



British Columbia Utilities Commission
Sixth Floor, 900 Howe Street,
Vancouver, BC V6Z 2N3

August 21st, 2017

**Subject: Stargas Final Argument to Include Additional Costs in the 2016 Delivery Rate Application
Regulatory Account ("DRARA")**

Introduction:

It noteworthy that in its Order G-128-17 the Commission highlights the disproportionate consequence of regulatory costs in small utilities and their impact on the utility, its ratepayers and in this instance, investors. Whether the currently approved costs (before interest) within the 2016 DRARA of \$55,060 or \$61,560 (should the amounts the subject of the "reconsideration" be accepted) it a heavy burden on ratepayers to be recovered over thirty-six months. Yet ratepayers have comfort in that the approved delivery rate in Order G=59-17 of \$5.77 per gigajoule a meaningful reduction from the \$6.93 rate proposed in Stargas' original application; the \$1.27 reduction equivalent to an annual savings to ratepayers of \$52,200 (and that remains of benefit to ratepayers until there a further Stargas application and BCUC decision). There but one victim in these proceedings, the Stargas investor, who must fund denied legal costs of \$18,731 while absorbing a reduction in management fees of a further \$9,697 and the certainty that, absent redress, necessary management costs will not be recoverable. Stargas has been and for the present is managed on a part-time basis by three Blumes family members who have dutifully recorded their time at rates reviewed and approved by the Commission. BCUC Order G-59-17 reduced the annual management fee level from the requested \$78,173 (an amount consistent with that incurred and approved throughout earlier years) to \$46,760. The reduction was based on two principle conclusions:

- dividing each of administrative and accounting hours into two classifications, the lesser assigned responsibilities in each subject to an approximate \$20 per hour reduction in rate
- that the proposed hours of executive time be dramatically reduced from the 171 hours requested to 94 hours.

It ought not be surprising that each of two men providing administrative and accounting hours (each successful in primary careers awarding compensation at levels beyond those sought and now reduced) have tendered their resignations. While each has agreed to continue their duties until replaced albeit at modest reductions to prior rates, in that interim period the investor will be required to absorb resultant shortfalls. Stargas recognizes that were it a larger enterprise having in its employ numbers of clerical/accounting personnel that it would not be in the quandary that its finds itself. Stargas will seek to contract its necessary administrative services (642 hours annually) with an individual interested and able to be available for its ratepayers and suppliers 24/7 at the approved rate of \$24.46 per hour while seeking bookkeeping and accounting alternatives for the 328 annual hours in either Vernon or Kelowna

at a blended rate of \$53.34. Mr. M.A. Blumes' executive time, from June 1, 2017, will be billed for hours legislated in Order G-59-17 while incurring and documenting in detail actual hours that will, most assuredly, exceed those authorized by the Commission. In consequence, the investor will absorb the cost of additional hours needed but unpaid as a reduction in his holding company's "opportunity to earn an equitable return on its investment". Stargas, here, provides two examples (of many) of the challenge placed on executive involvement in the conduct of Stargas.

- Executive time allowed each month to review, resolve and approve monthly results is but one hour; in completing June, in response to a potential new build at the resort, Stargas was to discover that there an problem at BC1 with respect to line locates and 3.5 hours were necessary to redress that issue; experience evidences that one or another like issue arises on a regular basis.
- Stargas applied for and was denied a contingency allowance in its management estimate; June 6th a line break below the resort boundary resulted in all 290 meters serving Stargas ratepayers being shut-off and needing relight. Mr. Blumes has, to date, expended 8 hours addressing relight issues, with more time yet to be recorded communicating with absentee homeowners who will return only for the coming ski season.

BCUC Order G-59-17 has set, as applicable to November 1st, 2019, a \$5.77 delivery rate. If in sourcing replacement administrative and accounting services, it confirmed that the costs involved inconsistent with those allowed in the current revenue requirement model, Stargas will request approval to have an earlier application accepted to address that consequence. There one expensive but valuable lesson learned in the current proceedings; Mr. Blumes will not again accept primary responsibility for the preparation of delivery rate or financing applications before the Commission, but rather will draw on the services of experienced regulatory lawyers. Stargas will include in its application to alter delivery rates forward from November 1st, 2019 (or earlier) provision for a 2019 Delivery Rate Application Regulatory Account and associated rate rider to cover its costs (both internal and external).

Reconsideration: Regulatory and legal counsel costs:

Stargas submits that its costs incurred with respect to the initial reconsideration, to a \$5,500 ceiling, ought to be approved for inclusion in the 2016 DRARA as consistent with the determination of the underlying issue given that its costs in seeking reversal of the requirement to refund \$6,000 necessary to an equitable resolution of the 2016 delivery rate ruling. Stargas notes that it did respond to the SSPOA suggestion that it pay its own regulatory costs as well as those of the intervenors (Reference 4.3 Other matters-Stargas Exhibit B-3). Should the Commission allow a Participant Assistance/Cost Award (to which Stargas submits it ought not as that would support the SSPOA counsel's ill-considered motivation) or were additional Commission costs invoiced Stargas, Stargas submits that it equitable that the amounts of each be additional to the \$5,500 ceiling on its own costs.

Reconsideration -Administrative costs of refund:

In framing the request for \$1,000, Stargas estimated the time given to the refund – its actual costs were as follows: 16.5 administrative hours at \$24.46; 3.5 bookkeeping hours at \$46.16, 1.5 accounting hour at \$69.24 and 2 executive hours at \$144.26 or a total of \$957. Posting the reverse involved only one transaction per customer and the time recorded 3 administrative hours and .5 accounting or a further \$108.

Stargas submits that while relatively modest in amount, that there an important symbolic element justifying acceptance of a measure of additional administrative costs for inclusion in the 2016 DRARA; On April 27th, 2017 Stargas was required to re-invent its long-standing approved operating procedures effective June 1st, 2017 and in doing so was not awarded any transitional allowance nor provision for contingency. Only in last days has Stargas completed its financial statements and annual report; extenuating circumstances in Stargas' various interactions with Commission, its Accountants and suppliers have come with unavoidable consequence.

Conclusion:

Stargas submits that its introduction to this Argument relevant in providing context; at issue is not whether Stargas and its investor castigated in the several decisions of the Commission but rather the extent of the costs, both in the past and future that it is to bear arising not from its good offices, but rather due to the absence of economies of scale that would, in other circumstances, be available to it. The Commission legislated hours and rates that, absent the investor's good faith in committing to underwrite shortfalls, would jeopardize the utility's ongoing operations.

Stargas submits, therefore, that the award of its costs to a maximum of \$6,500 together with any of those costs incurred by the Commission or awarded to intervenors ought to be approved for inclusion in the Stargas 2016 Delivery Rate Application Regulatory Account.

Respectfully Submitted



M. A. Blumes

President, Stargas Utilities Ltd.