



Stargas Utilities Ltd.  
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British Columbia, V4T 2G3

British Columbia Utilities Commission  
Sixth Floor, 900 Howe Street,  
Vancouver, B.C. V6Z 2N3

December 8, 2016

**Subject: Amendment – Requested change to Cost of Service Calculation**

Dear Ms. Hamilton:

Based on our further consideration of a contemplated change in the determination of Cost of Service and in response to matters brought to our attention in interrogatories provided by Commission staff we are amending our application as relates the calculation of Cost of Service as follows:

<u>Notes</u>	<u>As filed</u>		<u>As amended</u>	
		<u>Test Year</u>		<u>Test Year</u>
		<u>2017</u>		<u>2017</u>
Operations & maintenance	\$	120,501	\$	120,501
Administration				
Professional fees	\$	6,200	\$	6,200
Insurance		13,130		13,130
Office & sundry		15,028		15,028
Management fees		78,173		78,173
1 Rate applications		9,954		4,667
Income tax		9,300		9,300
Net, meters and lines		(170)		(170)
Basic charges		(62,990)		(62,990)
Sundry revenue		(4,102)		(4,102)
Annual dividend		28,500		28,500
Catch up dividend arrears		6,794		6,794
Interest - operating line		4,190		4,190
2 Interest - shareholders		2,400		1,800
3 Interest - term debt				3,910
4 Amortization				54,804
4 Payments - term debt		56,241		-
Cost of Service	\$	<u>283,149</u>	\$	<u>279,735</u>
Forecast Deliveries (GJ's)		41,093.6		41,093.6
Delivery rate		<b>\$6.89</b>		<b>\$6.81</b>

Notes:

1. The estimated cost of our applications before the BCUC were fully expensed in the current year in our initial application; the time incurred in the delivery rate and financing elements are a periodic rather than annual expense and accordingly, we are proposing to expense our current \$14,000 estimate over the current and following two fiscal years.
2. The interest rate on shareholder's advances, previously authorized at 6% is proposed to be reduced to 4.5%
3. As an set-off against the \$9,500 reduction in dividends otherwise payable on preferred shares, Stargas proposes the inclusion of interest on the \$100,000 portion of the replacement term loan dedicated to redemption of preferred shares (calculated at the proposed two year fixed rate of 3.91%)
4. Guided by the materials provided in Commission exhibit A2-1 and cited in BCUC IR#1, Stargas amends its application that had contemplated replacing amortization with debt service. Only in the last days have we come to understand that we could/should have accomplished the mechanics (replacement of equity with bank debt) by leaving annual amortization unchanged within the cost of service formula. We note that (as paraphrased from an earlier BCUC ruling) that Stargas has not (to date) included a long term debt return in its revenue requirement. We did not, but should have considered inclusion of interest paid on the proposed replacement term loan in the determination of cost of service. By including interest incurred on the \$100,000 tranche of replacement financing (that related to the preferred share redemption) our ratepayers would see a delivery rate reduction based on interest approximating \$3,900 annually replacing dividends of \$9,500 (providing a 13.6 cent reduction in delivery rate).

At May 31, 2019, the replacement term loan will have been reduced to \$182,836 (see our response to 4.11.1 of IR1) and from that date forward, Stargas will record in cost of service annual amortization reduced to \$16,072 from \$54,779. It will be necessary, in advance of that date, to renegotiate amortization of the loan as well as to receive Commission approval to include interest incurred thereon in Stargas cost of service. If financed at 3.95% over 10 years, annual principal and interest payments required will be \$22,161; corresponding inclusions in our revenue requirement would be the \$16,072 in amortization and interest of \$6.949 (amounts sufficient to service the term bank loan).

We look forward to the December 14<sup>th</sup> SRP and remain hopeful that the Commission will be in a position to approve drawdown of the replacement term loan in advance of December 31. The amendment to our cost of service calculation proposed herein, does we submit, ameliorate concerns reflected within Staff interrogatories with respect to "depreciation".

Respectfully



M.A. (Moe) Blumes  
President, Stargas Utilities Ltd.