**Information Request Response #2 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)**

## HCRP-DCA-2006-26

**Reference:** Cost Adjustments

HCRP–DCA–2006-7

**Request:** Please show **the amount of the adjustments.** Please be specific as to what portion is due to hours or rate changes, etc. We envision this as a stand alone table that reconciles from the as reported to the as adjusted figures. We also request that the cross-references be included in the table for background purposes.

**Response:** Please see attached table that provides a summary of the adjustment made by combining Schedules 1, 4c, 4d & 5a and the response to HCRP–DCA–2006-7. Pages 1-2 show As Reported to As Adjusted adjustments, pages 3-4 As Adjusted to Cal 2006 Study System escalations and page 5 Cal 2006 Study System to Cal 2006 Total System escalations. Please note that page 5 reflects changes as noted in CNB-DCA-2006-13 and Doc 10-048.

## HCRP-DCA-2006-26 Summary Table - As Reported to As Adjusted

| | | 2005 Fiscal Year as Reported | Small Depots Adjustments | | Large Depots Adjustments | | Comments | 2005 Fiscal Year as Adjusted |
|---|---|---|---|---|---|---|---|---|
| | | ($) | (hours, containers or SF) | ($) | (hours, containers or SF) | ($) | | $ |
| | | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
| 1 | Volume | *1,079,178,439* | *6,663,326* | | *20,146,878* | | *Schedule 9 - Escalate for Stub Fiscal Years* | *1,105,988,642* |
| | | *100.0%* | *0.6%* | | *1.9%* | | | *102.5%* |
| | **Revenue** | | | | | | | |
| 3 | Revenue | $126,126,279 | | $772,462 | | $2,379,274 | Schedule 9 - Escalate for Stub Fiscal Years | $129,278,014 |
| | | 100.0% | | 0.6% | | 1.9% | | 102.5% |
| 4 | Less Purchases | $82,983,136 | | $512,592 | | $1,585,894 | Schedule 9 - Escalate for Stub Fiscal Years | $85,081,622 |
| | | 100.0% | | 0.6% | | 1.9% | | 102.5% |
| 5 | Gross Margin (HC) | $43,143,142 | | $259,871 | | $793,380 | line 3 - line 4 | $44,196,393 |
| | | 100.0% | | 0.6% | | 1.8% | | 102.4% |
| 6 | Misc Revenue | $392,967 | | $36,785 | | $305,276 | Schedule 9 - Add VAF & Escalate for Stub Fiscal Years | $735,028 |
| | | 100.0% | | 9.4% | | 77.7% | | 187.0% |
| 7 | Total Margin | $43,536,110 | | $296,655 | | $1,098,656 | line 5 + line 6 | $44,931,421 |
| | | 100.0% | | 0.7% | | 2.5% | | 103.2% |
| | **Expenses** | | | | | | | |
| 8 | Direct Labour *Hours* | *1,181,153* | *153,053* | | *1,028,100* | | Schedule 2 shows the adjustments to Direct Labour. Schedule 4-c provides a reconciliation of the Direct Labour adjustments | *1,492,961* |
| | | *100.0%* | *13.0%* | | *87.0%* | | As Reported hours and costs, section 4.4.1, p. 36-37 | *126.4%* |
| | Stub Year Adjustment | | 2,023 | $36,419 | 20,154 | $333,779 | Adjustments for Stub Fiscal Years, section 4.4.2, p. 44 | |
| | Contract Labour COL to DL | | 2,129 | $14,705 | 9,121 | $125,032 | Collection related Contract Labour moved to Direct Labour, section 4.5.2, p. 44 | |
| | Stub Year Adjustment* | | - | $0 | - | $0 | Adjustments for Stub Fiscal Years, section 4.5.2, p. 45 | |
| | Contract Labour HND & LHD to DL | | 24,533 | $229,935 | 88,854 | $1,128,159 | Direct Labour related Contract Labour moved to Direct Labour, section 4.5.2, p. 44 | |
| | Stub Year Adjustment | | 231 | $1,686 | 2,633 | $25,902 | Adjustments for Stub Fiscal Years, section 4.5.2, p. 44 | |
| | Overhead COL / DRV to DL | | 310 | $0 | 3,228 | $40,774 | Direct Labour related Collection / Driver Overhead Labour moved to Direct Labour, section 4.6.2.1, p. 53 | |
| | Stub Year Adjustment* | | 930 | $0 | - | $0 | Adjustments for Stub Fiscal Years, section 4.6.2.1, p. 53 | |
| | LDH Wage Rate Adjustment | | - | $21,603 | - | $15,464 | Manager Hours allocated to Direct Labour at the Deemed Lead Hand rate of $17.42/h, section 4.6.2.1, p. 55-5 | |
| | Overhead Labour HND & LHD to DL | | 66,224 | $536,716 | 83,329 | $1,248,485 | Direct Labour related Handler & Lead Hand Overhead Labour moved to Direct Labour, section 4.6.2.1, p. 53 | |
| | Stub Year Adjustment | | 5,119 | $55,586 | 2,989 | $37,775 | Adjustments for Stub Fiscal Years, section 4.6.2.1, p. 53 | |
| | LDH Wage Rate Adjustment | | - | $650,654 | - | $217,589 | Manager Hours allocated to Direct Labour at the Deemed Lead Hand rate of $17.42/h, section 4.6.2.1, p. 55-56 | |
| | | $13,940,512 | 101,499 | $1,547,305 | 210,309 | $3,172,958 | As Adjusted hours and costs, section 4.6.3, p. 59 & Schedule 4-a | $18,660,775 |
| | | 100.0% | | 11.1% | | 22.8% | | 133.9% |
| 9 | Contract Labour *Hours* | *127,823* | *29,848* | | *97,975* | | Schedule 3 shows the adjustments to Contact Labour, and section 4.5.1, p. 44-45 presents | *0* |
| | | *100.0%* | *23.4%* | | *76.6%* | | As Reported hours and costs. All Contract Labour hours and costs were moved to Direct | *0.0%* |
| | | $1,523,068 | (29,848) | ($269,878) | (97,975) | ($1,253,191) | Labour and Overhead Labour | $0 |
| | | 100.0% | | -17.7% | | -82.3% | | 0.0% |

## HCRP-DCA-2006-26 Summary Table - As Reported to As Adjusted

| No. | Item | 2005 Fiscal Year as Reported | Small Depots Adjustments | | Large Depots Adjustments | | Comments | 2005 Fiscal Year as Adjusted |
|---|---|---|---|---|---|---|---|---|
| | | ($) | (hours, containers or SF) | ($) | (hours, containers or SF) | ($) | | $ |
| | | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
| 10 | Overhead Labour *Hours* | *458,931* | *156,754* | | *302,177* | | Schedule 4 shows the adjustments to Overhead Labour. Schedule 4-d provides a reconciliation of the Overhead Labour adjustments | *248,541* |
| | | *100.0%* | *34.2%* | | *65.8%* | | | *54.2%* |
| | Stub Year Adjustment | | 8,650 | $88,345 | 9,119 | $125,549 | Adjustments for Stub Fiscal Years | |
| | Overhead COL / DRV to DL | | (310) | $0 | (3,228) | ($40,774) | Collection related Contract Labour moved to Direct Labour, section 4.5.2, p. 44 | |
| | Stub Year Adjustment* | | (930) | $0 | 0 | $0 | Adjustments for Stub Fiscal Years, section 4.5.2, p. 45 | |
| | Overhead Labour HND & LHD to DL | | (66,224) | ($536,716) | (83,329) | ($1,248,485) | Direct Labour related Contract Labour moved to Direct Labour, section 4.5.2, p. 44 | |
| | Stub Year Adjustment | | (5,119) | ($55,586) | (2,989) | ($37,775) | Adjustments for Stub Fiscal Years, section 4.5.2, p. 44 | |
| | MGR Wage Rate Adjustment | | 0 | $739,691 | (66,027) | ($1,427,471) | Manager Hours rate adjusted to Deemed Manager rate of $26.56/h, section 4.6.2.1, p. 57-58 | |
| | BK Wage Rate Adjustment | | 0 | $132,483 | 0 | ($42,107) | Manager Hours rate adjusted to Deemed Lead Hand rate of $17.42/h, section 4.6.2.1, p. 55-56 | |
| | | $7,828,449 | (63,934) | $368,216 | (146,455) | ($2,671,063) | As Adjusted hours and costs, section 4.6.3, p. 59 & Schedule 4-a | $5,525,602 |
| | | 100.0% | | 4.7% | | -34.1% | | 70.6% |
| 11 | Labour Subtotal | $23,292,029 | 7,717 | $1,645,643 | (34,121) | ($751,295) | line 8 + line 9 + line 10 | $24,186,377 |
| | | 100.0% | | 7.1% | | -3.2% | | 103.8% |
| 12 | Building *SF* | *637,006* | *(18,858)* | | *(84,525)* | | Schedule 5 shows the adjustments to Buildings costs. Schedule 5-a provides a reconciliation of the Building cost adjustments | *533,623* |
| | | *100.0%* | *-3.0%* | | *-13.3%* | | | *83.8%* |
| | Lease Payments | | | $1,195,743 | | $272,525 | Deemed lease rate applied to deemed square footage for all Depots, section 4.7.4.4, p. 74-77 & section 4.7.4.5, p. 77-80 | |
| | Building CCA | | | ($155,912) | | ($320,966) | Reported Building CCA removed as all Buildings deemed to be leased rather than owned, section 4.7.4.4, p. 74-77 | |
| | Use Costs incl. Mortgage Interest | | | ($316,127) | | ($624,436) | 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 | |
| | Utilities | | | $4,230 | | ($69,172) | 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 | |
| | Leasehold CCA | | | ($1,456) | | ($24,587) | Reported Leasehold CCA removed as all Buildings deemed to be leased rather than owned, section 4.7.4.4, p. 74-77 | |
| | | $5,716,426 | | $726,477 | | ($766,637) | As Adjusted | $5,676,267 |
| | | 100.0% | | 12.7% | | -13.4% | | 99.3% |
| 13 | Equipment | $2,361,150 | | $22,950 | | $34,138 | Schedule 6 - Escalate for Stub Fiscal Years | $2,418,238 |
| | | 100.0% | | 1.0% | | 1.4% | | 102.4% |
| 14 | Overhead (Ex-Collections) | $3,792,014 | | | | | Schedule 7 shows the adjustments to Overhead Costs, and section 4.9.1, p. 87-88 | $4,001,025 |
| 15 | Collections | $1,088,695 | | | | | | $1,106,839 |
| | ABDA & BCMB Fees | | | $38,656 | | $79,609 | ABDA & BCMB Fees were adjusted based on Manufacturer data, section 4.9.2.1, p. 91-92 | |
| | Charitable Donations | | | ($9,303) | | ($34,522) | Charity costs were removed, section 4.9.2.2, p. 9 | |
| | Stub Fiscal Years | | | $43,397 | | $109,318 | Stub Fiscal Years, section 4.9.2.5, p. 92 | |
| | | $4,880,709 | | $72,750 | | $154,405 | | $5,107,864 |
| | | 100.0% | | 1.5% | | 3.2% | | 104.7% |
| 16 | **Total Operating Expenses** | $36,250,314 | | $2,467,820 | | ($1,329,389) | sum lines 11 to 15 | $37,388,745 |
| | | 100.0% | | 6.8% | | -3.7% | | 103.1% |
| 17 | **Earnings before taxes** | $7,285,796 | | ($2,171,165) | | $2,428,045 | line 7 - line 16 | $7,542,676 |
| | | 100.0% | | -29.8% | | 33.3% | | 103.5% |
| 18 | **Income Taxes** **(By Depot)** | **$2,203,240** | | **($253,253)** | | **$717,206** | **Schedule 9 - calculated by Depot** | **$2,667,193** |
| | | 100.0% | | -11.5% | | 32.6% | | 121.1% |
| 19 | **Net Income** | $5,082,556 | | ($1,917,912) | | $1,710,838 | line 17 - line 18 | $4,875,483 |
| | | 100.0% | | -37.7% | | 33.7% | | 95.9% |

# HCRP-DCA-2006-26 Summary Table - As Adjusted to Cal 2006 Study System

| | | | 2005 Fiscal Year as Adjusted | Small Depots Escalations | | Large Depots Escalations | | Comments | Cal 2006 Study System Forecast |
|---|---|---|---|---|---|---|---|---|---|
| | | | $ | (hours, containers or SF) | ($) | (hours, containers or SF) | ($) | | $ |
| | | | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
| 1 | Volume | | *1,105,988,642* | *19,715,741* | | *77,162,689* | | *Schedule 9 - Growth in Study System* | *1,202,867,072* |
| | | | 100.0% | 1.8% | | 7.0% | | | 108.8% |
| | **Revenue** | | | | | | | | |
| 3 | Revenue | | $129,278,014 | | $2,282,499 | | $8,533,270 | Schedule 9 - Growth in Study System | $140,093,784 |
| | | | 100.0% | | 1.8% | | 6.6% | | 108.4% |
| 4 | Less Purchases | | $85,081,622 | | $1,398,251 | | $4,861,881 | Schedule 9 - Growth in Study System | $91,341,755 |
| | | | 100.0% | | 1.6% | | 5.7% | | 107.4% |
| 5 | Gross Margin (HC) | | $44,196,393 | | $884,248 | | $3,671,389 | line 3 - line 4 | $48,752,029 |
| | | | 100.0% | | 2.0% | | 8.3% | | 110.3% |
| 6 | Misc Revenue | | $735,028 | | $41,122 | | $35,180 | Schedule 9 - Growth in Study System | $811,330 |
| | | | 100.0% | | 5.6% | | 4.8% | | 110.4% |
| 7 | Total Margin | | $44,931,421 | | $925,370 | | $3,706,568 | line 5 + line 6 | $49,563,359 |
| | | | 100.0% | | 2.1% | | 8.2% | | 110.3% |
| | **Expenses** | | | | | | | | |
| 8 | Direct Labour | *Hours* | *1,492,961* | *29,880* | | *103,524* | | Schedule 2 shows the adjustments to Direct Labour. Section 6.4 shows hours and cost escalations | 1626365.229 |
| | | | 100.0% | 2.0% | | 6.9% | | | 108.9% |
| | | | $18,660,775 | | $769,729 | | $3,240,653 | | $22,671,157 |
| | | | 100.0% | | 4.1% | | 17.4% | | 121.5% |
| 9 | Contract Labour | | $0 | | | | | No hours or costs to escalate | |
| 10 | Overhead Labour | *Hours* | *248,541* | - | | - | | Schedule 4 shows the adjustments to Direct Labour. Section 6.6 shows cost escalations | 248,541 |
| | | | 100.0% | 0.0% | | 0.0% | | | 100.0% |
| | | | $5,525,602 | | $151,908 | | $441,312 | | $6,118,822 |
| | | | 100.0% | | 2.7% | | 8.0% | | 110.7% |
| 11 | Labour Subtotal | | $24,186,377 | 29,880 | $921,637 | 103,524 | $3,681,964 | line 8 + line 9 + line 10 | $28,789,978 |
| | | | 100.0% | | 3.8% | | 15.2% | | 119.0% |
| 12 | Building | *SF* | *533,623* | - | | - | | Schedule 5 shows the adjustments to Direct Labour. Section 6.7 shows cost escalations | *533,623* |
| | | | 100.0% | 0.0% | | 0.0% | | | 100.0% |
| | Lease Payments | | | | $709,378 | | $874,109 | Section 6.7.1 | |
| | Use Costs | | | | $7,613 | | $24,846 | Section 6.7.2 | |
| | Utilities | | | | $11,588 | | $23,817 | Section 6.7.3 | |
| | | | $5,676,267 | | $728,578 | | $922,772 | As Adjusted | $7,327,617 |
| | | | 100.0% | | 12.8% | | 16.3% | | 129.1% |
| 13 | Equipment | | | | | | | Schedule 6 shows the adjustments to Equipment. Section 6.8 shows cost escalations | |
| | Equipment Capital | | | | $6,477 | | ($8,725) | | |
| | Equipment Operating | | | | $909 | | $5,745 | | |
| | Vehicle Capital | | | | $3,208 | | ($11,379) | | |
| | Vehicle Operating | | | | $28,187 | | $74,792 | | |
| | Vehicle Lease Payments | | | | $593 | | $683 | | |
| | | | $2,418,238 | | $39,374 | | $61,116 | | $2,518,727 |
| | | | 100.0% | | 1.6% | | 2.5% | | 104.2% |

## HCRP-DCA-2006-26 Summary Table - As Adjusted to Cal 2006 Study System

| | | 2005 Fiscal Year as Adjusted | Small Depots Escalations | | Large Depots Escalations | | Comments | Cal 2006 Study System Forecast |
|---|---|---|---|---|---|---|---|---|
| | | $ | (hours, containers or SF) | ($) | (hours, containers or SF) | ($) | | $ |
| | | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
| 14 | Overhead (Ex-Collections) | $4,001,025 | | | | | Schedule 7 shows the adjustments to Overhead Costs. Section 6.9 shows cost escalations. | |
| 15 | Collections | $1,106,839 | | | | | | |
| | Overhead Office | | | $6,837 | | $32,156 | Section 6.9.1 | |
| | ABDA & BCMB Fees | | | $11,267 | | $41,633 | Section 6.9.2 | |
| | Overhead - Other | | | $4,919 | | $35,218 | Section 6.9.3 | |
| | Overhead - Table 9 | | | $3,838 | | $86,980 | Section 6.9.3 | |
| | | $5,107,864 | | $26,860 | | $195,987 | | $5,330,711 |
| | | 100.0% | | 0.5% | | 3.8% | | 104.4% |
| 16 | **Total Operating Expenses** | $37,388,745 | | $1,716,450 | | $4,861,839 | sum lines 11 to 15 | $43,967,034 |
| | | 100.0% | | 4.6% | | 13.0% | | 117.6% |
| 17 | **Earnings before taxes** | $7,542,676 | | ($791,080) | | ($1,155,271) | line 7 - line 16 | $5,596,325 |
| | | 100.0% | | -10.5% | | -15.3% | | 74.2% |
| 18 | **Income Taxes** **(By Depot)** | **$2,667,193** | | **($15,657)** | | **($169,820)** | **Schedule 9 - calculated by Depot** | **$2,481,716** |
| | | 100.0% | | -0.6% | | -6.4% | | 93.0% |
| 19 | **Net Income** | $4,875,483 | | ($775,422) | | ($985,452) | line 17 - line 18 | $3,114,609 |
| | | 100.0% | | -15.9% | | -20.2% | | 63.9% |

# HCRP-DCA-2006-26 Summary Table - Cal 2006 Study System to Cal 2006 Total System

| | | Cal 2006 Study System Forecast | Schedule 13 Escalations | Comments | Cal 2006 Total System Forecast |
|---|---|---|---|---|---|
| | | $ | $ | | $ |
| | | (a) | (b) | (c) | (d) |
| 1 | Volume | *1,202,867,072*<br>100.0% | *226,086,226*<br>18.8% | *Schedule 9 - Escualte Study System to Total System* | *1,428,953,298*<br>118.8% |
| | **Revenue** | | | | |
| 3 | Revenue | $140,093,784<br>100.0% | $26,537,780<br>18.9% | Schedule 9 - Escualte Study System to Total System | $166,631,564<br>118.9% |
| 4 | Less Purchases | $91,341,755<br>100.0% | $17,509,729<br>19.2% | Schedule 9 - Escualte Study System to Total System | $108,851,483<br>119.2% |
| 5 | Gross Margin (HC) | $48,752,029<br>100.0% | $9,028,051<br>18.5% | line 3 - line 4 | $57,780,080<br>118.5% |
| 6 | Misc Revenue | $811,330<br>100.0% | $211,017<br>26.0% | Scehedule 13 | $1,022,347<br>126.0% |
| 7 | Total Margin | $49,563,359<br>100.0% | $9,239,068<br>18.6% | line 5 + line 6 | $58,802,427<br>118.6% |
| | **Expenses** | | | | |
| 8 | Direct Labour | $22,671,157<br>100.0% | $4,303,607<br>19.0% | Scehedule 13 | $26,974,764<br>119.0% |
| 9 | Contract Labour | $0 | | No hours or costs to escalate | $0 |
| 10 | Overhead Labour | $6,118,822<br>100.0% | $1,411,285<br>23.1% | Scehedule 13 | $7,530,107<br>123.1% |
| 11 | Labour Subtotal | $28,789,978<br>100.0% | $5,714,892<br>19.9% | line 8 + line 9 + line 10 | $34,504,871<br>119.9% |
| 12 | Building | $7,327,617<br>100.0% | $1,763,262<br>24.1% | Scehedule 13 | $9,090,879<br>124.1% |
| 13 | Equipment | $2,518,727<br>100.0% | $625,099<br>24.8% | Scehedule 13 | $3,143,853<br>124.8% |
| 14 | Overhead (Ex-Collections) | $5,330,711 | $1,112,096 | Scehedule 13 | $6,442,808 |
| 15 | Collections | 100.0% | 20.9% | | 120.9% |
| 16 | **Total Operating Expenses** | $43,967,034<br>100.0% | $9,215,350<br>21.0% | sum lines 11 to 15 | $53,182,410<br>121.0% |
| 17 | **Earnings before taxes** | $5,596,325<br>100.0% | $23,719<br>0.4% | line 7 - line 16 | $5,620,017<br>100.4% |
| 18 | **Income Taxes** **(By Depot)** | **$2,481,716**<br>100.0% | $336,656<br>13.6% | **Schedule 9 - calculated by Depot** | **$2,818,372**<br>113.6% |
| 19 | **Net Income** | $3,114,609<br>100.0% | ($312,938)<br>-10.0% | line 17 - line 18 | $2,801,645<br>90.0% |

## HCRP-DCA-2006-27

**Reference:** Labour

- HCRP-DCA-2006-11
- 2006 Phase I, Revision 1 page 57, line 22

**Request:**

a) Please provide the information in table format with the following column headings by cluster, showing the amounts:
- Owner hours
- Manager hours
- Sum of owner and manager hours
- Annual hours of operation
- Ratio of owner & manager hours/annual hours of operation

b) In the chart on page 29 in response to HCRP - DCA – 06 – 11, the Owner and Manager Hours As Reported per Depot for small depots are higher than the Owner and Manager Hours As Adjusted per Depot for small Depots. Was a maximum number of hours set for owner and manager hours for small Depots as well as large Depots?

**Response:**

a) See table below. A chart comparing the As Reported and As Adjusted Ratio of owner & manager hours/annual hours of operation statistics is also provided.

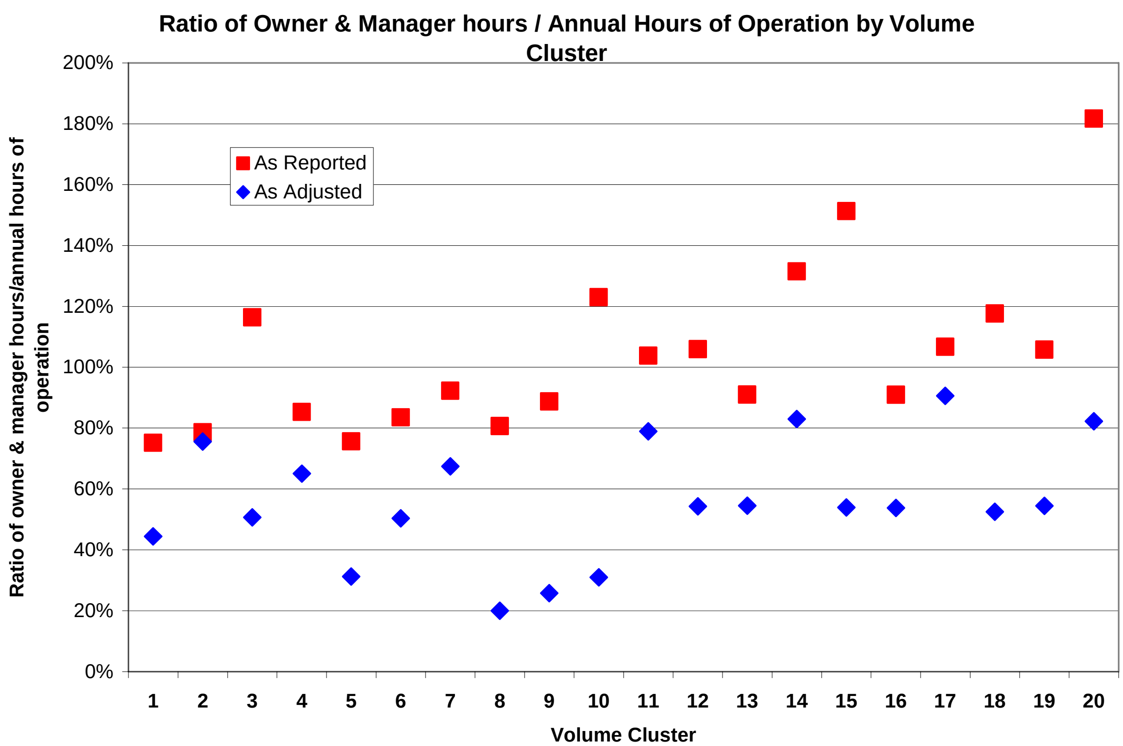
**As Reported:**

| Volume Cluster | Number Depots in Cluster | Owner Hours As Reported | Owner Hours As Reported Per Depot | Manager Hours As Reported | Manager Hours As Reported Per Depot | Owner & Manger Hours As Reported | Chart Values<br>Owner & Manger Hours As Reported Per Depot | Annual Hours of Operation | Annual Hours of Operation per Depot | Ratio of owner & manager hours/annual hours of operation |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 8 | 7,544 | 943 | - | - | 7,544 | 943 | 10,031 | 1,254 | 75.2% |
| 2 | 8 | 10,014 | 1,252 | - | - | 10,014 | 1,252 | 12,736 | 1,592 | 78.6% |
| 3 | 8 | 12,815 | 1,602 | - | - | 12,815 | 1,602 | 11,010 | 1,376 | 116.4% |
| 4 | 9 | 9,597 | 1,066 | 936 | 104 | 10,533 | 1,170 | 12,340 | 1,371 | 85.4% |
| 5 | 8 | 7,320 | 915 | 1,182 | 148 | 8,502 | 1,063 | 11,234 | 1,404 | 75.7% |
| 6 | 8 | 8,261 | 1,033 | 260 | 33 | 8,521 | 1,065 | 10,198 | 1,275 | 83.6% |
| 7 | 8 | 8,878 | 1,110 | 1,768 | 221 | 10,646 | 1,331 | 11,536 | 1,442 | 92.3% |
| 8 | 9 | 11,897 | 1,322 | - | - | 11,897 | 1,322 | 14,741 | 1,638 | 80.7% |
| 9 | 8 | 19,503 | 2,438 | - | - | 19,503 | 2,438 | 21,966 | 2,746 | 88.8% |
| 10 | 8 | 21,133 | 2,642 | 2,652 | 332 | 23,785 | 2,973 | 19,330 | 2,416 | 123.0% |
| 11 | 8 | 13,033 | 1,629 | 3,602 | 450 | 16,635 | 2,079 | 16,024 | 2,003 | 103.8% |
| 12 | 9 | 16,116 | 1,791 | 6,775 | 753 | 22,891 | 2,543 | 21,605 | 2,401 | 106.0% |
| 13 | 8 | 13,200 | 1,650 | 3,340 | 418 | 16,540 | 2,068 | 18,170 | 2,271 | 91.0% |
| 14 | 8 | 23,633 | 2,954 | 2,813 | 352 | 26,446 | 3,306 | 20,108 | 2,514 | 131.5% |
| 15 | 8 | 35,343 | 4,418 | 4,419 | 552 | 39,762 | 4,970 | 26,284 | 3,286 | 151.3% |
| 16 | 9 | 21,843 | 2,427 | 2,888 | 321 | 24,731 | 2,748 | 27,189 | 3,021 | 91.0% |
| 17 | 8 | 18,009 | 2,251 | 7,490 | 936 | 25,499 | 3,187 | 23,897 | 2,987 | 106.7% |
| 18 | 8 | 18,206 | 2,276 | 10,478 | 1,310 | 28,684 | 3,586 | 24,381 | 3,048 | 117.6% |
| 19 | 8 | 12,716 | 1,590 | 14,136 | 1,767 | 26,852 | 3,357 | 25,383 | 3,173 | 105.8% |
| 20 | 9 | 34,075 | 3,786 | 15,297 | 1,700 | 49,372 | 5,486 | 27,165 | 3,018 | 181.7% |
| | 165 | 323,136 | | 78,036 | | 401,172 | | 365,328 | | |

## Information Request Response #2 to Desiderata Energy Consulting Inc. (DCA) from the Handling Commission Review Panel (HCRP)

**As Adjusted:**

| Volume Cluster | Number Depots in Cluster | Owner Hours As Adjusted | Owner Hours As Adjusted Per Depot | Manager Hours As Adjusted | Manager Hours As Adjusted Per Depot | Owner & Manger Hours As Adjusted | Chart Values<br>Owner & Manger Hours As Adjusted Per Depot | Annual Hours of Operation | Annual Hours of Operation per Depot | Ratio of owner & manager hours/annual hours of operation |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 8 | | - | 4,461 | 558 | 4,461 | 558 | 10,031 | 1,254 | 44.5% |
| 2 | 8 | | - | 9,626 | 1,203 | 9,626 | 1,203 | 12,736 | 1,592 | 75.6% |
| 3 | 8 | | - | 5,583 | 698 | 5,583 | 698 | 11,010 | 1,376 | 50.7% |
| 4 | 9 | | - | 8,024 | 892 | 8,024 | 892 | 12,340 | 1,371 | 65.0% |
| 5 | 8 | | - | 3,510 | 439 | 3,510 | 439 | 11,234 | 1,404 | 31.2% |
| 6 | 8 | | - | 5,136 | 642 | 5,136 | 642 | 10,198 | 1,275 | 50.4% |
| 7 | 8 | | - | 7,777 | 972 | 7,777 | 972 | 11,536 | 1,442 | 67.4% |
| 8 | 9 | | - | 2,948 | 328 | 2,948 | 328 | 14,741 | 1,638 | 20.0% |
| 9 | 8 | | - | 5,657 | 707 | 5,657 | 707 | 21,966 | 2,746 | 25.8% |
| 10 | 8 | | - | 5,992 | 749 | 5,992 | 749 | 19,330 | 2,416 | 31.0% |
| 11 | 8 | | - | 12,650 | 1,581 | 12,650 | 1,581 | 16,024 | 2,003 | 78.9% |
| 12 | 9 | | - | 11,732 | 1,304 | 11,732 | 1,304 | 21,605 | 2,401 | 54.3% |
| 13 | 8 | | - | 9,901 | 1,238 | 9,901 | 1,238 | 18,170 | 2,271 | 54.5% |
| 14 | 8 | | - | 16,691 | 2,086 | 16,691 | 2,086 | 20,108 | 2,514 | 83.0% |
| 15 | 8 | | - | 14,181 | 1,773 | 14,181 | 1,773 | 26,284 | 3,286 | 54.0% |
| 16 | 9 | | - | 14,617 | 1,624 | 14,617 | 1,624 | 27,189 | 3,021 | 53.8% |
| 17 | 8 | | - | 21,650 | 2,706 | 21,650 | 2,706 | 23,897 | 2,987 | 90.6% |
| 18 | 8 | | - | 12,809 | 1,601 | 12,809 | 1,601 | 24,381 | 3,048 | 52.5% |
| 19 | 8 | | - | 13,823 | 1,728 | 13,823 | 1,728 | 25,383 | 3,173 | 54.5% |
| 20 | 9 | | - | 22,345 | 2,483 | 22,345 | 2,483 | 27,165 | 3,018 | 82.3% |
| | 165 | - | | 209,114 | | 209,114 | | 365,328 | | |




b) No, the number of As Reported hours for Small Depot Owners and Managers was not adjusted – As Reported hours were accepted as filed. However, all Owner hours were allocated to Manager, Lead

Hand, Handler, Bookkeeper or Driver based on the information provided in Table 4-a of the 2005 UCA. Then, the As Reported Overhead Labour hours related to Direct Labour were allocated from Overhead Labour to Direct Labour. The final step was to limit Large Depot Manager hours to the annual hours of operation. These allocations reduced the number of Owner plus Manger hours As Reported for all Depots.

See Schedule 4-d, line 3 to 7, columns (a) to (f) and 2006 Phase I Report Rev 1 pages 53 to 59.

## HCRP-DCA-2006-28

**Reference:** Deemed Building Costs

- HCRP-DCA-2006-14
- 2006 Phase I, Revision 1 page 169 lines 18 to 21
- HCRP-DCA-2006-21(a)(v)

**Request:**

a) The purpose of the original IR was to determine how lease costs could be weighted to take into account the possibility that leases are not on a year to year basis. If all depots had five year leases, they likely would have commenced in various years inclusive of 2002 to 2006. Using real estate indices or other methods please determine a weighted average deemed cost assuming

- 1/5 of the space was leased in each of the five years preceding 2006, and
- 1/5 of the space was leased in each year from 2004 to 2008.

b) Please explain how you have taken into account the observation that the " …lease rates provided to LePage are likely higher than the actual costs a Depot would pay… may accommodate a longer-term at a lower rate".

c) With respect to manufacturer pickups and timing related thereto, we understand there are standard form operating agreements between the Depots and each of BDL and/or CNB and ABCRC. Please provide copies of these standard form agreements.

**Response:**

a) The DCA discussed with LePage the availability of a real estate or some other industry related index that may provide an indication of market price changes over time. For some markets, like downtown office space, individual firms publish statistics for their customers. However, the statistics in these publications would not provide a good indication of the change in prices for small warehouse type space that may be utilized by Depots.

In addition, building location can have a material impact on lease rates, as noted in HCRP-ABDA-2006-10 b).[1] Lease rates can vary significantly from a Depot located next to a residential area compared to a similar building located in an industrial park.

LePage noted that over the last 24 months market lease rates have

[1] Doc 10-031, p. 13-14

increased considerably and vacancy rates are nominal.

An added complication is that Depots are not only located within different markets within metropolitan areas, they are also located across numerous geographic markets. LePage suggested that the only way to obtain a true indication of market prices changes over time would be to conduct location specific surveys for each time period (similar to the summer 2004 and summer 2005 LePage surveys).

The DCA was unable find a Statistic Canada index for lease rates related to warehouse type buildings (or any building lease rates). The DCA did find an index that relates to the non-residential cost of building construction, specific to commercial buildings in Edmonton and Calgary.[2] If one assumes that market lease rates are proportional to the selling price of new commercial buildings, then this index could be used to estimate the change in lease rates over time and to provide a forecast.

The Statistic Canada indices from January 2002 to December 2006 shows a strong correlation to a polynomial equation with two degrees of freedom using least squares regression:

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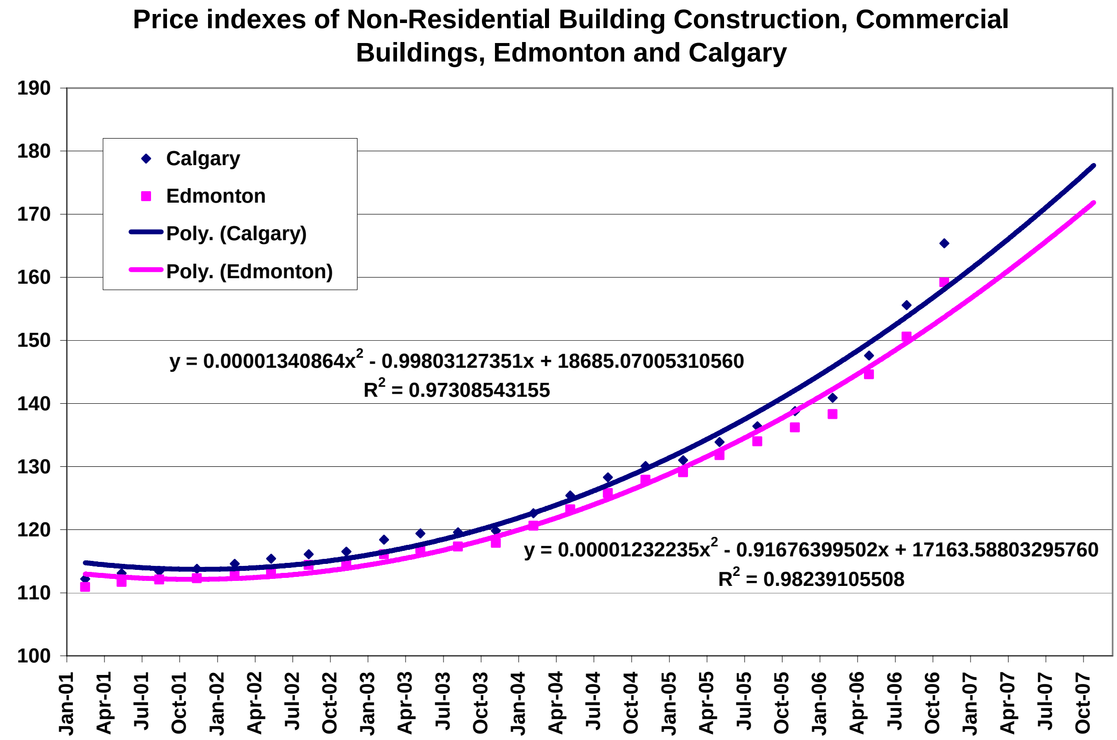
[2] Table 327-0039, Price indexes of non-residential building construction, by class of structure, quarterly (index, 1997=100)

Footnotes1. These price indexes measure changes in contractors' selling prices of new non-residential building construction by class of structure (commercial, industrial, institutional), 1997=100, quarterly data, for six census metropolitan areas (CMA) and the Ontario part of the Ottawa-Gatineau CMA and a composite of these seven census metropolitan areas. The indexes are derived from surveys of both general and specialised sub-trade contractors and **exclude the cost of land, design and real estate fees**. The pricing date is the 15th day of the middle month of each quarter. Data for periods prior to 2002 were calculated by linking 1992=100 data (CANSIM table 327-0001) to the four quarter 1997 average. For more information, contact the Prices Division Client Services Unit (613) 951-9606, infounit@statcan.ca. (Emphasis added)

2. Additional non-residential building construction price indexes are available in CANSIM table 327-0040. Non-residential building construction price index historical data are available for the period from 1972 to 1980 for Montreal, Ottawa, Toronto and Vancouver. Contact the Prices Division Client Services Unit, Telephone: (613) 951-9606, infounit@statcan.ca.

3. Prior to the introduction of value added taxes all applicable Federal and Provincial sales taxes are included in the indexes. On January 1, 1991, the Federal Sales Tax (FST) was replaced by a value-added tax, the Goods and Services Tax (GST) which is not included in the indexes. On July 1, 1992, the Quebec Provincial Sales Tax was replaced by a value added tax, the Quebec Sales Tax (QST) which is not included in the indexes. On April 1, 1997, the Nova Scotia Provincial Sales Tax was replaced by a value added tax, the Harmonised Sales Tax (HST) which is not included in the indexes. Provincial Sales Taxes continue to be included for the provinces of Ontario and British Columbia.




Using these regression equations, an index for Calgary, Edmonton and the average of the two was derived for the mid-year of 2002 to 2008. These indices were then used to derive annual average lease rates based on the summer 2005 LePage average lease rate of $7.27/SF and summer 2006 LePage average lease rate of $10.24/SF. These derived lease rates based on the indices were also averaged to provide an average lease rate of $7.82 assuming one fifth of the buildings were leased each year from 2002 to 2006 and of $9.34/SF assuming one fifth of the buildings were leased each year from 2004 to 2008.

| | Indices | | | Deemed Lease Rates ($/SF) | | |
|---|---|---|---|---|---|---|
| | Calgary | Edmonton | Average | Summer 2005 | Summer 2006 | Average |
| 1-Jul-02 | 114.4 | 112.8 | 113.6 | $6.09 | $7.77 | $6.93 |
| 1-Jul-03 | 118.3 | 116.6 | 117.5 | $6.30 | $8.03 | $7.17 |
| 1-Jul-04 | 125.9 | 123.7 | 124.8 | $6.69 | $8.54 | $7.62 |
| 1-Jul-05 | 137.0 | 134.1 | 135.5 | **$7.27** | $9.27 | $8.27 |
| 1-Jul-06 | 151.7 | 147.7 | 149.7 | $8.03 | **$10.24** | $9.13 |
| 1-Jul-07 | 170.0 | 164.6 | 167.3 | $8.97 | $11.44 | $10.21 |
| 1-Jul-08 | 191.9 | 184.9 | 188.4 | $10.10 | $12.89 | $11.50 |
| | | Average 2002 to 2006 | | $6.88 | $8.77 | $7.82 |
| | | Average 2004 to 2008 | | $8.21 | $10.48 | $9.34 |

The significant increase in lease rates observed from the summer 2005 to the summer 2006 LePage surveys is not fully reflected in the notional increase in the selling price of commercial buildings. The DCA is of the view that as demand for commercial building space increases, market lease rates could increase faster than the cost to construct new buildings.

LePage cautioned the DCA that this approach is not always correct as replacement costs do not always correlate to market lease rates. LePage noted that the Statistics Canada Indices reflect selling prices, which exclude the significant increase in the land cost component over the . Therefore, the above analysis understates the increases in lease rates as noted in the LePage surveys.

b) The DCA has not taken into account the observation that the " …lease rates provided to LePage are likely higher than the actual costs a Depot would pay… may accommodate a longer-term at a lower rate". The DCA is of the view that all of the Building related determinations in aggregate meet the opposing objectives of least cost to customers and provision of a fair return to Depot owners in an appropriate manner.

c) Please see DCA Doc 10-047b and Doc 10-047c. Please note that the BCMB has provided these documents to the DCA in order to respond to this request. This is the first time the DCA has seen these documents. The DCA has not reviewed these documents.

## HCRP-DCA-2006-29

**Reference:** Cash and Shrinkage

- Phase I Report Revision 1, page 88, Table 7-a "Overhead Costs as Reported"
- Schedules 7 and 9 of the UCA

**Request:** Please explain what is included in the account titled "Cash & Shrinkage" in Table 9, distinguishing it from account 762 "Shrinkage" (damaged containers not returned).

**Response:** Some Depots track shrinkage as a separate cost item in their financial system and report as a separate expense item on their financial statements. These values were captured on line 762 of the 2005 UCA.

In an effort to obtain additional information of the quantum of cash expenditures and to try and reconcile "cost of good sold" as reported in the Depot's financial systems, the UCA requested that Depots complete Table 9 of the 2005 UCA. Any amounts reported on Table 9, lines 924 to 926 of the 2005 UCA were categorized as "Table 9 Cash and Shrinkage".

## HCRP-DCA-2006-30

**Reference:** Return Margins

- HCRP-DCA-2006-15

**Request:**

a) With respect to response 15 f), intuitively, we consider that a travel agency may be similar to bottle depots in that the tickets and services booked are a pass through cost, with the agency charging a fixed fee or a commission percentage. Please provide information on return margins for travel agencies, or an explanation of why they are not a suitable comparable.

b) With respect to response 15 h) the IR asked whether the statement that "…we are informed that the bottle Depot industry employs primarily unskilled and a somewhat transitory workforce" is inconsistent with the assumptions in choosing labour comparables. Please discuss.

c) With respect to response 15 k), please clarify why there should be a Return on the portion of the Depot business related to refunding of deposits to Consumers, when it is understood (subject to the response to HCRP-DCA-2006-29) that the risk associated with the handling of the deposit has been captured by the shrinkage expenses in the recovery of costs incurred.

**Response:**

a) The DCA received the following from Pacific Economics, Inc.

PEG developed its recommended return margin analysis using Valueline data. Valueline's Investment Survey does not publish any industry-wide information on travel agencies. Two internet-based travel companies, Expedia.com and priceline.com, are included within Valueline's Internet Industry. However, for 2005 and 2006, neither company has a TOR that exceeded 2.0, which was the cut-off PEG used to develop its recommended return margin. Further, neither company is a traditional-type travel agency and Expedia.com was recently acquired by Interactivecorp (see below).
Valueline's Investment Survey consists of 13 Issues, each analyzing certain specific industry or industry segments. Below, we list the 13 Issues and the industries of industry segments covered therein.

1. Issue 1:
    a. Auto and Truck Industry
    b. Tire and Rubber Industry
    c. Home Appliance Industry
    d. Precision Instrument Industry

- e. Electric Utility (East) Industry
- f. Medical Supplies Industry

2. Issue 2
   - a. Air Transport Industry
   - b. Trucking Industry
   - c. Maritime Industry
   - d. Railroad Industry
   - e. Restaurant Industry
   - f. Industrial Services Industry
   - g. Environmental Industry
   - h. Investment Co. (Foreign Funds) Industry
   - i. Information Services Industry
3. Issue 3
   - a. Petroleum (Integrated) Industry
   - b. Canadian Energy Industry
   - c. Natural Gas (Diversified) Industry
   - d. Natural Gas (Distribution) Industry
   - e. Chemical (Specialty) Industry
   - f. Wireless Networking Industry
   - g. Coal Industry
4. Issue 4
   - a. Aerospace/Defense Industry
   - b. Metal Fabricating Industry
   - c. Steel (General) Industry
   - d. Insurance (property/casualty) Industry
   - e. Bank (Midwest) Industry
   - f. Medical Services Industry
   - g. Healthcare Information Services Industry
   - h. Biotechnology Industry
5. Issue 5
   - a. Electric Utility (Central) Industry
   - b. Telecommunications Services Industry
   - c. Telecommunications Equipment Industry
   - d. Foreign Telecommunications Industry
   - e. Pharmacy Services Industry
   - f. Auto Parts Industry

   g. Toiletries/Cosmetics Industry
   h. Cable TV Industry
6. Issue 6
   a. Building Materials Industry
   b. Homebuilding Industry
   c. Retail Building Supply Industry
   d. Cement & Aggregates Industry
   e. Furniture/Home Furnishings Industry
   f. Paper & Forest Products Industry
   g. Packaging & Container Industry
   h. Household Products Industry
   i. Investment Company Industry
   j. Power Industry
7. Issue 7
   a. Electrical Equipment Industry
   b. Electronics Industry
   c. Semiconductor Industry
   d. Semiconductor (Cap. Equip.) Industry
   e. Computer and Peripherals Industry
   f. Office Equipment & Supplies Industry
8. Issue 8
   a. Thrift Industry
   b. Real Estate Investment Trust Industry
   c. Insurance (Life) Industry
   d. Precious Metals Industry
   e. Metals & Mining (Diversified) Industry
   f. Chemical (Basic) Industry
   g. Drug Industry
9. Issue 9
   a. Machinery Industry
   b. Diversified Company Industry
   c. Steel (Integrated Industry
   d. Water Utility Industry
   e. Securities Brokerage Industry
   f. E-Commerce Industry
10. Issue 10

a. Food Processing Industry
b. Grocery Store Industry
c. Food Wholesalers Industry
d. Beverage (Alcoholic) Industry
e. Beverage (Soft Drinks) Industry
f. Manufactured Housing/Recreational Vehicle Industry
g. Foreign Electronics/Entertainment Industry
h. Bank (Canadian) Industry
i. Tobacco Industry
j. Educational Services Industry
k. Entertainment Technology Industry

11. Issue 11
    a. Apparel Industry
    b. Retail Automotive Industry
    c. Retail Store Industry
    d. Shoe Industry
    e. Retail (Special Lines) Industry
    f. Electric Utility (West) Industry
12. Issue 12
    a. Recreation Industry
    b. Entertainment Industry
    c. Hotel/Gaming Industry
    d. Publishing Industry
    e. Newspaper Industry
    f. Advertising Industry
    g. Petroleum (Producing Industry)
    h. Oilfield Services/Equipment Industry
    i. Chemical (Diversified) Industry
    j. Miscellaneous (The Brinks Co.)
13. Issue 13
    a. Bank Industry
    b. Financial Services (Diversified) Industry
    c. Computer Software & Services Industry
    d. Internet Industry

Travel Weekly posts on line its Power List of the top travel agencies in the world. Some are international, some are subsidiaries of diversified companies, and many are privately held and/or represent outsourcing contracts that do not convert to comparable retail sales margins. The top 15 companies are:

1. American Express: this company is covered by Valueline in its Financial Services (Diversified) Industry section and is described as a "payments, network, travel and banking firm." It is not a typical travel agency.
2. Carlson Wagonlit: privately owned (55% by Carlson Companies and 45% by J.P. Morgan Chases) corporation not covered by Valueline;
3. Interactivecorporation: recently acquired Expedia.com, but is not covered by Valueline;
4. World Travel BTI: Dutch company not covered by Valueline
5. TQ3-Navigant: Part of Navigant Consulting and not covered by Valueline
6. Travelocity: is a subsidiary of Sabre Holding and neither Travelocity nor Sabre Holdings are covered by Valueline;
7. Orbitz, LLC: limited liability company not covered by Valueline;
8. AAA Travel: part of the American Automobile Association, a privately-held company that provides insurance, towing services, and travel services. Not covered by Valueline.
9. Cendant Travel: company has operations in real estate, hospitality, travel, and car rentals. not covered by Valueline;
10. Liberty Travel: privately owned and not covered by Valueline.
11. Omega World Travel: privately-owned and not covered by Valueline;
12. priceline.com: internet-based travel agency covered in Valueline's Internet Industry.
13. Total Travel Management: privately owned company that is currently in Chapter 11 Bankruptcy and not covered by Valueline.
14. Sea Gate Travel Group (HRG): privately held company not covered by Valueline
15. Travel and Transport: 100% employee-owned and not covered by Valueline.

The companies that are 16-44 on the weekly list are all privately held travel agencies for which there is no publicly available data that is comparable to the Valueline data PEG used in its analysis.

Consequently, as there is no comparable Valueline data available, the requested analysis of travel agencies cannot be done using a comparable data set.

b) The DCA received the following from Pacific Economics, Inc.

No, PEG does not consider the fact that "the bottle Depot industry employs primarily unskilled and a somewhat transitory workforce" as inconsistent with the assumptions PEG utilized in choosing companies within reasonably similar industries as comparables.

First, the point of identifying reasonably comparable industries and companies to determine the margin that such companies were earning and investors required in order for these companies to remain in business. The assumptions PEG utilized were designed to identify those industries and companies that provided services, rather than selling products purchased at wholesale and sold at retail. The make-up of the bottle Depot's workforce is neither particularly relevant to nor inconsistent with the assumptions PEG utilized in identifying the comparable industries it used in its analysis.

Second, the bottle Depot industry may or may not be somewhat unique with respect to both the services it performs and the personnel it hires to perform many of those services. Regardless, there are simply no data to differentiate or to help determine on a consistent basis if there are any such differences in workforce and if there are industries with identical characteristics of the workforce utilized in the bottle Depot industry. Differences are to be expected, including differences in the makeup of the workforce between the various industries.

Third, the nature of the workforce used by the bottle Depot industry would likely increase the risk faced by the bottle Depot because an unskilled and transitory workforce could create greater problems with theft, shrinkage, breakage, employee turnover, and ongoing training costs when compared to the workforce utilized in the regulated energy service provider business. Other things equal, this would support a higher margin for the bottle Depot industry than PEG recommended for the regulated energy service provider industry.

Thus, PEG does not consider the fact the bottle Depot industry employs primarily unskilled and a somewhat transitory workforce to be inconsistent with the assumptions PEG utilized in choosing labour comparables.

c) The DCA is of the view that the recovery of the cost (and risk) associated with shrinkage is inadequate compensation for Depots providing the legislated requirement of returning deposit to Consumers. We view shrinkage similarly as any other prudently incurred cost that should be included in the revenue requirement. However, the legislated function of returning deposits to Consumers is a relatively low risk proposition and therefore Depots Owners should receive a lower level compensation for the provision of the service.

## HCRP-DCA-2006-31

**Reference:** Direct Labour

2006 Phase I, Revision 1 pages 41, 143, 157, 161, 167

**Request:**

a) Please reconcile the difference in the Direct Labour Seconds per Container for each of Small and Large Depots between pages 41 and 161.

b) The volume increase from the 1,328.35 million in the table below line 10 page 143 to the 1,429.0 million containers reported at line 13 page 157 is approximately 7.7%. Please explain why the hours have increased by 11.7% for small depots and 8.4% for large depots on page 167.

c) Please explain the relationship of the 21.5% compound increase in the table below line 1 to the compound Direct Labour cost increase of 19% at line 7 of page 167.

**Response:**

a) The chart on page 41 shows Direct Labour seconds per container As Reported. The table on page 161 shows average Direct Labour seconds per container As Adjusted. The difference between these values is related to the Direct Labour adjustments made. Please see the following table.

Note that Direct Labour hours increases from adjustments related to moving Handler and Lead Hand related hours from Contract Labour and Overhead Labour to Direct Labour.

| | FY 2005 Volume As Reported | FY 2005 Direct Labour Hours As Reported | Ave. FY 2005 Direct Labour Efficiency (s/container) |
|---|---|---|---|
| Small | 173,983,908 | 153,053 | 3.17 |
| Large | 905,194,530 | 1,028,100 | 4.09 |
| | 1,079,178,439 | 1,181,153 | 3.94 |

| | FY 2005 Volume As Adjusted | FY 2005 Direct Labour Hours As Adjusted | Ave. FY 2005 Direct Labour Efficiency (s/container) |
|---|---|---|---|
| Small | 180,647,234 | 254,552 | 5.07 |
| Large | 925,341,408 | 1,238,409 | 4.82 |
| | 1,105,988,642 | 1,492,961 | 4.86 |

b) The 7.7% increase from Cal 2005 to Cal 2006 is the percent increase for the Total System over 12 months based on volume.

The overall average 8.9% increase for all Depots in the Study System was derived from escalated individual Depot costs from 12 to 23 months (on an average of 15.57 months) from the FY 2005 Study System to Cal 2006.

The increase in Direct Labour costs related to hours was calculated on a per Depot basis based on the volume increase from FY 2005 to Cal 2006 and the number of months from FY 2005 end date to December 31, 2006.

c) The 19% statistic on page 167, line 7 was the value from the 2006 Phase I report Rev 0 that was inadvertently not updated to 21.5% for the 2006 Phase I report Rev 1.

## HCRP-DCA-2006-32

**Reference:** Rate Design

- HCRP-DCA-2006-2 and 23

**Request:** Please comment on the possible use of the median data provided in response to HCRP-DCA-2006-2 in considering a "phantom" typical depot as discussed at HCRP-DCA-2006-23 b).

**Response:** An objective of a rate design could be to determine the level of fixed charges present in a revenue requirement in order to design a rate that would collect the fixed costs from consumers via customer charge or a demand charge.

The DCA used the zero-intercept method as a guide in deriving a level fixed charges for the proposed 2006 Handling Commissions. A minimal system approach could also be used as a guide to derive the level of fixed charges under the premise that a minimum sized Depot is required to provide the required services, and the costs of a minimum sized Depot are fixed costs.

One could use the average of the 5 lowest observations for each cost category as a proxy for the minimum Depot costs required to provide service. The premise could be that that average cost over the five lowest cost Depots in each cost category is a reasonable indication of the costs required for a minimum sized depot. The DCA is of the view that if this approach were taken, the average of the 5 lowest observations would be more appropriate than the median values provided under HCRP-DCA-2006-5 d).

If the average of the 5 lowest observations for each cost category were used as a proxy for fixed costs the following would be the result.

| | As Reported | | | As Adjusted | | |
|---|---|---|---|---|---|---|
| | Rural | Urban | Metro | Rural | Urban | Metro |
| Labour Costs | $0 | $80,036 | $158,746 | $5,654 | $98,880 | $186,650 |
| Building Costs | $1,351 | $24,854 | $24,639 | $5,929 | $29,566 | $38,866 |
| Equipment Costs | $0 | $5,969 | $5,492 | $0 | $6,936 | $6,041 |
| Overhead Costs | $649 | $15,529 | $23,822 | $1,384 | $18,648 | $30,355 |
| | $1,999 | $126,388 | $212,699 | $12,967 | $154,030 | $261,912 |

The DCA notes that the minimal average cost for the Rural Depots is about $13,000 per year As Adjusted, similar to the DCA's recommended fixed cost payment of $12,000 per year for Depots under 500,000 containers per year. Notwithstanding this result, the DCA does not subscribe to the above analysis as a method of determining the quantum of a fixed fee to include in the 2006 Handling Commissions.

## HCRP-DCA-2006-33

**Reference:** Collection Costs

- HCRP-DCA-2006-19 b) footnote 15

**Request:** Please explain the calculation of the $11,000 referenced to Appendix I, Schedule 4, column c, line 2 + line 9. We were unable to reconcile this number.

**Response:** There were errors in the references and values on page 89 of the 2006 Phase I Report Rev 1 (and Rev 0) that was transposed to HCRP-DCA-2006-19 b). The corrected passage (line 7 to 16) is as follows (corrections in **bold blue font**):

> 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,[3] whereas for the 2005 UCA reported costs were only $**140** ~~11~~ thousand.[4] Similarly, in the 2004 UCA process Depots reported collection Overhead Labour costs of $88 thousand[5] (excluding Owners), whereas for the 2005 UCA reported costs were only $41 thousand[6] 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.

The DCA notes that As Reported COL Contract Labour costs for Small Depots increased by a factor of about 3 from 2004 UCAs to 2005 UCAs, whereas, COL Contract Labour costs from Large Depots decreased by about 2.3 times.

The DCA apologises for the confusion caused by the erroneous references.

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[3] 2005 Phase I Report Revision 1, Appendix I, Schedule 3, COL costs of $4,585 (column b, line 1) + $292,064 (column b, line 7) = $296,649

[4] Appendix I, Schedule 3, COL costs of $14,705 (column b, line 1) + $125,032 (column b, line 7) = $139,737

[5] 2005 Phase I Report Revision 1, Appendix I, Schedule 4, DRV costs of $13,071 (column c, line 2) + $75,303 (column c, line 8) = $88,374

[6] Appendix I, Schedule 4, COL costs of $0 (column c, line 2) + $40,774 (column c, line 8) = $40,774

## HCRP-DCA-2006-34

**Reference:** Fixed Costs

- HCRP – DCA – 23 d)
- 2006 Phase II, Revision 1, page 25 lines 2-3HCRP-DCA-2006-15

**Request:** Please explain why BCMB and ABDA fees are treated as fixed costs in HCRP – DCA – 23 d) when they are described as being proportional to volume at page 25 of the Phase II Report

**Response:** The DCA assumed that if there were no volumes (minimum system), the BCMB and the ABDA would still exist to provide services to Depots. The DCA is of the view that the BCMB and ABDA costs are therefore fixed, however, the recovery of these costs from the Depots are based on variable (volume) rates.

## HCRP-DCA-2006-35

**Reference:** Cost Allocators

2006 Phase II, Revision 1, page 10

**Request:** At lines 6 and 7 the Report states: "For lower volume containers that have partially full pallets or bags that take up space in Depots, higher costs should be allocated to them."

Please explain whether this has this been reflected in the cost allocations, and if so, how.

**Response:** The DCA utilized Manufacturer shipping data to determine the number of bags or pallets in each shipment. Where the shipping data suggested that there were not enough containers to fill a bag or pallet, the DCA counted the partially full bag or pallet as one bag or pallet (rounded to up to the next integer).

The partially full pallets or bags were included in the allocators shown on pages 11 and 12 of the 2006 Phase II Report Rev 1. Therefore, the presence of partially full bags or pallets, primarily for the lower volume container streams, were included in the cost allocations.

The DCA notes that in reality small volume container streams, especially for smaller Depots, are shipped in lower volume G3 boxes or one-way bags. However, the DCA is of the view that since the object of the exercise to allocate building costs, the utilization of standard sized bags or pallets, with consideration for partially full bags, is most appropriate. The premise is that several G3 boxes or one-way bags may occupy the same space requirements as one standard bag; however, the space requirements within a Depot are likely similar.

In addition, the DCA does not have data that differentiates between bag sizes as the manufacturer shipping data provided to the DCA is based on container volume, not on the number of shipping containers.

## HCRP-DCA-2006-36

**Reference:** Rate Design

2006 Phase II, Revision 1, pages 44 and 54

**Request:**

a) If the objective of the fixed fee is to address profitability issues of small Depots, please explain:

i. why all Depots are given a fixed fee, and

ii. why small Depots are given a lesser fee

b) At page 54, Section 5.2.6, the monthly payments to depots in BC are discussed. It is observed that these fees reduce as volume increases.

Please discuss the rationale for such a system and whether it would be appropriate in Alberta.

**Response:**

a) The objective of the proposed fixed fee is to primarily address profitability issues of small Depots as our analysis indicates that the Small Depots do not have the opportunity to recover their prudently incurred costs and earn a fair return:

i. All Depots are proposed to contribute to the fixed fee based on volume. The DCA is of the view that rate design principles related to fairness should dictate that all Depots receive the fixed fee.

ii. The DCA is of the view that that rate design principles related to gradualism should dictate that the fixed fee should be increased based on volume for the smallest Depots. In the 2006 Phase II Report Rev 1, pages 39 and 43, the DCA noted that a constant fixed fee per Depot would result in revenue increases of over 100% for the smallest Depots, an amount that the DCA felt would be inappropriate.

b) The DCA considered a rate structure similar to that utilized in B.C. The DCA notes that Depots with volumes up to about 5 million containers per year are on average unprofitable based on a variable only rate design (see chart on page 33 of the 2006 Phase II Report Rev 1).

The application of a constant fixed fee improved profitability for Small Depots, however, there was not a significant difference in profitability between the smallest and the largest Small Depots. In the 2006 Phase II Report Rev 0 the slope of the best fit profitability line was slightly negative (see pages 35 and 42). For the 2006 Phase II Report Rev 1 the results show the slope of the best fit profitability line as slightly positive (see pages 35 and 42). These results suggest that all Small Depots require a fixed fee in order to have an opportunity, on average, to earn a fair return.

The DCA is of the view that the B.C. rate design of reducing the fixed fee to zero for Depots over 1.5 million containers per year would result in larger Small Depots not having the opportunity to earn a fair return.

The proposed 2006 Handling Commissions could have a provision for the fixed fee to reduce to zero at a higher volume, say 7 million containers per year. However, as noted above under response a) i), the DCA is of the view that since all Depots contribute to the fixed fee, all Depots should be entitled to receive the fixed fee. In addition, a fixed fee that increases with volume to some level and then reduces to zero as volume increases further may be an unduly complicated rate design.

## HCRP-DCA-2006-37

**Reference:** Rate Design

- 2006 Phase II, Revision 1, pages 45 and 47
- 2006 Phase I, Revision 1, page 121

**Request:**

a) Please clarify what effect, if any, the capping of the Building costs at 1 cent per container for the small depots has on the large depots.

b) Please discuss whether the capping of building costs at 1 cent per container should also be reflected in the Revenue Requirement.

**Response:**

a) The capping of building costs at 1¢/container was done to analyze the level of fixed fee that may be appropriate based on the premise that at a minimum all Depots should be able to recover fixed building related costs equivalent to 1¢/container. This analysis was only used to assist with the setting of the appropriate fixed fee amount in the 2006 Handling Commissions and any impact on Depots would be limited to the application of the proposed 2006 Handling Commissions with the fixed fee levels proposed.

b) The DCA does not believe that capping Building costs at 1 ¢/container is appropriate. The DCA is of the view that the suite of determinations made provides an appropriate balance between competing objectives and provides for an appropriate 2006 Revenue Requirements.

Please see HCRP-DCA-2006-38.

## HCRP-DCA-2006-38

**Reference:** Rate Design

- 2006 Phase I and Phase II Reports, Revision 1
- BCMB Administrative By-Law Section 4(3)(b)

**Request:** Is the DCA satisfied that the proposed Handling Commissions achieve the objectives of:

- Providing depot operators with a fair return to maintain a viable depot network across the province; and
- The need for the lowest possible cost to consumers?

Please explain how the DCA's proposals and related methodologies balance the two objectives above.

**Response:** Yes, the DCA satisfied that the proposed Handling Commissions achieve an appropriate balance between these competing objectives. The DCA was mindful of these objectives when making all of the determinations to adjust As Reported costs and revenues, in escalating costs to Cal 2006 and in proposing the 2006 Handling Commissions.

In summary, the following determinations were made to try and meet the objective of providing depot operators with a fair return to maintain a viable depot network across the province:[7]

1. Increase costs, revenues and volumes for stub fiscal year Depots to 12 months to ensure all Depots were analyzed based on 12 months of data.
2. Allocate Overhead Labour collection related costs (COL & DRV), including costs reported for owners, to Direct Labour at the Lead Hand rate of $17.42/h, to ensure all Direct Labour costs were included in the 2006 Revenue Requirement at a consistent and market based rate.
3. Allocate Overhead Labour direct labour related costs (HND & LHD), including costs reported for owners, to Direct Labour at the Lead Hand rate of $17.42/h to ensure all Direct Labour costs were included in the 2006 Revenues Requirement at a consistent and market based rate.
4. Provide adequate compensation for owners who also provide manager and bookkeeper services at market based rates - the Lead Hand rate of $17.42/h for Small Depots and $25.92/h for Large

[7] We interpret "viable" as the recovery all prudently incurred costs.

Depots.

5. Deemed lease rates applied to all buildings to ensure that building use costs are captured on a consistent basis for all Depots and to recognize that over time all Building costs could be included in the revenue requirement at market based lease rates.
6. Utilization of labour cost escalators, based on Statistics Canada indices, to ensure that Depots can cover labour costs for Depot operations, especially in the current tight labour markets.
7. Rate design to provide Small Depots with an opportunity to recover a greater portion of their fixed costs.

In summary, the following determinations were made to try and meet the objective of the need for the lowest possible cost to consumers:

8. Only verifiable costs (reconciled with financial statements and tax returns) were included in the As Reported costs. Expenses that were not verifiable were excluded, including cash based expenses and non-declared payments to owners.
9. Remove all Goodwill costs as any goodwill is assumed to be returned to the Depot owner (and not to consumers) on sale of the business.
10. Reduce the number of Manager hours (primarily reported from owners) to the number of operating hours for Large Depots to try and provide an appropriate cost for the provision of manger related costs, while attempting to remove owner compensation from the 2006 Revenue Requirement.
11. Building sizes were reduced to deemed values to ensure consumers were not paying for excessive building space that is not required for Depot operations.
12. Charity costs removed.
13. Costs (e.g. BCMB and ABDA fees) and revenues (e.g. VAF) were adjusted based on manufacturer shipping data to use the best data available for forecasting costs and revenues.
14. Actual volume data was used wherever possible as cost escalators.
15. Return determinations based on return margin methodology comparable to service based industries, with lower recommended margins for the lower risk portion of the business related to deposit refunds.
16. Fixed fee rate design to allow the BCMB with an opportunity to enforce compliance measures, which should lead to cleaner and safer Depots, which in turn should lead to higher overall return rates, which

will lower unit costs to consumers.

17. Fixed fee rate design to allow smaller Depots to be viable, which in turn should lead to higher overall return rates (more Small Depots opening or not closing), which will lower unit costs to consumers.
18. All determinations made in light of the regulatory model subscribed by Madame Justice Bielby, which apply the appropriate regulatory compacts and principles that regulators have found to be appropriate to keep costs as low as possible to consumers.