SPOA Silver Star Property Owners Association.

September 19, 2017

BC Utilities Commission
900 Howe St,
Vancouver, BC
V6Z 2S9

Attention Patrick Wruck, Commission Secretary

Dear Sir

RE: STARGAS UTILITIES LTD. - APPLICATION TO AMEND RATE SCHEDULE AND ACCOUNTING FOR INSTALLATION COSTS

The Silver Star Property Owners Association is submitting our Final Argument in advance of the September 22 deadline for the above noted proceeding. Please note that the SSPOA is not filing a PACA application for this matter. We trust you will find everything in order, however if you have any questions or have concerns please feel free to contact me at any time

Regards

Mike Waberski Chair, SSPOA Utility Services Committee

Copy: Sandy Cook SSPOA President and Committee members

BRITISH COLUMBIA UTILITIES COMMISSION

STARGAS UTILITIES INC. Application to Amend Rate Schedule and Accounting for Installation Costs

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ARGUMENT OF THE SILVER STAR PROPERTY OWNERS ASSOCIATION

September 19, 2017

I. INTRODUCTION AND OVERVIEW

This is the argument of the Silver Star Property Owners' Association (SSPOA). It responds to Stargas Utilities Inc.'s (Stargas) Application to amend the rate schedule and accounting for installation rates. Incorporated in 2004 as a registered society, the SSPOA represents over 500 property owners at the Silver Star Resort near Vernon, BC, on matters of common concern.[1] Its membership includes residential customers in addition to large and small business customers of Stargas.

Stargas is seeking approval to vary its current installation costs that have been, to date, recovered from customers at the Stargas contractor's cost plus a 10% Stargas markup. In Appendix A to Order G 59-17, Section 2.6 the Panel encouraged Stargas to file an Application with respect to this issue. The Stargas initial application proposed to pass on to new customers only the Stargas contribution to the cost of the meters (currently $450). The balance of the cost of installing a standard line and manifold costs (if applicable) incurred in completing new and propane conversions would be capitalized. Stargas also proposed to amortize this installation cost over one hundred and twenty months commencing November 1, 2019[2].

Stargas, subsequent to BCUC Information Request No. 1, substantially amended its application [3] to:

- Include meter costs with line and other costs in the rate base, charging new residential and small commercial installations and customers converting from propane only a twenty-five ($25) installation charge.

- Amend its proposed amortization of costs added to rate base over 35 years rather than the 10 years proposed in the Application as filed.

- Initiate the proposed 2017 Installation Application Regulatory Account rider upon confirmation of costs therein by Commission Staff rather than over the 24 months commencing on November 1st 2019[4].

The SSPOA supports this general approach. As noted by both Stargas and the Commission in the 2016 Stargas Delivery Rate Proceeding, the SSPOA argued that Stargas should consider a new policy of customer contributions for new installations to attract additional customers to Stargas utility service. For the reasons below, however, the SSPOA considers the marketing plan to be unduly expensive and is concerned about regulatory inefficiency and transparency.

[1] Ex. C1-1, p. 2
[2] Ex. B-1 p.1
[3] Ex. B-2 p.1
[4] Ex. B-1 p. 2

II. ARGUMENT

1. Amortizing Installation Costs

The existing Stargas policy is to require a 100% customer contribution for a new customer meter at $450 and a line installation cost of $1250 as well as a 10% mark-up along with a $50 Application Fee, totaling $1920.

In the final arguments submitted for Order G-59-17 the SSPOA noted that in the Information Requests (IRs) and during the Streamlined Review Process (SRP) Stargas candidly recognized the discouraging effect of its policies on system growth. It noted new customers will only "break even" after 1.5 to 2.5 years of steady use ("volumes of any consequence"). Stargas attributes its failure to attract new customers to the fact that many Silver Star resort residents' volumes do not meet that threshold.[6] But, as the SSPOA explained during the SRP, aside from conversions from propane, Stargas costs appear to be deterring new construction from installing natural gas at the outset, as demonstrated the lower penetration of gas into a new subdivision in favor of continued reliance on propane or electricity[7].

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.

In summary, the SSPOA supports amortizing the installation costs and charging a basic connection fee, and suggests that the fee of $25, which is equal to the FortisBC Energy installation policy, is acceptable. This support is subject to the SSPOA's comments concerning amortization accountability and transparency outlined in section 7.

2. Proposed Marketing Plan

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].

In its reasons for decision for Order G-59-17 the Panel noted:

> "*the Panel considers that to the extent the 55 executive hours spent on marketing applies to new customer marketing, it does not necessarily provide value to the existing customers unless new customers are added, in which case, there may be economies of scale benefit. As Stargas noted in the SRP, they have been "singularly unsuccessful" in winning new customers from those homes which are currently using propane, and they "would not be pursuing conversions with time and money, as we had in the past." However, there is value in ensuring good relationships with existing customers, which in a small utility such as Stargas the executive may play a meaningful role. The Panel finds that 24 hours per year is adequate for maintaining relationships with existing customers, and approves only those hours for executive time."* [10]

[6] Order G-59-17 Ex. B-3, p. 25, Question 7c. SRP Transcript, p. 26, lines 8-17.
[7] SSPOA Final Argument for Order G-59-17 p.9
[8] Ex. B-5 p.2 & 3
[9] Appendix A to Order G-59-17 p.11
[10] Appendix A to Order G-59-17 p.11

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.

The proposed marketing plan includes:

a. An inventory of "residences at the resort accompanied by a propane tank" so that Stargas could "prepare and mail to the homeowner" a letter. Stargas estimated the inventory to cost $240 (a $6.00 contract per found tank)

b. A door to door visit this winter by a Stargas administrator. Stargas estimates this to cost $1,700 (at $100 per resort visit for travel, $20 per home consultation and a $20 bonus for confirmed conversions for spring 2018) [12]

c. Create and execute a marketing strategy by elevating Mrs. Carol Iles-Blumes from the Okanagan Funding Ltd. (OKF) administrator to a marketing manager. Stargas estimates this to cost $800 (for 16 hours at $50/hr.)

d. Mr. M Blumes will oversee co-ordination of the various actions; Cost $760 (derived by subtracting items a., b. and c. above from the total estimate of $3500)[13].

The SSPOA objects to many aspects of the proposed marketing plan. The key benefit of the new policy is the attraction of the low Installation Fee. A more appropriate marketing plan would consist of basic posters and leaflet drops, with the time-intensive labour done at near-minimum wage. It does not require an executive paid at $144.26/hr. to supervise his wife's work at $50/hr. More specifically:

a. Since 2012 Stargas has charged the rate payers 56 hours per year of executive time for marketing[17]. Over those five years, in theory, propane users should be the subject of those 280 hours of effort. Stargas should therefore be expected to already have an inventory of propane users. If not, ratepayers should not be expected to fund what ought to already be in place and has been paid for in past years delivery rates (at least any marketing plan should have contemplated so).

b. Most homes do not receive mail to their Silver Star street address so a letter would be fruitless.

c. Conducting a door to door visit this winter will only provide for a 1 year construction window for connections, given the late filing of this plan by Stargas as outlined in Section 3

[11] Appendix A to Order G-59-17 p.11
[12] Exhibit B-2 p. 14
[13] Ex. B-2 p.14
[17] Order G-157-12 Ex. B-1 attachment B-5

d. There is no demonstration of the value of yet another non-arm's length transaction[18] between Stargas and OKF. An attractive connection fee, reasonable notice, and word of mouth ought to suffice. The incremental time and costs expended to facilitate notice and word of mouth should be minimally incremental to the currently approved marketing of 24 hours per annum and 16 hours of "resort interfacing". The SSPOA expects that these regular efforts offer significant efficiencies towards undertaking notice and word of mouth activities.

While the Commission invited Stargas, in Order G-59-17, to explain <u>why</u> more marketing time was needed, Stargas has not done so. Stargas essentially provides the "what" without the "why". It is not self-evident, and does not meet Stargas' onus to explain.

Based on the above the SSPOA feels that the marketing component of the forecast should be largely denied. The SSPOA suggests that the main parts of the Marketing Plan have been paid for already or are accounted for in the present delivery rate. If customer connection fees are materially reduced, there should be simple notification to the Silver Star homeowners, through posters and several basic leaflet drops.

The SSPOA notes the request by Stargas:

> *"Perhaps as the Chair of the Services Committee, Stargas might be provided a listing of its members (their addresses) consuming propane noting that were they do so, Stargas marketing costs reduced and the benefit of new customer numbers and volumes accrue to reducing rate payer delivery rates."* [19]

The Silver Star Property Owners Association has, in the past, used our emailing list to assist Stargas in notifying the members of a recent gas line break necessitating a lock off of all 291 customers. The SSPOA can not release the information requested nor specifically assist Stargas in marketing through our association to comply with privacy protocols. The SSPOA will, however, be publishing the results of this proceeding in our newsletter and an announcement will be posted on our website, describing the new installation policy and the accompanying installation rate rider. The SSPOA anticipates that there will be considerable interest in converting to natural gas generated by the newsletter and announcement, a service provided to Stargas at no charge.

3. Timing of the Application

Filing the current application on June 28, 2017, some 4 months after the commitment that made in the Stargas' Reply Argument for the 2016 Delivery Rate, does little to fulfill the "*but will, in advance of the coming construction season,"* statement in the Stargas Reply Argument[20] During that time Stargas pursued other applications to the Commission. The ratepayers will only benefit from the propane conversion initiative if new customers are added. The benefit to the rate-payer in supporting the amortization of installation costs is to significantly increase the annual volume of natural gas consumed, so as to offset the amortization and the associated rate rider costs before July 2019, when Stargas will next appear before the Commission. The benefits of two construction seasons have been eroded by when the application was filed.

[18] The SSPOA has raised this issue in Proceedings for G-59-17 Ex. C1-2 p.3 & 4
[19] Ex. B-3 p.4
[20] Order G-59-17 Stargas Reply Argument p.15

4. Fortis Alternate Energy Services (FAES) Meter Cost Reduction to $215

Stargas originally proposed an incentive program that included a time restricted offer by FAES for meter costs. This offer only applied to propane conversions and is to expire on December 31 2017.[21] Stargas states that

> *"While not explicitly covered in the attached letter describing the agreement, FAE would, Stargas believes, renew/extend the provision upon presentation of a request to do so should Stargas present confirmation that there opportunity to gain significant additional delivery volumes (that find benefiting in those both by increased fixed and variable charges). Absent further credits the meter charge will increase to $450; it to be noted that the current FAE contract to be reviewed/renewed effective November I, 2019. Stargas has asked FAE to remove its clause 3 from the Memorandum of Agreement on the basis that the reduction, while not a direct credit to customers, of benefit to ratepayers by reducing the increment added to rate base with each propane conversion*." [22]

Due to the Stargas revision of its application to charging only $25 for a new customer connection, this has rendered that the FAES incentive offer is now moot, as there is no direct benefit to the new customer by the FAES offer. There is however an indirect benefit to the rate-payers as a whole by reducing the amortization costs of the program to the rate-payers by using a meter cost of $215 as opposed to $450.

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.

5. Removal of the 10% Markup on Installations

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 BCUC noted in IR No1 that:

> *"In the Commission's Reasons for Decision to Order G-172-16, the Commission disallowed a markup on parts and labour, stating: "[consistent with other findings of this Panel (i.e. that under the cost estimate framework, the utility's return is limited to the allowed return on rate base) the Panel finds that the markup over costs on parts and materials is not permitted."*

And the Commission then asked:

[21] Ex. B-2 p.4
[22] Ex. B-2 p.4 & 5
[23] Ex. B-3 p.2 Question 5

> *"8.1 Please discuss if Stargas is proposing to include the 10 percent markup on new installation costs in rate base or record as an expense item."*

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.

6. Regulatory Costs and Efficiency

6.1 New 2017 Installation Rate Rider Costs

The SSPOA objects to the following Stargas Rate Rider forecasts:

24.5 hours for the application preparation	24.5 @ $144.26 = $3,534
5 hours for distribution of notices	1 @ $144.26 4 @ $69.24 = $421
13.5Hours for the Response to BUCU IR No 1	13.5 @ $144.26 = $1,948
14 hours (estimated) for Response to SSPOA and final arguments	14 @ $144.26 = $2,020
Total OKF compensation	$7,923
Legal costs from Bennett Jones	$1,616
Total	**$9,539**
Costs from the SSPOA	NIL
Costs from BCUC	Unknown

[24] Ex. B-2 p.9 Question 8.1
[25] Ex. B-2 p.9 Question 8.2

We note that Stargas, when asked to provide the expected costs from the BC Utilities Commission (BCUC) the response was:

> *"We would expect that, if any, BCUC costs will be minimal and be included in our estimate of out-of-pocket costs as described in our response to BCUC"* [26]

In the response to BCUC IR No1 Q-11.3 Stargas estimated $9,500 in total for application costs. Based on the forgoing the SSPOA understands the BCUC cost to be NIL.

We note that in the 2016 Delivery Rate Proceeding, Stargas estimated the BCUC costs to be $2,530 [27] when in fact the amount charged to the 2016 Delivery Rate Application Regulatory Account was $15,535[28].

The SSPOA has concerns that Stargas has once again understated the costs associated with the Application Process.

Management practices should be efficient. Stargas' once again are not. The most efficient practice would have recognized the merits of the revised policy during the 2016 Delivery Rate Proceeding. Stargas did not seriously engage with the concerns continually defending their installation practices.

Now, while Stargas has brought the application forward, it was revised extensively following the BCUC IR No 1. Stargas continues to seek full cost recovery, at full "executive" and "accounting" rates, despite the fact that Stargas describes its efforts as a "continuing education of management":

> *"Having further considered the tenor of questions raised in IR No. 1, <u>Stargas re-evaluated costs and benefits under a further revised program and concluded that a further reduction to the amount charged new customers warranted,</u> Stargas, hereby, requests Commission approval to amend its Application to conform, as relates to the initial cost to new ratepayers (whether new installations or customers converting from propane to natural gas)"* [29]
>
> *"Our application included a proposed I0-year amortization based, <u>erroneously</u>, on the assumption that amortization of these incremental costs would be fairly addressed in relation to the life of the utility and that since amortization would be recorded only forward from November 1st, 2019, that a ten-year period reasonable. Stargas cannot and does not seek to justify its proposed 10-year amortization"* [30]
>
> *Stargas acknowledges this a further lesson offered and absorbed in its <u>management's continuing education in regulatory accounting requirements</u> and accepts that there no basis for departures*[31].
>
> *(emphasis added)*

The costs of the current application now risk being disproportionately expensive to the benefits offered to the rate payers, and should be reduced substantially. For example, despite the proposed marketing spend, the revenue figures do not indicate any incremental sales increase. The line "incremental revenue" in the Panel IR spreadsheet flat lines from 2019 onwards.

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[26] Ex. B-3 p.3
[27] Order G-59-17 Ex. B-13 p.13
[28] Ex. C1-4 May 8th Stargas Notice to Customers
[29] Ex. B-2 p.2
[30] Ex. B-2 p.6
[31] Ex. B-2 p.6

The SSPOA contends that Stargas could have and should have addressed the installation costs during the 4 month period of the 2016 Delivery Rate Proceeding. Ratepayers should not be asked to pay for a process that could have been avoided, and should in any event be shorter. Ratepayers should not pay for a "continuing education program" for Stargas management.

In summary, this looks like a business trying to run a 'cost plus' model, where there seems to be very little profit at risk for Stargas. This leaves little incentive to either attract new customers or become more efficient, therefore reducing costs. If the cost of dealing with previous errors can be turned into a revenue opportunity for connected parties (OKF), this removes what little incentive there is in the first place.

6.2 Unclear Amortization of Installation Costs and Application Rate Rider Accounts for 2016 and 2017

Stargas has portrayed the 2016 Delivery Rate Application Rider Account (DRARA) and its amortization in communications to the rate-payers[32] and in the present proceedings as $1.45 / GJ[33]. The SSPOA notified Stargas of the error by email on May 24, 2017; noting they failed to amortize the DRARA over 3 years, yielding $0.48 / GJ instead. Stargas acknowledged the error in a reply that same day.

One month later, on June 28, 2017, Stargas' submission for this proceeding continued to misrepresent the rate rider as $1.45 / GJ. Clarification was sought by the BCUC:

> *"In the event that there has been a change to $1.45 per GJ estimated rate rider related to the 2016 Delivery Rate Application Regulatory Account stated in the Application, please provide a revised propane conversion payback analysis using the revised estimate."*

The Stargas response was

> "*The current estimate of the rate rider on the 2016 regulatory account is 49 cents per gj and the table included in the Application would have been amended as follows; note, however that the meter cost included in the tabulation is, with the amendment to the Stargas application as presented in the introduction to its response to IR No. 1, now to be included in rate base with the cost incurred by new customers reduced to $25."* [34]

In the SSPOA IR, Stargas was questioned on the continued use of the erroneous rate rider and the response was:

> *"The chair of the SSPOA Utility Services Committee, now several weeks ago, brought to the attention of Stargas that it, following an initial review of the calculations by Commission staff, had erred in its original determination of the amount of the then estimated rate rider in that while there $1.45 per gigajoule to be recovered, that amount to be recovered over three years and that the applicable rate 1/3 or 48 cents. Stargas has an application before the Commission, as of today unresolved, that seeks inclusion of additional costs that would, if allowed, increase the rate rider. Including costs incurred and approved to date, the rate rider would be 49 cents."* [35]

The average ratepayer has difficulty following the language and grammar used by Stargas. Stargas' math, revisions, and lack of timely revisions continue to produce both confusing results and little comfort that what will be a more complicated amortization of staggered installation costs, will unfold appropriately.

The SSPOA therefore requests the Commission to direct Stargas to provide transparent and timely calculations, to avoid these types of errors in the future.

[32] Ex.C1-4 Stargas May 8th Notice to Customers
[33] Ex. B-1 Appendix d
[34] Ex. B-2 p.17
[35] Ex. B-2 p.4 &5

III. CONCLUSION

The Silver Star Property Owners Association fully supports the proposed amortization of connection fees. The high costs that rate-payers must endure at Silver Star and the need to grow the customer base are now being recognized by Stargas.

The SSPOA would have supported the proposal and promoted the new Installation Policy were it not for such a large rate rider associated with the application, and had Stargas adopted an amortization schedule comparable to other utilities at the outset.

The SSPOA specifically does not support the scope of the proposed marketing plan. It contains excessive hours at excessive rates and would rely on family members employed by a non-arm's length company. In the response to the BCUC IR No. 1 Stargas, when asked to elaborate on how its proposal is fair to existing customers, Stargas responded:

> *"Stargas acknowledges that its small numbers of existing ratepayers have, in consequence, included within their current delivery rates a relatively heavy burden related to the cost of operating the utility and in its administration."* [36]

Adding excessive regulatory and marketing (administrative) costs is not helping that burden. A fundamental principle of ratemaking is that the utility applicant bears the onus to establish the reasonableness of its forecasts. The SSPOA submits that Stargas has failed to discharge this onus in relation to their marketing strategy. Further, this application bears similarities to our recent engagement on the 2016 Delivery Rate Proceedings in which we saw regulatory inefficiency:

- Multiple amendments to the application
- High administrative estimates
- Non arms-length financial relationships

Stargas notes in its application and information responses that:

> *"the revised rate structure will present compelling economic justification for homeowners to acquire natural gas in place of propane"* [37]
>
> *"Stargas, seeking to repatriate its standing in the community,"* [38]
>
> *"address/resolve what appears to be a negative perception of Stargas within the Silver Star Resort community, and accordingly, Stargas seeks to amend its Application to achieve that objective."* [39]
>
> *"a compelling offer to those customers and with take up accelerated by "word of mouth" in a relatively small community that marketing hours could be minimized."* [40]

[36] Ex. B-2 p.2 & 3
[37] Ex. B-2 p.18
[38] Ex. B-3 p.3
[39] Ex. B-2 p.2
[40] Ex. B-2 p.3

> *"the Resort community has come to understand the implications of volume on their individual heating costs so that community support can and will be mustered by Interface with community leaders."* [41]

The SSPOA appreciates Stargas' intentions to improve corporate relations at Silver Star. The adoption of amortized installation costs and matching the FortisBC $25 Fee is a welcome step. However, the Commission should nevertheless significantly reduce the costs accompanying the proposal, proposed for the 2017 Installation Application Regulatory Account.

[41] Ex. B-1 p.5