Board Staff Interrogatory #260

Interrogatory

Reference:
Exhibit F3 / Tab 1 / Schedule 4 / Attachment 1 / p. 19

Preamble:

Elenchus stated that external cost drivers are based on data that is independent of the cost allocation process, whereas internal cost drivers are based on values derived as part of the process.

Elenchus noted that OPG removed the use of internal cost drivers and now uses only external cost drivers to simplify and increase efficiency of the cost allocation process.

Question(s):

a) To what extent has accuracy been reduced in relation to allocating costs between the regulated and unregulated businesses due to internal cost drivers no longer being used?

Response

This response was provided by Elenchus Research Associates:

Accuracy has not been reduced in the allocation of costs between OPG's regulated and unregulated businesses as a result of replacing internal cost drivers (i.e., cost drivers that are internal to the cost allocation model) with external cost drivers (i.e., cost drivers that are external to the cost allocation model) in the cost allocation model.

Accuracy is not dependent on whether the cost drivers used are internal or external to the model. The appropriate consideration is whether the cost driver used is the best available cost driver for the costs that are being allocated. Using external cost drivers has several advantages. First, it expands the available choices in identifying the most appropriate cost drivers. While the use of internal drivers is not precluded, the external drivers have been adopted in this case because they appear to be more, or just as, appropriate indicators of the factors that drive costs. Second, the external cost drivers are also more transparent and less complicated which, in Elenchus' view, makes them preferable, ceteris paribus.