



**VIA EFILE**

info@stargas.ca

December 1, 2016

**STARGAS DELIVERY RATE**  
**EXHIBIT A2-3**

Mr. M. A. Blumes  
President  
Stargas Utilities Ltd.  
1960 K.L.O. Road  
Unit 17  
Kelowna, BC V1W 5L2

Dear Mr. Blumes:

Re: Stargas Utilities Ltd.  
Application to Vary Delivery Rate, Amend Cost of Service Formula and  
Approve Replacement Term Financing/Redemption of Preferred Shares

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Commission staff submits the following document for the record in this proceeding:

Page 4 of Exhibit B-2, Response to Commission Information Request 4.1  
from the Stargas Utilities Ltd. 2012 Application to Alter Rates

Yours truly,

*Original signed by:*

Laurel Ross

SS/cms  
Enclosure

bank debt. Note that assuming volumes approaching 40,000 GJ's, a five year amortization of the arrears would dictate a 68 cent per gigajoule increase in our delivery charge.

**4.0 Reference: Shareholders' Equity  
The Application, p. 3 of 10  
Preferred Share Dividends**

"As the [dividend] arrears are addressed, Stargas could, in a series of re-financings, redeem preferred shares and replace those with lower cost bank debt." [The Application, p. 3 of 10]

"As the holder of the Class G preferred shares have waived their right, indefinitely, to redeem their Class G preferred shares, the outstanding Class G preferred shares have been presented as a component of shareholder equity." [Stargas F2012 Financial Statements, Note 8]

**4.1 Please discuss if Stargas has considered replacing the preferred share dividends with common equity, as opposed to debt financing, and explain why or why not.**

We recognize that ours is not a conventional financial model. We have not considered replacing preferred shares with common equity as in doing so we'd have lost any marker on the returns that would otherwise have accrued to long patient investors. We believe that the current inclusion of an annual dividend on our preferred shares and amortization of the arrears (over whatever period – 5, 10, 20 years) is and would continue to be a reasonable surrogate for a conventional model. If, however, we had established a basis on which to recover what we believe to be were fair and reasonably measured foregone returns we would then be prepared to transition to a conventional model.

**4.2 Please discuss why the holder of the Class G preferred shares has waived their right to redeem the preferred shares on an indefinite basis.**

The holder waives the right on an annual basis as an accommodation necessary to the selected financial statement presentation. As a factual matter, not doing so would have no material adverse consequence; rather than including the preferred shares under the caption Shareholder's equity in the Company's annual financial statements, the amount would be disclosed under shareholder interests. We have provided our accountants this waiver to support the current financial statement presentation but, as noted, we may or may not continue to do so as would meet regulatory requirements.

**4.2.1 Are there any conditions that must be met in order for the holder of the Class G preferred shares to redeem the preferred shares, given that the right to redemption has been waived indefinitely? Please discuss.**

In completing its year-end financial statements for any subsequent year end, the investor could rescind its waiver (by not providing a further waiver) and accept that the preferred shares reflect as a liability rather than equity in its annual financial statements. The presentation adopted was, it was felt, the most favorable representation in addressing the Company's current and future financial needs to its banker. Any redemption of preferred shares and /or repayment of shareholder advances are and will remain, the subject of constraints legislated by the TD Bank as a part of its ongoing financing of the Company.

**5.0 Reference: Rate Base  
The Application, p. 1 of 10**

The Application, p. 1 of 10 includes a calculation of Stargas' F2013 and F2012 mid-year rate base.

**5.1 Please confirm if a British Columbia Utilities Commission (Commission) Order has approved the**