Stargas Utilities Ltd.

Response to Silver Star Property Owners' Association's ("SSPOA") Final Argument

Stargas Application to Amend Rate Schedule and Accounting for Installation Costs

September 19, 2017

Introduction: This is the response to the final argument of the Silver Star Property Owners' Association; Stargas notes that the SSPOA supports Stargas' general approach but for the reasons below the marketing plan to be unduly expensive and is concerned about regulatory inefficiency and transparency. Stargas, hereunder, responds to each of the issues raised by the SSPOA and its conclusion summarizes its response to the SSPOA.

1. Amortization of Installation Costs:

SSPOA observation: The SSPOA supports a longer amortization period relative to the 10 years Stargas initially proposed, and appreciates the exploration of the issue in BCUC IRs. There is some confusion, however, as the response to the Panel IR from Stargas was that the service life of the meter is 40 years, rather than 32 suggested in the question[8]. The amortization schedule for rate-payers should be the same as for accounting purposes, whichever period is used, and applied to all parts of the meter including installation.

Stargas response: In its response to the Commission IR's Stargas accepted 40 years as the service life of the related assets and expects to amortize all its installation costs on that basis.

2. Proposed Marketing Plan:

SSPOA observation: During the 2016 Delivery Rate Proceeding a considerable amount of debate centered on the historical marketing efforts by Stargas. Stargas acknowledged that it had been "singularly unsuccessful in winning new customers"[9].

The panel also suggested that if Stargas considered a new policy that:

> *"At that time, the Panel suggests that Stargas apply to the Commission for a corresponding amount of marketing budget, demonstrating the expected financial returns to the existing customers from the marketing investment."* [11]

Stargas has now provided a "corresponding amount of marketing budget". It appears to contain excessive costs, with unnecessary tasks assigned to family members.

Stargas Response: Stargas wholeheartedly agrees that, if the change in policy approved, that the attractive connection fee, coupled to reasonable notice and word of mouth ought to suffice. It does so, however, without apology for proposing the plan including in its application as at that point in time Stargas yet hopeful that approval would be provided while allowing a meaningful timeframe in which to book and complete installations in the fall of 2017 (an issue now very much in question). Stargas' marketing plan reflected what then appeared to be little prospect of collaboration with the Association; Stargas had requested notice of the proposed change be circulated to SSPOA membership (thereby capturing existing propane consumers) to which the response was, the Association possessed of limited resources, that when possible the notice would be distributed and confirmation of that distribution provided Stargas. Since no confirmation

provided we'd no expectation that the Association would sponsor the change notwithstanding that meaningful take-up would benefit existing ratepayers.

Stargas accepts that the proposed disclosures as indicated in the SSPOA final argument should suffice and accordingly, withdraws the proposed $3,500 inclusion of marketing in its proposed 2017 Installation Accounting Regulatory Account.

3. Application Timing:

Stargas Response: Stargas initiated the change in a relevant time frame; given that it was responding to an SSPOA suggestion, it taken aback in the extensive time given to providing an IR and final argument by that group and while expecting recognition that Stargas responsive to suggestions of benefit to ratepayers, disappointed that the SSPOA offers, in its final statement on the issue, gratuitous derogatory comment on Stargas efficiencies. Perhaps, at some point, the Association will come to recognize that what is good for the ratepayers is good for Stargas.

4. FAE Meter Cost Reduction:

SSPOA observation:

The SSPOA recognizes that the FAES reduced meter charge is only available for propane conversions. The time sensitive limits of the offer are of concern, considering the restricted 2017 construction window (as noted in section 3), the SSPOA feels the FAES offer should be extended to the end of 2018. The application of the reduced meter charge for conversions resonates well to the existing rate-payers who are funding the amortization of the program.

Stargas response: Stargas undertakes to seek the extension of the meter discount to the termination of its existing FAE service contract but, of course, obtaining the discount involves a third-party.

4. 10% Markup:

SSPOA observations:

The Silver Star Property Owners Association has raised the matter of the 10% markup in the 2016 Delivery Rate Proceedings. In the SSPOA Information Request for the present proceedings, Stargas was asked to quantify the administration effort of coordinating with FAES and how the 10% markup on expenses was not double dipping.

The Stargas response[23] avoided the question and was unhelpful. The questioning of how the new policy would work is not out of scope (as the response suggests) and the SSPOA contends that the inability of Stargas to explain shows the unreasonableness of the 10% mark-up on installation expenses.

~~The Stargas response:~~

"Stargas submits its mark-up on FAE costs, as approved by the BCUC Order G-118-05 is analogous to and consistent with the accounting treatment to be afforded the costs upon which it is calculated" [24]

Stargas states "*that each new customer acquisition involves exchanges (paper/phone calls, etc.) between among building contractor, building owner, FAE and Stargas management*".[25] The amount Stargas collects on an installation is an existing application fee $50, plus a new application fee of $25, and depending on the cost of the installation a markup of either $170 or $245 (depending on 1 meter or 2) for a total of $245 or $320. These charges are supposed to be required to cover the cost of administration of a new installation.

The SSPOA objects to a 10% markup, and submits that Stargas should simply forecast the time cost of processing new applications, using the approved "accounting" and "administrative" rates. That is an effective way to forecast and compensate Stargas for phone calls and establishing an account (an hour of accounting at $46.16, and two hours of administration at $24.46, *per account*, would both be very generous and less than the 10% markup). Or, if the markup is approved, then the associated forecast revenue should be "backed out" from the overall revenue requirement.

In short, the Commission should ensure no double counting takes place, and only actual costs are recovered.

Stargas Response: Stargas notes that while the hours allowed for administrative, bookkeeping and accounting services were subject to costly, for OKF and shareholders, rate reductions, the hours allotted in the management fees approved within the 2016 delivery rate were unchanged (moderately increased). In the details provided within that proceeding, Stargas did not include time given to the coordination of new installations (propane conversions) as these were understood to be covered by the 10% markup. There was and remains, therefore, no double counting (revenue duplication) and the determination made is G-118-05 covering installation coordination costs remains an equitable recovery of incremental costs. Note further, should there be a substantial number of propane conversions in the spring/summer of 2017, the 10% markup on each will be a necessary component in Stargas efficiently coordinating the hoped for momentum.

6. 2017 Installation Rate Regulatory Costs:

6.1 SSPOA observation (as summarized by Stargas): Management practices should be efficient. Stargas' once again are not.

Stargas response: Assuming this response completed within the next hour, Stargas will have incurred $9,911; $1,617 billed and paid legal counsel and 57.5 hours incurred by Mr. M.A. Blumes, CPA in preparing the application and responding to Commission and SSPOA IR's and the SSPOA final argument. Stargas has, through its 17-year existence avoided the introduction of regulatory lawyers in its proceedings and submits that in doing so, it has operating within what all would acknowledge is a complex environment at materially lower cost that would otherwise have been the case. In this instance, following a brief introductory consultation with its regulatory counsel, Stargas proceeded on its own. An iterative relationship wherein Stargas advances one or another proceeding based on insights provided has benefited ratepayers as did it here with the further reduction in the initial outlay to new and converting customers. The Commission in its 2016 Delivery Rate Order B-59-17 took no issue with the rate allowed Mr. Blumes and it appropriate Stargas submits here to note, that his experience and credentials would, in other circumstances have commanded a significantly increased hourly rate. The hours incurred, and billed at that modest rate were given to responding to IR's and to the surprising (given it their suggestion) length of those requested by the SSPOA.

Stargas submits that the $9,500 amount requested justified and equitable as the 2017 Installation Regulatory Account and that it be the basis for a 2017 rate rider as described in 6.2

6.2 Rate Rider Accounts for 2016 and 2017

SSPOA observation (as summarized by Stargas): "rate riders, their calculation and application are confusing"

Stargas response:

a. With respect to the 2016 Delivery Rate Application Regulatory Account: Stargas, as noted responded within hours in acknowledging it erred (as had Commission staff) in producing a $1.45 per GJ estimate and corrected that estimate thereafter where correction available to it including current estimates in subsequent filings. Stargas was to receive an electronic money transfer (the details of which were to be provided following its receipt) refunding certain of the costs billed Stargas by the Commission for its costs in that proceeding. Stargas will, upon resolution of its outstanding application for inclusion of additional costs, file a schedule summarizing its costs, those allowed, interest allowed on its weighted average cost of capital and the amount it proposes to recover over 36 months by rate rider – once approved the amount thereof will be described in that months regular billing to ratepayers.
b. With respect to the 2017 Installation Cost Application Regulatory Account, Stargas proposes to recover its Application Costs ($9,500) together with interest at its weighted average cost of capital over twenty-four months commencing following receipt of approval to do so for the Commission. Again, the amount will be described in a note with that months regular billing.

Stargas had not, previously encountered accounting for costs in the manner now proscribed; while missteps, had we sought regulatory counsel for each, the costs to be borne by ratepayers would have been substantially larger than those now being requested.

Conclusion:

Stargas submits that having eliminated a marketing budget (it not having incurred any expenditures to date) that its reduced request for the establishment of a 2017 Installation Cost Application Regulatory Account be approved as equitable at the $9,500 amount and that it, together with interest at the utilities weighted average cost of capital be recovered over twenty-four months following approval of the calculation by Commission staff.

Respectfully submitted,

M.A. Blumes, President
Stargas Utilities Ltd.