-\$2,173,823	-8.1%	-8.1%
Overhead Labour	\$6,118,822	\$7,416,213	\$4,934,658	\$5,980,968	-\$1,184,163	-\$1,435,245	-19.4%	-19.4%
Building	\$7,327,617	\$8,881,313	\$5,695,530	\$6,903,170	-\$1,632,087	-\$1,978,143	-22.3%	-22.3%
Equipment	\$2,518,727	\$3,052,780	\$1,792,970	\$2,173,139	-\$725,757	-\$879,641	-28.8%	-28.8%
Overhead	\$5,300,057	\$6,423,844	\$4,543,982	\$5,507,456	-\$756,075	-\$916,388	-14.3%	-14.3%
Return	\$2,649,684	\$3,211,504	\$1,542,505	\$1,869,567	-\$1,107,179	-\$1,341,937	-41.8%	-41.8%
Income Tax	\$1,917,255	\$2,323,777	\$529,335	\$641,571	-\$1,387,921	-\$1,682,206	-72.4%	-72.4%
Less: Misc. Rev.	-\$412,060	-\$499,430	-\$162,128	-\$196,505	\$249,932	\$302,925	-60.7%	-60.7%
Cal 2006 Rev. Requirement	\$47,693,868	\$57,806,536	\$39,357,083	\$47,702,078	-\$8,336,785	-\$10,104,457	-17.5%	-17.5%

- b) The comment made on page 55, lines 5 to 7, of the 2006 Phase II Report Rev 0 stated:

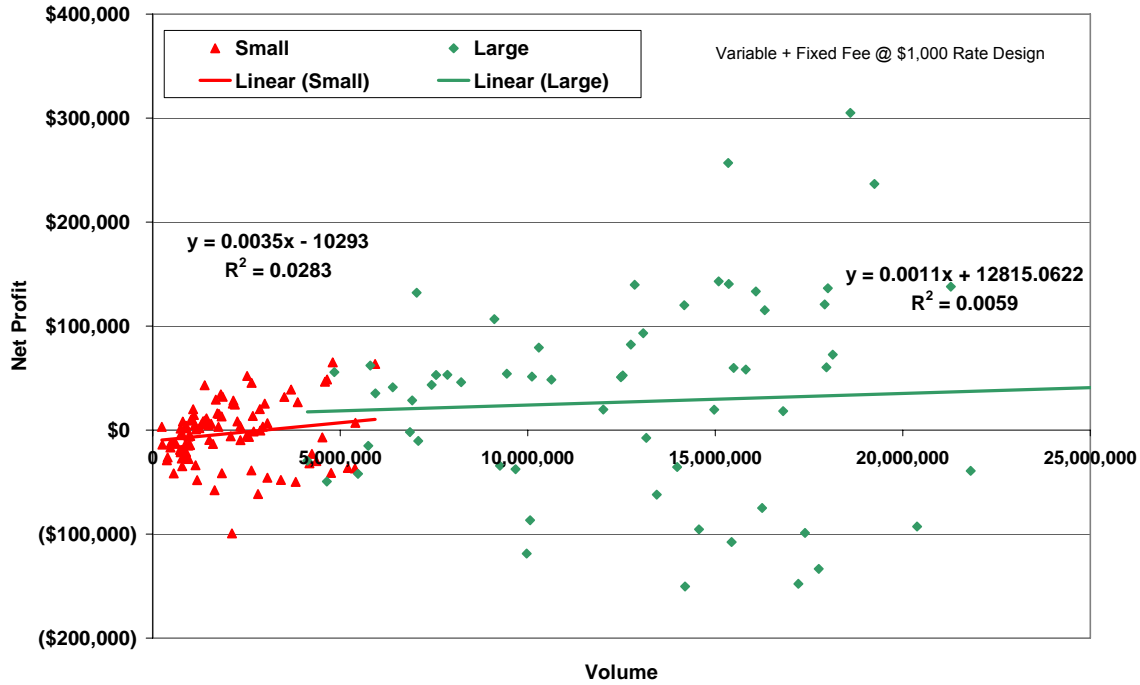
... the DCA notes that Depots up to 7 million containers per year in Alberta are generally unprofitable based on the Cal 2006 cost determinations and the proposed 2006 Handling Commissions.

This can be seen from the chart at the bottom of page 46 of the 2006 Phase II Report Rev 0 where for Large Depots the best fit regression line crosses the x-axis at about 7.4 million containers per year.

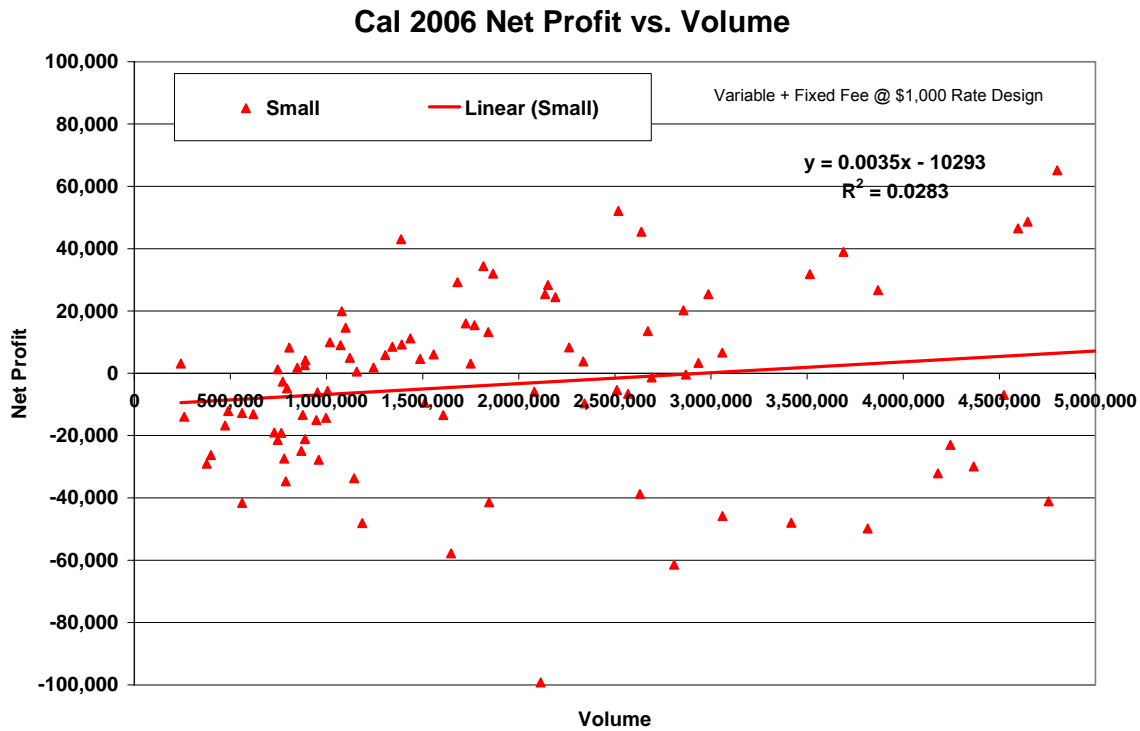
Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

Applying the cumulative effects of cases ii to ix above (excluding case i), Large Depot on average become profitable and Small Depots on average become profitable above about 2.9 million containers per year as shown on the following two charts.

Cal 2006 Net Profit vs. Volume



Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

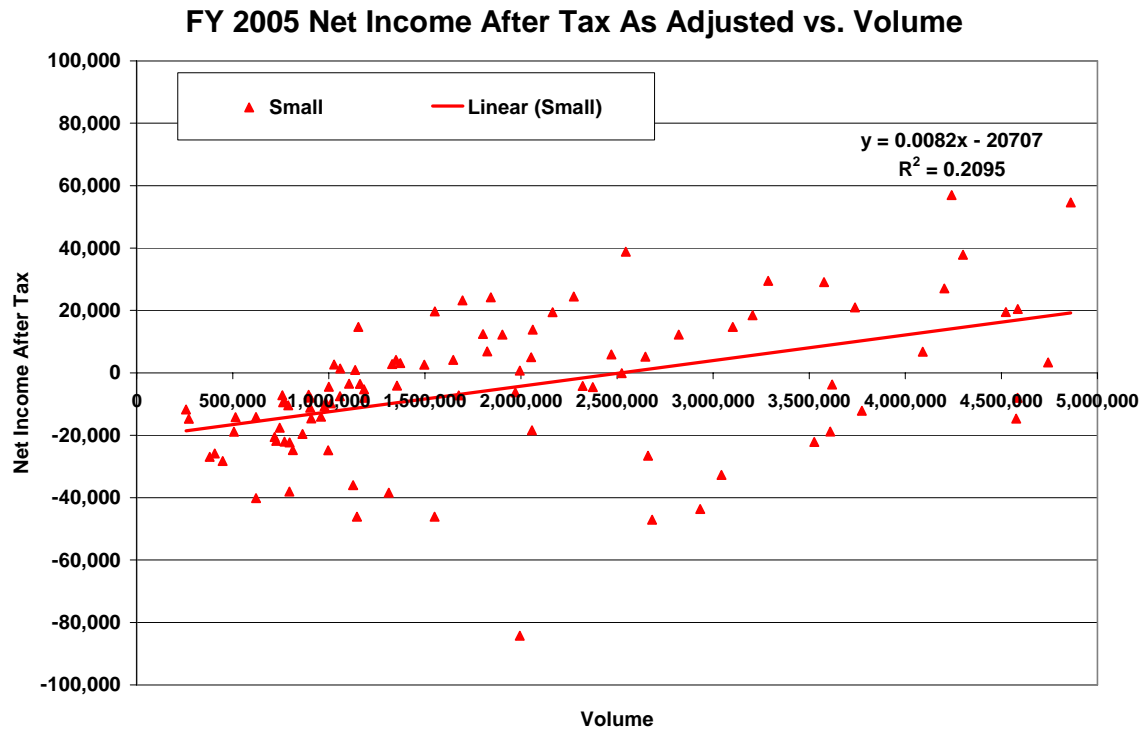


c) The chart on page 119 of the 2006 Phase I Report Rev 0 shows Net Income After Tax based on current Handling Commissions and FY 2005 As Adjusted costs for Small Depots only.

The comment made on page 55, lines 5 to 7, of the 2006 Phase II Report Rev 0 was referring to the chart at the bottom of page 46 of the 2006 Phase II Report Rev 0 that shows Net Profit (including Return and Income Tax) based on proposed 2006 Handling Commissions and Cal 2006 costs for Large Depots.

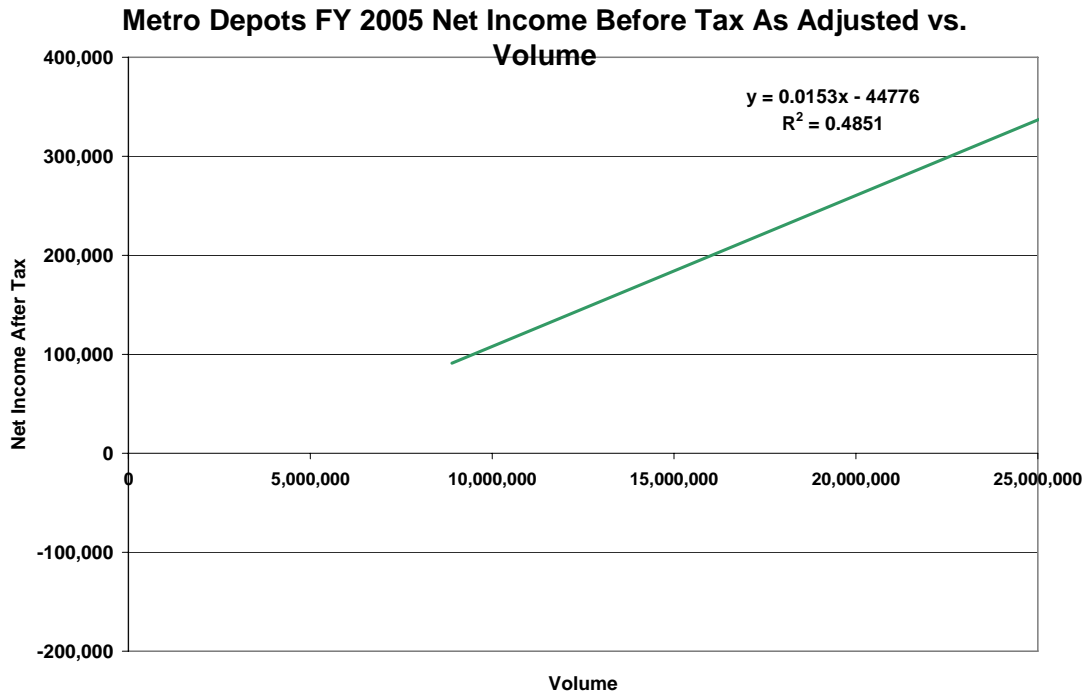
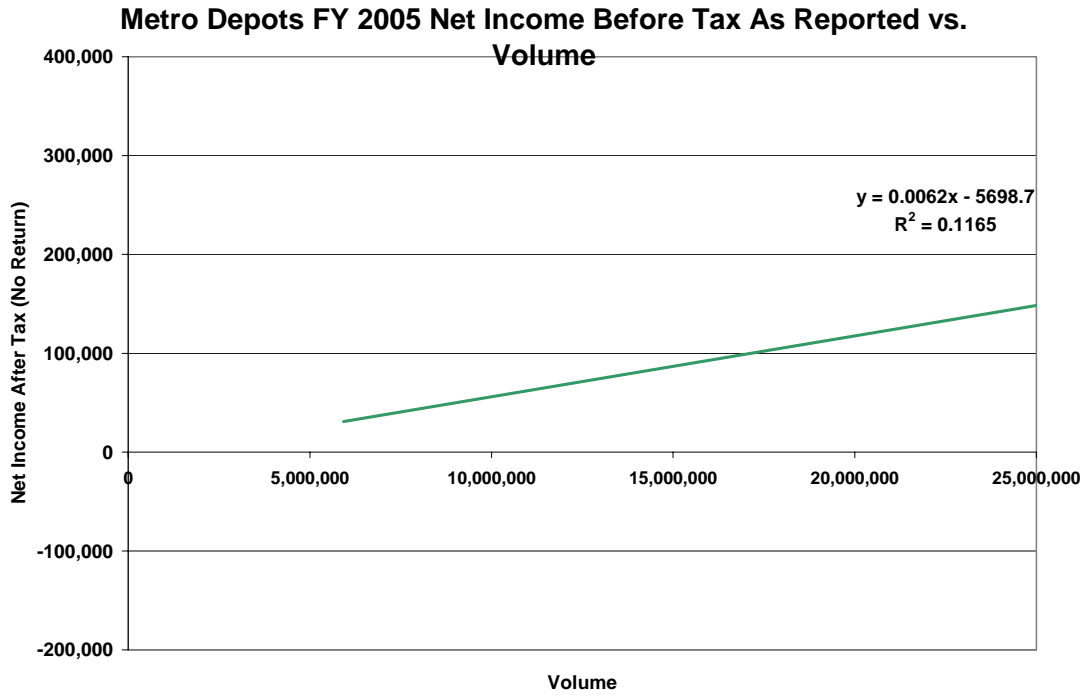
The chart on page 119 of the 2006 Phase I Report Rev 0 that shows a break-even volume for Small Depots on average of about 4.3 million containers can be compared to the chart below, where the cumulative impacts of cases ii to ix reduces the break-even volume of Small Depots on average to about 2.5 million containers.

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

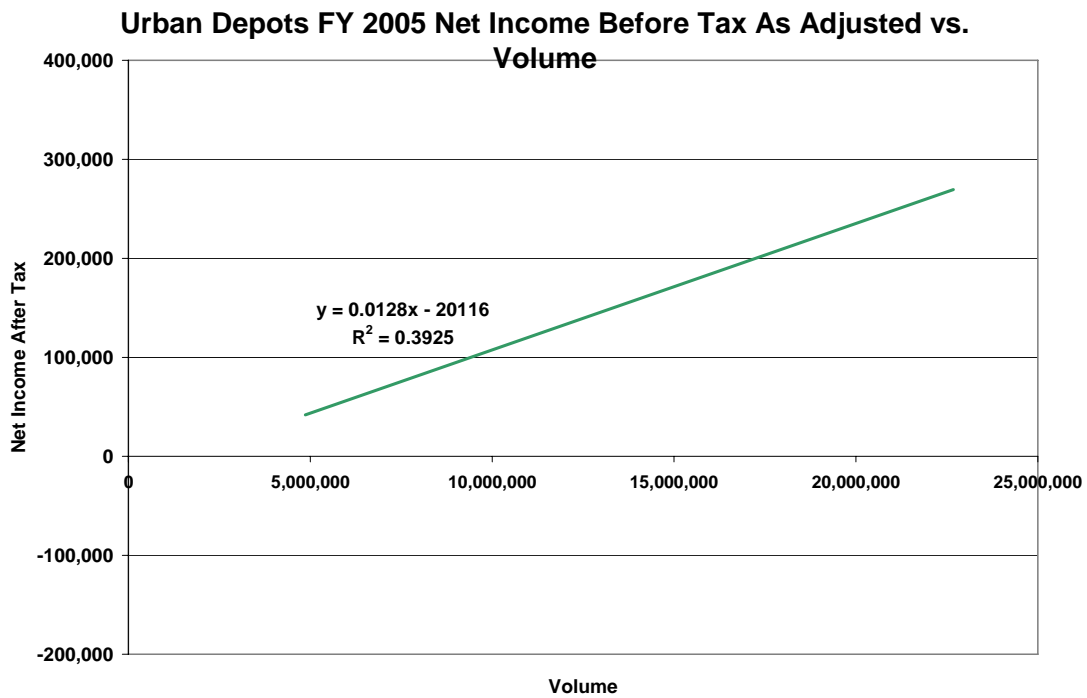
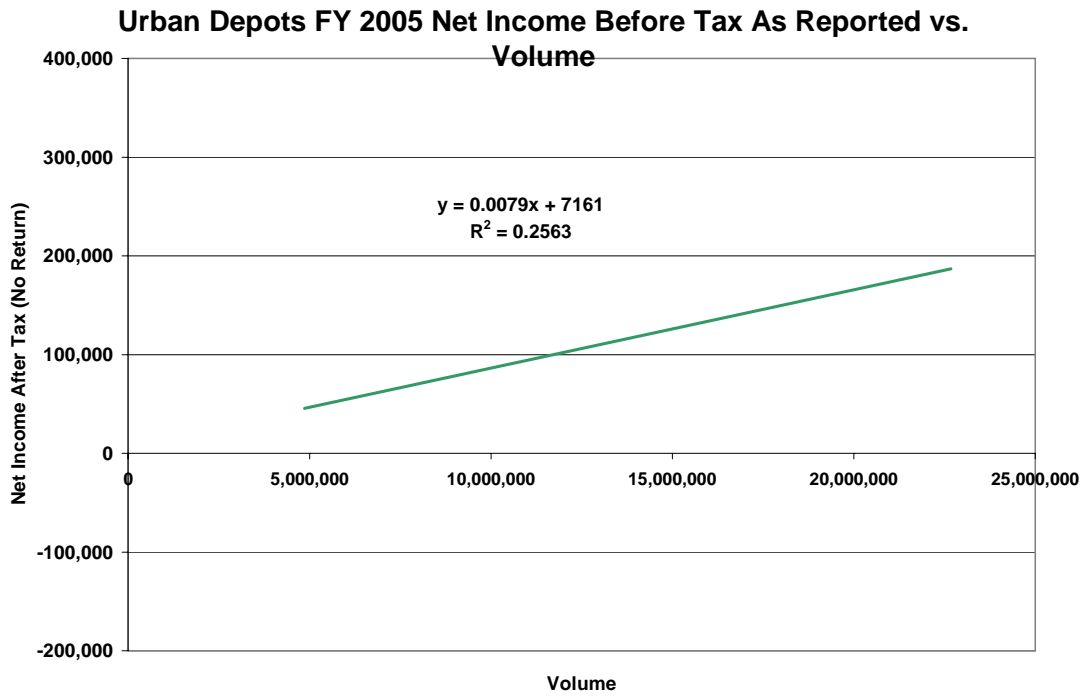


d) Please see the six charts below showing the cumulative impacts of cases ii to ix.

Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)



Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)





Information Request Response #1 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

---

