Project No. 3698893

IN THE MATTER OF THE *UTILITIES COMMISSION ACT*, R.S.B.C. 1996, CHAPTER 473

and

STARGAS UTILITIES LTD.

APPLICATION TO VARY DELIVERY RATE, AMEND COST OF SERVICE FORMULA, AND APPROVE REPLACEMENT TERM FINANCING / REDEMPTION OF PREFERRED SHARES

February 17, 2017

WRITTEN REPLY ARGUMENT OF STARGAS UTILITIES LTD.

A. INTRODUCTION

1. Stargas has carefully reviewed and considered the Final Argument of the SSPOA dated February 10, 2017, and in accordance with the Commission's schedule, provides the following Reply Argument. The lack of comment on any particular point made in the SSPOA Final Argument should not be construed as agreement or acquiescence to the submissions of SSPOA. Unless otherwise defined herein, capitalized terms have the same meaning as the Final Argument of Stargas filed with the BCUC on February 3, 2017.

2. In its opening to its information request #1 (Exhibit C1-2, p. 1), the SSPOA stated the following:

> Neither the SSPOA, nor its members, are experts in rate-setting principles and are challenged with understanding all of the detail and complexity of the submissions. As affected citizens, we rely on the expertise of the British Columbia Utilities Commission ("**BCUC**") to determine what is reasonable and necessary in revenue and rate requirements. We trust in BCUC to protect the interests of rate payers of StarGas in the same way.

3. In this proceeding the SSPOA has also sought to question matters approved in prior BCUC decisions. For example, costs incurred under the FAES Contract, previously

approved following its review by the Commission (Order G-93--9), ought not to have been the subject of the extensive examination in their information requests. The BCUC trust that SSPOA acknowledges with respect to the oversight of the BCUC must also extend to the Commission's prior decisions and orders.

4. SSPOA also continues to argue that Stargas' delivery rate should be judged against FortisBC's (mainland) residential delivery rate. As stated by Stargas in response to SSPOA information requests, the comparison to FortisBC (mainland) is a false analogy. Stargas submits that it is simply not reasonable, nor supportable, that its forecast delivery rate be judged against that of FortisBC's (mainland). SSPOA has provided no evidence as to how Stargas should be expected to achieve the efficiencies and economies of scale available to FortisBC (mainland), which serves an exponential multiple of the customers served by Stargas. As such, Stargas submits that this comparison must be disregarded by the Commission and cannot form a basis for judging the reasonableness of Stargas' forecast administrative costs in the test period.

5. Stargas submits that in its Final Argument (Introduction and Overview, pages 1-2) the SSPOA continues to unreasonably compare the Stargas proposed delivery rate to FortisBC rate 1 customers outside the Silver Star Resort boundary. Seventeen years ago, knowing that Silver Star home and business owners would enjoy significant savings with natural gas replacing propane, Messrs. Buchanan and Blumes did what Fortis would not, created Stargas, built mains to service the resort and contributed $444,329 to the construction of a main from Vernon to the Silver Star Resort boundary. SSPOA has, through its IR's and again in its Final Argument, compared Stargas and FortisBC delivery rates, without acknowledging the impact of economies of scale (FortisBC customer base exponentially larger) against which operating and maintenance costs are absorbed, implicitly awards FAES as providing the necessary skills, and, by deduction allocates 43% of its self-described premium over Fortis rates as attaching to Stargas administrative costs. Stargas submits that the SSPOA's failure to understand the implications of the "mains extension test" and the consequent requirement for investment to create Stargas fundamental to its posture on the delivery rate Application, the subject of these proceedings. The SSPOA seeks to discount comparisons to delivery rates charged by

FortisBC Vancouver, Island and FortisBC Whistler on the basis of a calculation of rate base per customer; however, Stargas submits the SSPOA's submissions are inconsistent, as on the one hand, the SSPOA seek to distinguish the operations of FortisBC Vancouver and FortisBC Whistler from Stargas, yet refuse to acknowledge the even larger distinguishing features as between Stargas and FortisBC (mainland).

6. Stargas also submits that its investors' funding operating losses in the utility's formative years is equivalent to investment in rate base, and has resulted in the current "unconventional" but equitable return to investors, as has been recognized in in prior BCUC Orders.

7. Stargas submits that its forecast of administrative costs, while similar to that of prior years, is not based on convenience but on a long-standing history in the provision of necessary services and is well documented in responses to both Commission and Intervenor IR's. In the Introduction and Overview of its Final Argument, the SSPOA also misstates the quantum and nature of management fees and states that these include the "rental of three home offices". OKF does, in fact, operate out of four, not three offices; however, the capital investment and the annual operating expense in each is borne by OKF with Stargas absorbing, within its administrative expenses is but $4,800 annually as a contribution to the much larger costs incurred in OKF. The SSPOA describes Stargas' methodology as "idiosyncratic"; Stargas observes that the methodology presented in its Application, as amended, is consistent in all respects with that approved in prior BCUC orders.

8. Stargas further submits that its proposed management fees provide full value to ratepayers. Further, Stargas submits that the $144.26 per hour rate for executive services accepted by OKF whether undertaken by Mr. Blumes or an independent third party would, as evidenced in data supplied by KPMG (Exhibit B-8,p. 5) command a rate ranging from $215 to $275 per hour. The Introduction and Overview to the SSPOA Final Argument includes the following; "unsuccessfully engaging in commodity hedging strategies while paying an expert a commission to implement hedging". Stargas submits that this statement without basis and inaccurate, as discussed below, and will, in its next

distribution of monthly invoices to customers provide details of Stargas procurement costs against that under the FortisBC Rate 5 alternative.

9. Finally, Stargas submits that SSPOA's use of invective in its IR's and Final Argument is not substantiated and should not be condoned by the Commission, particularly considering that the SSPOA retained legal counsel in the preparation of the Final Argument. For example, SSPOA states that Stargas management fees are "stale and bloated" and provided at "inflated rates" (SSPOA Final Argument, p. 2), However, SSSPOA goes on to state that it "does not oppose the $69.24 accounting rate … or the $146.24/hr executive rate requested." Presumably, the SSPOA recognize that the modest, below market accounting and management rates forecast by Stargas are of the benefit to ratepayers.

10. Stargas is disappointed at the tenor of the SSPOA Final Argument and submits that it is not appropriate and not helpful to the Commission in reaching its decision on the Stargas Application. However, in this Reply Argument, Stargas has attempted to respond in a factual, measured manner to the issues raised by the SSPOA, and will limit its comments regarding the participation of the SSPOA in this proceeding to the issue of Regulatory Application costs.

11. In setting Stargas' just and reasonable rates in this Proceeding, the Commission must be mindful that such rates must not be "insufficient to yield a fair and reasonable compensation for the service provided by the utility" (*Utilities Commission Act*, s. 59(5)(b)). As discussed below, Stargas submits that the proposals of the SSPOA, if adopted by the Commission would lead to such a result.

B. ARGUMENT

(a) Management fee levels:

12. Stargas proposed in the Application, continuation of the hourly rates for administrative services ($46.16), accounting services ($69.24) and executive services ($144.26) consistent with those rates approved by the Commission in Order G-157-12, adjusted for inflation (Exhibit B-1, p. 12).

13. SSPOA has only disputed the rate for administrative services of $46.16 per hour, and has proposed instead that Stargas forecast of management fees be based on two different administrative rates: $35 per hour for "bookkeeping" and a "clerical rate" of $24.46 per hour for "billing work" and "administrative tasks other than accounting."

14. Stargas has provided evidence to substantiate the reasonableness of the OKF rates for administrative services. As noted in argument, in its response to BCUC IR 6.1 (Exhibit B-8, p. 5), Stargas has provided evidence that the rates charged by OKF are below market rates. The rates quoted by KPMG for "Other Staff (below manager-level)" are $90-100 per hour, as compared to the administrative services hourly rate of OKF of $46.16. SSPOA makes the unsubstantiated assertion that evidence provided by Stargas "should not be treated as independent, impartial evidence" because "the KPMG correspondence Stargas cites goes out of its way to mention Mr. Blumes' previous KPMG affiliation and touts Mr. Iles' general entrepreneurial success (without details)" (SSPOA Final Argument, p. 5). SSPOA is completely incorrect in its assertion that KPMG's correspondence is other than "unbiased". Stargas notes that the SSPOA's statements in this regard relate to the last two sentences of the response, which states (Exhibit B-8, p. 5),:

> Okanagan Funding provides the services of the following gentlemen. Mr. M.A. (Moe) Blumes a CPA was a partner in KPMG before a career in industry; Mr. M.G. (Mike) Blumes, accountant, obtained his CGA designation in 2011 and Mr. M.D. (Murray) Iles, administrator, a successful entrepreneur.

15. As is evident from reading the response to BCUC IR 6.1 (Exhibit B-8, p. 5), these last two sentences are evidence provided by Stargas, and were not contained in any KPMG correspondence. As such, the Commission must disregard the SSPOA's assertion that the evidence provided by Stargas of KPMG rates is unreliable. Indeed, it is the only evidence on the record regarding market rates, as the SSPOA has provided none.

16. As is demonstrated by the evidence provided by Stargas in response to BCUC IR 6.1 (Exhibit B-8, p. 5), Stargas submits that were the administrative services provided by

might be considered clerical work, in the conduct of those activities, judgment and decisions are involved impacting operations; for example, while entering manually prepared meter reads, noting an end read lower than that of the opening read leads to a judgement as to what to submit (prior months closing as opening, last year same month volume) and the nature of communication with customer with respect to that error.

21. Stargas has provided in Exhibit B-10 detailed information regarding the routines undertaken predominantly as administrative tasks in operating Stargas: Routine A – Cash Receipts Routines; Routine B – Bank reconciliation routines; Routine C – Billing cycle routines; and Routine D – Statutory Reports. Stargas submits that the vast majority of these activities cannot be characterized as "clerical" in nature. On page 13 of Exhibit B1, Stargas has provided its forecast of hours dedicated to these tasks, along with the applicable OKF rate (administrative, accounting and executive).

22. The SSPOA has also provided no rationale as to why the hourly rate of $35 for "bookkeeping" would result in just and reasonable rates for Stargas. The SSPOA has not provided any evidence that bookkeeping functions are available in the area of the Silver Star Resort nor has the SSPOA considered the episodic nature of customer involvement that could, in other circumstances involve a "standby fee" in addition to an hourly rate. Regardless, the hourly rate of $35 was approved in a decision related to 2012 rates and has not been adjusted for inflation.

23. The SSPOA Final Argument states the following: "The Commission approved the current OKF fees twelve years ago in 2005. They have subsequently been indexed to inflation. In the SSPOA's submission, the Commission should regularly review these rates and correct them if necessary."

24. Stargas submits that its continued utilization of the rates approved in 2005 (Order G-118-05) and again in 2012 (Order G-157-12) adjusted only for inflation is a reasonable, efficient and light-handed approach to setting rates for a small utility. As such, Stargas did not embark on a full-scale market survey for the present proceeding, but did provide evidence of rates available from a third party, KPMG in Kelowna, which demonstrates the continued modesty of the OKF rates.

25. However, Stargas will, if the Commission so directs, undertake an updated survey of comparable market rates for services provided by OKF, and will consider any adjustments required to OKF rates to ensure that OKF rates are not in excess of comparable market rates, or retain alternate service providers. Correspondingly, should Stargas confirm its understanding that its current administrative arrangement undervalued, it will consider filing a further delivery rate application addressing narrowly the current rate for each category of service and proposed increase for each.

(b) Management fee volume:

26. Much of the SSPOA submission regarding management fees is based on comparison to the Commission's decision in Decision G-159-13, regarding Hemlock Utility Services Ltd. Revenue Requirements Application ("HUS" and the "Hemlock Decision", respectively). At page 4 of the SSPOA Final Argument, the SSPOA states that the Hemlock Decision is important to the subject proceeding because HUS "is recent and deals with the same issues and the same context". However for the following reasons, Stargas submits that the SSPOA submissions in this regard are flawed in that circumstances of HUS differ materially from Stargas and further, that the SSPOA has presented an incomplete picture of the Hemlock Decision in their argument.

27. In its Final Argument the SSPOA states, among other things, that it is concerned that the volume of hours claimed by Stargas to manage its accounts exceeds the time approved for HUS in the Hemlock Decision. In doing so, SSPOA implies that HUS (which offers electric, water and sanitation services) and Stargas (a dedicated gas utility) have similar operations, warranting similar management practices and management time allowances. However, the SSPOA has provided no evidence whatsoever to demonstrate that the two utilities have similar operational requirements or processes, nor is it either reasonable or appropriate to compare the number of management hours claimed by HUS and Stargas in two entirely separate proceedings. It Stargas submission that such an apples-to-oranges comparison is not an appropriate basis upon which to set Stargas' just and reasonable rates.

28. Further, Stargas views it an important a distinction that, contrary to HUS, Stargas does not have any other corporate divisions over which to spread its administrative costs. As stated in the Hemlock Decision, HUS provides water, sanitation and electric services and shares costs among these three divisions where appropriate (Hemlock Decision, page 2). As a result, the Panel in the Hemlock Decision (p. 20) approved HUS' allocation of several elements of its costs between its divisions, including for example, 70% of office staff's salary and 10% of Hemlock Resort operation manager's salary to its electric division. Allocating costs in this way allowed HUS to spread its costs over its three divisions leading to efficiencies and economies of scale , and lower overall costs to its electricity customers. Stargas, as a dedicated gas utility does not have separate divisions over which to allocate its administrative costs submits therefore that it is inappropriate to use the Hemlock Decision as a basis upon which to approve its forecast Management Fees.

29. Lastly, the SSPOA Final Argument focuses exclusively on the $25,200 in management fees approved in the Hemlock Decision as a basis for comparing Stargas' forecast management fees, and fails to acknowledge the $28,000 also awarded to HUS in the Hemlock Decision for salaries and wages (Hemlock Decision, page 20). The office staff included in HUS "Salaries and Wages" forecast performed the following tasks for the HUS electric division" "inputting meter readings onto a spreadsheet, posting electrical usages, picking up cheques, processing online payments, recording and posting payments, processing electrical bank deposits, as well as miscellaneous administrative duties"(Hemlock Decision, page 16). These types of services are provided by OKF within its administrative category and included in the overall Management Fee forecast in the Stargas' Application. Stargas therefore submits, that if to compare the management fees approved in the Hemlock Decision to those of Stargas, that the Hemlock amount be correctly characterized as $53,000. Stargas notes that, as discussed above, it maintains that even this comparison is flawed in that there no evidence to establish that HUS and Stargas administrative and management requirements are similar, and Stargas does not have available the economies of scale evident in the Hemlock Decision.

30. Stargas requests that the Commission assess Stargas delivery rate application and claim for management fees on its merits, and not allow the Commission's analysis to be inappropriately influenced by a prior decision that bears little in the way of similarity or precedential value to the subject Application.

31. The SSPOA has proposed the following forecast of management fees for Stargas (SSPOA Final Argument, p. 6):

> *On this basis, the SSPOA submits that the Commission should consider the following forecasts:*
>
> - *60 hours for "administrative tasks other than accounting," at a clerical rate of $24.46/hr.* ***[$1,467.60]***
> - *75 hours for "billing administration", at a clerical rate of $24.46/hr.* ***[$1,834.50]***
> - *75 hours for "bookkeeping" at a rate of $35/hr.* ***[$2,625.00]***
> - *10 hours of "accounting" at a rate of $69.24/hr.* ***[$692.40]***
> - *100 hours of executive time at $146.24.* ***[$14,624.00]***

32. The foregoing would equate to a management fee of $21,243.50.

33. Stargas also notes that, earlier in its Final Argument, the SSPOA also submits that "144 hours per year for billing administration (10 hours per month increased by 20%)" would be appropriate for Stargas. If 144 hours for billing administration is used in place of the 75 hours in the SSPOA estimate, an additional 69 hours would have been included and their resulting management fee estimate $22,931.24.

34. The SSPOA has provided no rationale nor basis for why $21,243.50 or $22,931.24 is a reasonable management fee estimate in its Final Argument. Stargas notes that in either case, the SSPOA ought not to have excluded from its analysis the salaries and wages approved in the Hemlock Decision. Accordingly, Stargas submits that it should be disregarded by the Commission.

35. As noted above, the SSPOA purports to rely on the Commission Reasons for Decision in Order G-159-13 to substantiate its submission regarding management fee volumes which Stargas submits is not a reliable basis upon which to set Stargas' just and reasonable rates.

36. Further, even if it were a reliable comparator, the amount proposed by the SSPOA is less than what was awarded in the Hemlock Decision. In addition, the SSPOA deviated from the volume of hours as well as the applicable rate approved in Order G-159-13, with no explanation in its Argument. For instance, in Order G-159-13, the Commission approved 120 hours per year for "accounting/bookkeeping tasks" at an hourly rate of $35, whereas the SSPOA has proposed that Stargas forecast be limited to 75 hours of "bookkeeping" tasks and 10 hours of "accounting". Again, as noted above, these amounts do not include the work undertaken by office staff covered in the "Salaries and Wages" component of the HUS revenue requirement. Further, in Order G-159-13 the Commission approved 48 hours for management time on administrative tasks other than accounting at the executive hourly rate of $150 as well as 92 hours per year for executive time related to executive management duties at the hourly rate of $150, for a total of 140 hours of executive time. In contrast the SSPOA proposes that the Commission approve 100 hours of executive time.

37. Stargas submits that if it were to limit the services provided by OKF to the levels proposed by SSPOA, Stargas customers' would neither receive timely invoices nor would their payments be recorded accurately, suppliers would be paid erratically (due to highly seasonal cash flows), and the quality of service provided by Stargas would measurably decline.

38. Stargas has supplied copious detail in Exhibit B-10 and elsewhere throughout its participation in these proceedings, and has with respect to, particularly, its monthly routines, demonstrated that OKF carries out its mandate in an effective and efficient manner. Further, Stargas submits that the routines utilized by OKF are necessary to meeting customer, supplier, and banker requirements. Stargas has acknowledged that it has had OKF pursue marketing initiatives that did not generate desired results; however, that not outside the ambit of normal commercial activity. Stargas has provided its forecast of hours dedicated to these tasks, including the monthly routines, along with the applicable OKF rate (administrative, accounting and executive) (Exhibit B-13, B1 page 13).

39. Stargas administrative services include in addition to acting as the first response to customer enquiries, collection and coordination of Stargas interface with FAES, as described in Exhibit B-10 (Routines A & C) involve documentation and confirmation of individual inputs to the accounting process. Stargas accounting services, on a monthly basis (Routines A, B, C and D) ensure that the aggregate of the individual inputs agree as between general and sub-ledgers, that the amounts billed and expenses recorded are correctly calculated, and that monthly and quarterly statutory reports filed, all combined to produce timely and accurate reports to management.

40. Further, as stated in its Final Argument, Stargas submits that the reliability of its forecast is substantiated by the actual management fees incurred by Stargas in the fiscal year end 2012 through 2016. The SSPOA assert that the management forecast appears to simply repeat the prior year with escalation (SSPOA Final Argument, page 6). However, the F2017 management fee is forecast to be $78,173, as compared to $81,800 for 2016.

41. Stargas has also provided actual time sheets, substantiating the volume of administrative, accounting and executive services provided by OKF (Exhibit B-10 and B-13).

42. Stargas therefore submits that the Commission should consider the evidence provided on this record regarding the operations of Stargas, and not the unsubstantiated proposal of the SSPOA, in determining the appropriateness of Stargas forecast for management fees.

(c) Management fee forecast:

43. Stargas has addressed the historic actual management fees incurred in the operation of the utility above.

44. While unfortunate circumstances (records lost in a computer crash) have prevented Stargas from presenting additional detail in support of its historic management fees, Stargas submits that the implication by the SSPOA that services were not provided by OKF for the time billed (SSPOA Final Argument, p. 8) is without foundation and inflammatory conjecture.

45. As noted above, the actual, historic management fees incurred by Stargas are not merely an indexed budget but are actual hours worked and billed by OKF. In addition to its monthly routines, as fully documented in Exhibit B-10, Stargas annually prepares a gas purchase plan and commodity rate application. As noted elsewhere, Stargas management commits additional time to banking relationships, annual reports and the utility's interface with its suppliers and ratepayers. Stargas submits that the relative consistency of management fee costs from 2012 to 2016 is due to a relatively static operation in terms of both customer numbers and delivery volumes. OKF has delivered its management services efficiently and cost effectively throughout the years and in doing so, has historically, satisfied Commission, its accountants and taxing authorities that the amounts both accurate and equitable. Stargas notes that if, indeed, the management fees paid OKF linear, that that evidence that the costs consistent with what has been a relatively static operation in terms of both customer numbers and delivery volumes.

(d) Improper substitution of executive rate:

46. The SSPOA also submits that Stargas' forecast management fee for executive time should be significantly reduced due to charging executive rates for non-executive tasks.

47. It difficult to respond to the SSPOA "improper" allegation politely; Stargas has, throughout these proceedings, consistent with its long-standing presence within the Silver Star resort community, encouraged ratepayer participation and enquiry and Stargas management intends to remain faithful to that commitment.

48. Mr. Blumes attends to a wide range of activities of varying import and complexity but when filling the role of accountant, Mr. Blumes, records and bills that time at the rate as would Mr. Mike Blumes. As his is an active involvement, there is a lesser time involved than when those tasks completed by Mike Blumes and that lesser time is what is recorded; for example, a task that Mike Blumes would handle takes 4 hours ($277) while Mr. Blumes would complete the task in 3.5 hours and record 3 at the accounting rate and .5 at the executive rate ($280). The individual providing whatever the task is, therefore, without material consequence to the fees charged Stargas by OKF.

49. Indeed, the timesheet of executive services provided by Mr. Blumes demonstrates this practice (Exhibit B-10; Exhibit B-15). The timesheet provided demonstrates that Mr. Blumes billed for 18 hours of accounting time and 14 hours of executive time. The timesheet in fact demonstrates that Mr. Blumes charged more time at the lower rate than at the executive rate, and is therefore evidence that OKF is not defaulting to providing services at an executive hourly rate.

50. The SSPOA seem intent on questioning the minutiae of activities identified in timesheets in the administration of the utility on a task-by-task basis. However, the question that the Commission must determine is whether the forecast for management fees is reasonable. Stargas submits that executive review of work is a reasonable, prudent action in the operation of the utility.

51. Stargas submits that it has presented full and clear documentation of the role and time allocated in executive responsibilities and that its budget is therefore, reasonable; Stargas notes that the aggregate of executive time included in its test year forecast of $78,173 includes $24,596 in executive time. Stargas submits that that amount is modest, when considered in light of the complexities in managing a highly seasonal cash flow, dealing with disputes and errors, budgeting operations, maintaining banking and supplier relationships and those with the resort. Stargas notes that there evidence on the record (BCUC Order G 115-5 and Exhibit B-6, question 6.1) that the applicable Stargas executive rate would fairly be set in the range of $215 to $275 per hour. While executive tasks do vary in import and complexity, Stargas submits that were it to source executive services from a third party, the hours involved would be greater than the 171 reflected in the test year budget and that the rate at which those services available would be above $200 per hour.

(e) Customer connections:

52. The SSPOA have proposed that Stargas consider a new policy of customer contributions for new installations in an effort to attract additional customers to Stargas' utility service.

53. Stargas is not opposed to implementing a policy for new connections that would have the utility fund the costs of new connections with capital costs included in rate base, up to a maximum investment level, with installation costs in excess of that level paid by the new customer. Stargas has not yet, but will, in advance of the coming construction season, consider the appropriate maximum investment level for new services, consider methods for funding such installations and make application to the Commission to accommodate any tariff or rate amendments necessary in this regard.

54. Stargas notes that, for example, FortisBC Energy will provide a new service installation for residential (Rate Schedule 1) customers and small commercial (Rate Schedule 2) customers at no apparent cost, apart from an Application fee of $25. However, that the case if FortisBC Energy's gas main is adjacent to the customer's premises, the service line follows the route most suitable to FortisBC Energy, and the estimated direct cost of the Service Line does not exceed the Service Line Cost Allowance set out in the Standard Fees and Charges Schedule to the FortisBC Energy General Terms and Conditions.[1] The Service Line Cost Allowance is $4,110 for a Duplex and $2,055 for a premises other than a duplex.[2] However, residential and small commercial customers must pay the estimated direct construction costs in excess of these amounts.[3]

(f) Other tariff issues:

55. The SSPOA has also raised issues with respect to installation fees and the Stargas rate classes.

56. With respect to confusion over customer connections and installation fees, Stargas maintains that the 10% mark-up is and continues to be a permitted fee as ruled on by the Commission in Order G-118-05. To be clear, in its Final Argument (para. 8), Stargas identified the 10% mark-up as being approved in Commission Order G-118-05, not the FAES contract, as suggested by the SSPOA (SSPOA Final Argument, p.10).

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[1] FortisBC Energy Inc. General Terms and Conditions, Section 10.1.
[2] FortisBC Energy Inc. General Terms and Conditions, Standard Fees and Charges Schedule.
[3] FortisBC Energy Inc. General Terms and Conditions, Section 10.1.

57. Stargas, will, as noted elsewhere, respond to the issue of installation costs as a barrier to customer acquisition and in so doing redress the manifold issue (it has, it contends, consistent with the balance of installation costs charged by FAE the right to collect same from the customer, or to, under a revised program, defer and amortize that cost over time).

58. The issue raised with respect to reclassification of residential customers to commercial is, it should be understood, neutral to Stargas since the revenue derived in basic charges credited to cost of service. Stargas did provide the opportunity to customers to avoid the reclassification and charging of PST, with the corresponding higher monthly basic charge, during the period following the assessment (see attachment to Stargas response to SSPOA C1-6, Stargas Exhibit B-14).

(g) New customer marketing:

59. The SSPOA has proposed that the 55 hour forecast for marketing efforts, which comprises only 4.5 hours per month, should be reduced to 5 hours of executive time and 5 hours of "clerical" time, which combined is less than one hour per month. While the SSPOA submits that Stargas should implement a new customer connection contribution policy to attract new customers, the submission that Stargas should so drastically reduce its marketing efforts is at odds with the SSPOA proposal in this regard. The SSPOA have not considered the executive time required to design and to implement such a policy.

60. The 55 hours forecast for "marketing and relationships" works out to approximately 4.5 hours per month, which Stargas submits is modest and in line with the size of the utility and potential growth opportunities of the Silver Star Resort. As noted (Exhibit B-3 page 2), Stargas recognizes that Silver Star potentially is on the cusp of significant growth as evidenced in a proposed restructuring of the Resorts' marketing and the development of a comprehensive master plan for the future development of the Resort. Stargas ratepayers stand to gain meaningful reductions in its delivery rates with and from customer/volume growth and accordingly, Stargas marketing plans contemplate its management's active participation. Stargas has accepted that passing along with markup, installation costs

billed by FAE is suppressing new account acquisition; accordingly, Stargas undertakes to create and market amendments to its current procedures to eliminate that barrier.

61. **Existing customer marketing**: Stargas notes that the 55 hours is not solely dedicated to new customer marketing as suggested by SSPOA but includes "relationships" with existing customers. Satisfied customers are amongst the best of "marketers" to potential new customers. Stargas is not now contributing to the Resort's annual marketing budget and while its financial contribution would and must be modest, Stargas contemplates participation in a newly formed marketing entity. Within the tone and text of the filings of the SSPOA there indication that Stargas is negatively viewed by elements within the Silver Star Resort community. Accordingly, Stargas views it a strategic imperative to seek to address its standing in the Silver Star Resort community.

62. Stargas submits that the modest forecast of executive time in furtherance of these activities is reasonable.

(h) Resort "interfacing":

63. The SSPOA has also proposed that the 16 hour forecast for resort interface, which is less than 1.5 hours per month, be reduced to 6 hours, or 0.5 hours per month.

64. Stargas remains confused as to the position of the SSPOA with respect to executive time – on the one hand it offers basis for greater interaction, but on the other, seeks to severely constrain executive time necessary to implementation of, for example, its recommendation on installation costs. Stargas appearances at the resort over the past several years have been and should have been minimal as the utility's operations relatively static; Stargas executive time was planned into the test year budget, not because there were budgeted hours in the category in prior years but rather because, Stargas believes there is opportunity for the utility to add value to and for its customers to benefit from Silver Resort growth.

65. Stargas submits that the modest forecast of executive time in this regard is reasonable.

(i) Gas price investigation and monitoring:

66. The SSPOA has also proposed that the 35 hour forecast for gas price investigation and monitoring, which is approximately 3 hours per month, be reduced to 5 hours, or less than 0.5 hours per month, but acknowledges that were benefits to accrue to ratepayers that the hours involved be "reconsidered".

67. As noted in response to the SSPOA IR 7A (Exhibit B-15), Stargas anticipates filing an application to address commodity rates effective from November 1, 2017 in August / September 2017. To achieve this result, Stargas will of necessity be required to continue to undertake gas price investigation and monitoring activities in the coming months. The proposal by SSPOA that Stargas should only forecast 5 hours annually for such activities is completely inadequate given the nature of the work involved. The SSPOA appears to have picked the value of 5 hours out of thin air and has provided no justification as to why this is a reasonable forecast.

68. The SSPOA premises its request for a reduction in such hours on the basis that Stargas has not achieved benefits for ratepayers from such efforts, relative to the FortisBC Energy Index price. The SSPOA continues to compare the Stargas commodity rate to that available to FortisBC Energy residential index customers in adjacent Vernon and in doing so, discounts the necessary and valued procurement management by Stargas/its consultant. In response to IR 18.1 (Exhibit B-13) Stargas described the efforts Mr. Blumes has and continues to take to inform himself as well as introducing the independent nature of the consultancy afforded by Mr. Ken Fuhr. Stargas submits that, in partnership with Mr. Ken Fuhr of Independent Energy Consultants, the modest time devoted to procurement is of advantage to Stargas ratepayers. Stargas does have the alternative of purchasing the commodity from FortisBC under its Rate 5 and actively evaluates that option amongst its supply deliberations.

69. In its Final Argument, the SSPOA state (at p. 12):

> Despite Stargas' refusal to asnwer related questions about the value of Mr. Blumes' time in this domain, the benefits of his time are obviously lacking

given the results of the commodity costs that Stargas has achieved relative to the FortisBC index price.

70. Stargas remains of the view that commodity rates are not relevant to this Application and declined to provide a comparison of the commodity rates achieved by Stargas in comparison to the FortisBC Rate 5 on that basis. However, the SSPOA statement in its Final Argument that benefits have been lacking given the results of commodity costs is unsubstantiated and incorrect, and Stargas is compelled to respond. The commodity rates available under Rate 5 are filed by FortisBC in quarterly gas cost reports to the Commission, and are approved by Commission order. These documents are available on the FortisBC website.4 A comparison of the FortisBC Rate 5 commodity rates over 2015 and 2016 to those achieved by Stargas in 2015 and 2016 demonstrates that in fact, Stargas has achieved significant cost savings as compared to the FortisBC Rate 5 commodity rates.

71. In its current application to vary and extend its current gas purchase plan, filed with the Commission on February 17, 2017, Stargas has evidenced its performance with respect to the applicable FortisBC Rate 5. The value of the commodity rates negotiated by Stargas, in comparison to available options (such as Fortis BC Rate 5) will be assessed in the forthcoming rate application. Pursuant to the initiative discussed in 2(e) Stargas will, in its February distribution of monthly invoices, include a memorandum seeking to inform its ratepayers of its activities/results in commodity procurement.

72. The SSPOA is also mistaken when it asserts that the gas price investigation and monitoring work is now subject to a long-term contract. Stargas benefits from the ongoing services of an annually cancellable contract with Independent Energy Consultants Ltd.

73. Stargas submits that the 35 hours of executive time included in its management fee estimate is reasonable and should be approved.

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[4] Available at: https://www.fortisbc.com/About/RegulatoryAffairs/GasUtility/NatGasBCUCSubmissions/FortisBCEnergyInc/Pages/Gas-Cost-Filings.aspx

(j) Annual reports:

74. The SSPOA has proposed that the 40 hours of accounting time and 43 hours of executive time for the preparation of annual reports should be reduced to 10 hours of accounting time and 10 hours of executive time.

75. The time given to preparation of the annual report is held to a minimum by relying heavily on the precedent document and the time recorded in the test year estimate is consistent with the time expended in its preparation in prior years. Stargas notes that the annual report includes financial statements with accountants report, a detailed summary of movements in the utility's Gas Cost Variance Account, and is supplied/completed in accordance with BCUC requirements.

76. The SSPOA has not provided evidence to substantiate that the Stargas forecast unreasonable, but has seemingly randomly proposed 10 hours for the preparation of the annual report without little regard for the actual work involved. Stargas notes that the category includes preparation of working papers for the firm's accountant, interaction in their review of draft financial statements and notes thereto prepared by Stargas, completing a Gas Cost Variance Account summary as well as drafting the annual report (See Exhibit B-10, pp. 3-4).

77. Stargas submits that the 40 hours of accounting time and 43 hours of executive time included in the management fee for preparation of the annual report is reasonable and should be approved.

(k) Succession planning:

78. The SSPOA requests that Stargas be directed to present a management continuity plan at its next delivery rate filing. The SSPOA suggest that Stargas has not considered any succession planning issues in its management of the utility. The evidence of Stargas, which is cited by the SSPOA, demonstrates that Stargas has in fact considered succession planning issues. Therefore, the SSPOA assertion that Stargas has been remiss in this regard, which warrants a reduction in executive management time to 100 hours, is without basis and unsupported. CMI Holdings (1998) Inc., the owner of all of the

preferred and common shares of Stargas continues to examine succession on an iterative basis in two distinct avenues – the first, provision of necessary management services available within the Blumes family or by accessing third party services and the second, continued ownership against alternative returns on its current equity and shareholder advance investment of $340,000.

79. Stargas does not object to present a management continuity plan at its next delivery rate application.

(l) Regulatory costs and Counsel costs:

80. The SSPOA has recommended that Stargas' internal Application costs be limited to 60 hours of executive time. The SSPOA submits that this is a 50% increase of Stargas' last delivery rate application. The SSPOA proposal has no regard for the realities of this Proceeding. Unlike the prior delivery rate application in 2012, this proceeding included involvement of an Intervenor and two rounds of questions from each of the Commission and Intervenor as well as an oral proceeding before the Commission. In the current proceedings Stargas sought to, and ultimately found, a reasoned basis upon which to address the unconventional nature of Stargas' investor returns; addressing the issue involved a complex array of alternatives none of which were at play in the earlier delivery rate application.

81. Stargas also submits that the conduct of the SSPOA has contributed to the escalation of its Application costs in this proceeding. The SSPOA opted to pursue its education in regulatory process through its intervention and only late in the process, did it obtain legal counsel that would have narrowed its focus to those issues germane to delivery rate elements. For example, costs incurred under the FAES Contract, previously approved following their review by the Commission, as well as the quantum of the commodity rate ought not to have been the subject of the extensive examination contained in the SSPOA information requests. The following a partial reporting of those issues addressed by the SSPOA irrelevant to delivery rates and/or examination of the FAE Contract the contents of which had been approved by the BCUC. An example of only a few of these instances is found at the following references:

SSPOA IR #1 - Sections 3, questions c, d, e, & f
Section 9, questions a, b, c, d, e, f, g, & h
Section 12, questions c, d, & f
SSPOA IR#2 Question 7A
SRP – transcript pages 35, 36 and 41

82. Stargas was to answer a host of questions posed in interrogatories and at the SRP related to its commodity rate and did so in order to be of assistance. The SSPOA would appear to have Stargas shareholders' pay for the time spent by Stargas responding to the SSPOA on issues of limited relevance to this Application, which is not reasonable.

83. Stargas submits that its forecast of application costs is reasonable and ought to be approved.

84. With respect to forecast legal costs, the SSPOA makes the unsubstantiated assertion that Stargas has incurred "counsel fees to clean up and repackage a messy record and filing mistakes" (SSPOA Final Argument, p. 15). The forecast of legal fees provided in evidence by Stargas does not include time for "cleaning up and repackaging" as baselessly asserted by the SSPOA.

85. The forecast for legal fees provided in evidence by Stargas is modest and at rates in accordance with the Commission's PACA guidelines and ought to be approved as filed.

86. In this regard, Stargas submits that the costs associated with this regulatory process continue to escalate. One example of this escalation is that Stargas received on February 10, 2017 an invoice of Commission costs in the amount of $5,171.60 (Attached). Given the escalating costs, as well as significant reduction to forecast sought by the SSPOA, Stargas submits that its original proposal that regulatory costs, including the costs of legal counsel, be subject to a true up process is the most reasonable course of action to assess the quantum of costs that ought to be included in Stargas' revenue requirement. To facilitate this review, Stargas proposes upon receipt of its final costs to file with the Commission a summary with details of its Application costs for review and approval for inclusion in rates and would propose to bear its own costs in such review process.

87. Stargas rejects the suggestion that any of its prudently and reasonably incurred costs in proceeding, necessitated by the involvement of the SSPOA, should be disallowed.

(m) Interest on Shareholder loans:

88. Stargas accepted a reduction in its current 6% rate, based on it being provided a meaningful premium over the cost of funds provided in its operating financing. It is usual for secondary and postponed debt (where the bank must approve any reduction in these advances) that the provider be allowed a premium over the bank rate.

89. Stargas submits that the 1% premium sought equitable.

(n) Return on rate base:

90. Stargas acknowledges that its return calculations unconventional but submits that it is not unduly complex.

91. The SSPOA have proposed that Stargas should simply move to earning a return based on a conventional debt/equity ratio of 42.5% equity. Stargas submits that a simple move to a conventional earned return model is not available without addressing Stargas' outstanding preferred shares approved pursuant to Order G-80-02 and prior commission orders to pay dividends thereon. The SSPOA proposal does not address how Stargas would redeem the preferred shares were Stargas to move to a conventional deemed equity model of calculating return. Such a wholesale redemption would require an application to and approval from the Commission pursuant to section 50 of the *Utilities Commission Act*, which is not within the scope of the current Proceeding. The SSPOA have not explained, in their proposal, how this redemption would be funded and the impact of any such redemption financing on Stargas' revenue requirement.

92. Stargas submits that it would be more complex to require Stargas to move to a conventional earned return methodology, and address the redemption of the preferred shares and costs of such redemption in that framework, than to maintain Stargas' current capital and rate structure.

93. Stargas submits that it has struck an equitable balance between its unusual history (incurring of significant losses in its formative years that would under the conventional rate setting model been avoided by charging delivery rates well beyond those levied

ratepayers through that period) and the conventional model. Stargas investors backed their vision for the introduction of safer and less expensive natural gas with a material investment of cash as well as corporate and personal guarantees. Having found its way through this process to a measured basis for achieving both the opportunity for a fair return on investment and a corresponding reduction in rates (whether by future incremental term debt or conversion of preferred shares to shareholder advances) Stargas can, under the current methodology serve both masters equitably. Having found this basis, it would, Stargas submits be folly to entertain changes that would be necessary to revert to a "conventional" rate setting basis.

C. CONCLUSION:

94. Stargas came forward in September 2016 to offer a delivery rate reduction of 45 cents from $7.38 to $6.93; it unfortunate that in the same time frame, Stargas was to communicate that it required a material increase in its commodity rate to "flow through" its gas costs. It appears to Stargas, that underlying the SSPOA intervention in this proceeding is dissatisfaction with the commodity rate increase notwithstanding that:

1. Stargas, through the operation of its Gas Cost Variance Account, neither earns a profit nor is exposed to loss on its commodity purchases.
2. The Commission is fully engaged and before execution approves each and every element of Stargas' gas procurement contracts.
3. The commodity price is legislated in and through the Commission without ratepayer involvement.
4. The comparisons made to FortisBC rates 1's a false equivalency.
5. As demonstrated to the Commission, Stargas has demonstrated that its management practices with respect to commodity pricing have well served ratepayers.

95. Stargas submits that it has demonstrated that OKF carries out its mandate of providing administrative and management services to Stargas in an effective and efficient manner, that Stargas' other administrative costs are necessary, that its operating and maintenance costs are in accord with the FAE Contract approved by the BCUC and that, following a number of iterations, its proposed structure for return on equity are fair.

96. Stargas submits that its proposed delivery rate of $7.08 per gigajoule effective from November 1st, 2017, and other approvals sought, be approved

ALL OF WHICH is respectfully submitted this 17th day of February, 2017:

STARGAS UTILITIES LTD.