Stargas Utilities Ltd.
Application to Amend Rate Schedule and Accounting for Installation Costs
Stargas Response to BCUC Panel IR #1

1.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 1.7
FortisBC Alternate Energy Services Inc. (FAE) variable charge

Stargas Utilities Ltd. (Stargas) stated in response to BCUC IR 1.7 that "the current FAE contract provides for a reduction in the variable rate [charged by FAE] based upon volume increases." While it is "not yet confirmed by FAE," the variable rate charged by FAE is $1.37 per gigajoule (GJ), effective June 1, 2017 to November 30, 2017, and $1.39 per gigajoule "thereafter."

1.1 Please discuss whether the $1.37 and $1.39 per GJ have been confirmed by FAE.

1.1.1 If not yet confirmed, please discuss why not and when confirmation is expected.

Stargas Response: FAE has confirmed the rate as $1.41; Stargas calculations based on cumulative delivery volumes and rates of inflation forward from the date of the contract suggested the rates presented in the Stargas response to IR 1.7. Based on costs/benefits, Stargas has accepted $1.41 as applicable to avoid expending executive time pursuing the lower rate.

2.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 1.9
Accounting for incremental revenues and costs before November 1, 2019

Stargas submitted in response to BCUC IR 1.9 that the Amended Application "warrants the earliest possible implementation of the new [installation] policy without seeking to credit/charge ratepayers for any net gain or loss in the intervening period [to November 1, 2019]."

2.1 Please confirm that the meaning of the referenced statement is that Stargas proposes the incremental revenue margin (specifically the incremental delivery rate revenue, Application Fee revenue and associated expenses, incremental administrative cost, and service contractor's variable cost) for each added customer will be attributable to the shareholder for all new installations (propane conversations and new installations that are not propane conversions) prior to November 1, 2019.

2.1.1 If confirmed, please comment on whether Stargas would consider any alternative treatment for the incremental revenue margin (e.g. regulatory account treatment), if any. Please explain why or why not.

Stargas Response: Stargas did contemplate attribution on net revenue/costs to the shareholder to November 1st, 2019; while Stargas would adopt any alternative treatment suggested/required by the Commission, it notes that the timeline to acceptance of the revised rate schedule suggests that their will be little, if any, take up for current propane users in advance of the coming winter so that, meaningful net revenue/expenses would be generated within the fiscal year ended May 31,

2019 and those reflected in the scheduled delivery rate application considering that rate forward from November 1, 2019.
Stargas further notes, as described in its Final Argument to include additional costs in its 2016 Delivery Rate Application Regulatory Account that it may, in response to coming changes in its management arrangement, may need to seek earlier consideration of a change to its delivery rate to accommodate unavoidable management cost increases.

Stargas submits that the net revenue generated in its 2018 fiscal year immaterial and that it an unwarranted exercise requiring it to catalog net revenues from new and propane conversions in the following fiscal year.

3.0 Reference: STARGAS APPLICATION
Exhibit B-2, p. 19; BCUC IR 8.1.1
Standard Fees and Charges Schedule

The amended Standard Fees and Charges Schedule states "Stargas will levy a non-discretionary Administrative cost recovery charge of 10 [percent] of the cost invoiced by contractors for all customer initiated work."

Stargas also stated in response to BCUC IR 8.1.1 that it proposes to include the 10 percent Stargas administrative markup in rate base.

3.1 Please confirm whether Stargas intends to recover the 10 percent administrative markup by: i) collecting it from the individual customer, ii) rate base amortization or iii) both.

Stargas Response: Stargas proposed to include the 10% markup in its rate base amortization.

4.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 2.1.1, 2.3
Reduced meter cost

Stargas stated in response to BCUC IRs 2.1.1. and 2.3 that It has asked FAE to delete Clause 3 from the May 18, 2017 Memorandum of Agreement between FAE and Stargas, which was provided in response to BCUC IR 2.3.

4.1 Please confirm whether FAE has consented to the removal of Clause 3 from the May 18, 2017 Memorandum of Agreement provided in response to BCUC IR 2.3. If yes, please provide a copy of the revised agreement. If no, please explain what the impact Is of Clause 3 on Stargas' application, if any.

Stargas Response: FAE has agreed to the removal of Clause 3; the amended agreement is appended to this response.

5.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 3.2
Amortization

In response to BCUC IR 3.2, Stargas stated that the estimated service life of the service lines, manifolds and meter sets for new installations is 40 years.

However, in response to BCUC IR 3.3.1, Stargas stated "[i]f the above request to treat installation costs as a single asset classification in rate base [is] unacceptable, Stargas would request a 40-year amortization rate for line and other costs and a 32-year [amortization] rate for meter sets."

5.1 Please explain why the proposed amortization period for the meter sets is 32 years when the estimated service life of the meter sets is 40 years.

Stargas Response: Stargas accepts and, hereby, requests that amortization of meter sets be 40 years (consistent with their service life).

5.2 Please provide the estimated service life and proposed amortization period for manifolds.

Stargas Response: Service life and, therefore, amortization period 40 years.

6.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 5.1
Operating costs

Stargas stated in response to BCUC IR 5.1 that "increases in office costs and bank charges will [be] approximately] $40 annually for each new ratepayer added. The $40 estimate is based [on] the assumption that 2/3 of the aggregate of those costs in the fiscal year ended May 31, 2017 of $17,183 divided by 290 (customers at that date) will vary with customer acquisition[s]."

6.1 Please explain the calculation of the $17,813 (e.g. is this actual or forecast office costs and bank charges for the fiscal year ended May 31, 2017. If it is forecast costs, please provide a reference (Exhibit and page number) to the Stargas application to Vary Delivery Rate, Amend Cost of Service Formula and Approve Replacement Term Financing/Redemption of Preferred Shares (2016 Delivery Rate Application).)

Stargas Response: Stargas office and banking costs for its fiscal year ended May 31, 2016 were $17,813; Stargas submits the amount representative. Stargas notes that in its response to IR No 1, it erroneously referred to the $17,813 as having been incurred in 2017 when that amount incurred in the fiscal year ended May 31, 2016. These costs were $19,004 in the fiscal year ended May 31, 2017 but since they included courier and like costs associated with regulatory files were not representative.

6.2 Please explain why 2/3 of the referenced costs is appropriate.

Stargas Response: While office and banking costs will increase with numbers of customers, elements within each of the two expense categories are relatively fixed – Stargas estimate of those costs that would not increase incrementally, one third.

7.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 9.4
Forecast number of new installations

7.1 Please explain how the information extracted from the Silver Star Mountain Resort website, provided in response to BCUC IR 9.4, supports the forecast number of new

installations (8 new installations over two years).

Stargas Response: Stargas provided the extract from the Silver Star Mountain Resort as context for the growth prospects for the utility within that community. Based on a site visit there but one new construction addition to the Stargas ratepayer numbers in fall 2017 and, with the narrow window between approval of this Application and the onset of winter, the number of propane conversions, if any, problematic. However, the forecast as presented prepared with a conservative bias – with the Resort poised for major growth and propane currently costing approximately double that of natural gas, there a substantial upside in ratepayer numbers.

8.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 9.1
Annual consumption

In response to BCUC IR 9.1, Stargas provided consumption data for a duplex unit that represents a low of 11 gigajoules (GJ) to a high of 20 GJ consumed per year.

8.1 Please explain how the data provided in Stargas' response to BCUC IR 9.1 supports the forecast 40 GJ per year forecast consumption of a converting propane customer.

Stargas response: The data doesn't support the estimate but while considered anomalous, the date provided in the earlier Stargas response as it indicative of the lower end of the volume range to be garnered from existing propane users; note we'd not sought nor did we receive statistics on owners' usage of their resort accommodation.

8.2 Please clarify whether the data provided in Stargas' response to BCUC IR 9.1 is the GJ consumption for the whole duplex or just one unit in the duplex.

Stargas response: The subject residence would, we'd suggest, be metered as one and Stargas would expect to deliver approximately 30 gigajoules annually (assuming owner/renter occupation consistent with prior years).

9.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 9.2
Customer data

9.1 Please provide a breakdown of Stargas' current 290 customers into residential, small commercial and large commercial customer classes.

Stargas Response: Stargas has 6 large commercial customers, 39 small commercial customers and 245 residential customers.

10.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 9.5, 9.5
Revenue margin calculations

Based on Stargas' response to information requests, the Panel has updated the revenue margin analysis in the attached Excel spreadsheet as Amended Attachment B.

10.1 Does Stargas consider the analysis in Amended Attachment B to be reflective of Stargas' amended proposal for new installations? If not, please explain why not and specifically identify the items that do not reflect Stargas' proposal, in addition to providing amended calculations.

Stargas Response: Stargas accepts the Panel spreadsheet as measuring the revenue margin is conceptually sound and observes that minor changes that would be occasioned (e.g. correcting the variable rate charged by FAE to $1.41 per GJ) immaterial to that reflected in the version supplied by Commission staff. Stargas elects not to invest additional executive time in addressing what would be minor changes as were it do so, it would expect to apply for an increase in the regulatory account sought to recover executive costs in making the application (responding to intervenor and Commission information requests).

11.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 11.1, p. 1; Exhibit B-1, p. 2.
2017 Installation Application Regulatory Account

Stargas submitted in response to BCUC IR 11.1 that it has incurred legal costs of $1,616.50, which relate to "the undertaking provided by Stargas within its 2016 Delivery Rate [Application] responses..."

11.1 Please confirm whether the $1,616.50 in legal costs, which Stargas proposes to include in the 2017 Installation Application Regulatory Account, is included in the:

a) $16,500 in legal counsel costs which the Commission approved by Order G-59-17; or

b) $10,000 in legal counsel costs which the Commission determined did not pass the *prima facie* test in the first phase of the Reconsideration and Variance of Directives 8 and 9 contained within Order G-59-17.[1]

Stargas Response: The $1,616.50 was a further additional bill and was not part of either a nor b.

Stargas submits on page 1 of its responses to Commission Information Request No. 1 that it seeks to amend its application to "initiate the proposed 2017 Installation Application Regulatory Account [rate] rider upon confirmation of costs therein by Commission staff."

11.2 Please confirm whether Stargas is amending its application such that the recovery of any approved amounts included in the 2017 Installation Application Regulatory Account shall commence immediately, rather than from November 1, 2019 as stated on page 2 of the Application.

Stargas Response: Stargas had proposed initiating the rate rider related to its 2017 Installation Application Regulatory Account upon confirmation of costs (then expected in the fall of this year) but now recognizes that its marketing of the revised program ought to be deferred to spring/summer of 2018 so that it, hereby, amends its request to commence that additional charge, effective upon confirmation of costs (those costs expected to be provided the Commission in the August/September 2018. Stargas notes that the fall 2017 window through which existing propane users might seek to capture the savings available on a switch to natural gas likely too narrow to warrant marketing expenditure in that period.

11.3 Please discuss and provide an illustrative example of what Stargas considers to be an appropriate methodology for:

a) calculating the amount of the proposed 2017 Installation Application Regulatory Account rate rider (e.g. fixed monthly charge, variable based on GJ consumption,

other); and

Stargas response: Stargas submits that its rate rider be calculated based on its total costs to August 31, 2018 (subject to its ceiling on those of $13,000) together with interest at its current weighted average cost of capital (6.34%) on $9,500 from August 31, 2017 (its application costs) and interest on its marketing costs of $3,500 from August 31, 2018 divided by actual gigajoule deliveries in the Stargas fiscal year ended May 31, 2018.

b) determining the appropriate customer classes to pay the 2017 Installation Application Regulatory Account rate rider (e.g. all customer classes, total residential and small commercial customers, existing residential and small commercial customers, other).

Stargas Response: Stargas proposed to levy the rate rider across all customer classes as each will benefit from the incremental delivery volumes.

12.0 Reference: STARGAS APPLICATION
Exhibit B-2, BCUC IR 13.2.1, 13.6.1
Forecast number of propane conversion installations

Stargas stated in in response to BCUC IRs 13.2.1 and 13.6.1 that the propane conversion payback analysis is "largely moot" given its amended application for a service line installation charge of $25 for all new residential and small commercial installations and customers converting from propane to natural gas.

12.1 Please discuss how increasing or decreasing the service line installation charge (currently proposed to be $25) would impact the forecast number of propane conversions.

Stargas Response: The Resort community (via its SSPOA) has sought to relate Stargas rates (installation, commodity and delivery) to that available to Fortis 1 ratepayers below the Resort boundary; Stargas submits therefore, that it not an unimportant element in its seeking the widest possible take up, that in so far as possible its application costs and service line installation charge should, as closely as possible mirror that in Fortis Rate 1. Stargas had, initially, proposed propane conversion would have an out-of-pocket cost of $215 ($450 less a time limited $235 credit from FAE) but, amended that amount to $25 to meet expectations within the Resort community. Propane users will incur third party costs altering their finance/appliances from propane to natural gas – Stargas submits that with the lower amount, the economic justification to convert compelling.

12.1.1 How would it change the number of forecast new installations which are not propane conversions?

Stargas Response: Stargas submits that an increase or decrease of minor amount (under $100) would not impact take-up in new construction but as noted above, believes consistency with that charged by Fortis (under Rate 1) an important factor.

Memorandum of Agreement

Between:

FortisBC Alternative Energy Services Inc.
("FAES")

And:

Stargas Utilities Ltd.
("Stargas")

Re: Propane Conversion Incentive for the 2017 Construction Season

Whereas FAES provides utility services to Stargas under a Utilities Services Agreement dated December 1, 2009; and

Whereas FAES and Stargas ("the Parties") wish to create greater incentive to convert propane customers onto the natural gas system through a reduction in attachment costs, and

Whereas there is mutual benefit flowing to both parties from load and customer growth associated with propane conversions;

Therefore, the Parties agree as follows:

1. Stargas will notify FAES in advance with the particulars of any propane conversions in order to ensure accurate billing and advanced notice of such conversions.
2. FAES agrees to provide a credit of $235 to newly converted customers on its invoices to Stargas against the cost of each meter installation where a customer has converted from propane to natural gas.
3. This agreement shall remain in place for the 2017 construction season and shall terminate on December 31, 2017.

Signed this 18 day of August, 2017.

On behalf of FAES

Doug Slater

On behalf of Stargas

Moe Blumes