Stargas Utilities Ltd.
2475 Dobbin Road, Unit 3
PO Box 26039 West Kelowna
British Columbia, V4T 2G3

British Columbia Utilities Commission
Sixth Floor, 960 Howe Street, Box 250
Vancouver, B.C. V6Z 2N3

Attention: Commission Secretary

September 26, 2016

Subject: Application to vary delivery rate, amend cost of service formula and approve replacement term financing/redemption of preferred shares

Dear Ms. Hamilton:

In accordance with the British Columbia Utilities Commission's requirements and in the interest of Stargas Utilities customers, we are seeking approval to reduce the variable delivery rate charged customers from its current $7.38 to $6.93 per gigajoule, on an interim* basis effective November 1, 2016 which if approved would entail an decrease of $.45 and is based on anticipated volumes of 40,683.7 gigajoules in the test year (fiscal 2017), approval of its amended cost of service formula and proposed replacement term loan/redemption of preferred shares.

*While we are requesting interim approval for the change in our delivery rate, our commitment letter providing for the replacement term loan (and its projected interest rates) is time sensitive so that we would ask that, if at all possible, approval of the reduced delivery rate be made effective on a final basis on or prior to December 15th, 2016 as the commitment expires December 31, 2016.

A proposed $2.07 increase in our commodity rate from its current $2.95 to $5.15 is the subject of a separate application.

Cost of Service: We seek approval to amend our current formula, excluding annual amortization to be replaced by debt service, as well as allowing interest paid on shareholder advances within that calculation. If approved, Stargas would be positioned to, over time, replace higher cost equity financing (its preferred shares) with term bank debt.

Refinancing: We seek approval to, December 1, 2016 or if later following BCUC approval to draw down a replacement term loan at prime plus 1.25% (fixed rate options available) in the amount of $300,000, maturing in five years to be amortized over 72 months with a lump sum payment of the balance due November 30, 2021. The proceeds will be used to retire the existing term loan and in the redemption of $100,000 of the Class G preferred shares. Stargas will proceed to draw down the replacement financing upon receiving BCUC approval to include debt service in lieu of amortization in its cost of service calculation (in the absence of which, it would not generate the funds necessary to service the replacement financing).

Deferred Dividends: By BCUC Order G157-12 dated October 29, 2012 Stargas was authorized to annually, over twenty years, pay and include in its revenue requirement an additional dividend of $6,794. Cumulative dividends of $135,887 had accrued on the $400,000 shareholder investment in Stargas Preferred shares through its 2002 to 2006 fiscal years but were unpaid. We propose to, effective with our May 31, 2017 annual report, record the balance remaining as a deferred charge and component of equity within our balance sheet rather than by supplementary note disclosure. The change is, we note, merely cosmetic.

Conclusion: We will include a notice of this application and of the price changes contemplated in it (a draft of that notice is included) in our monthly billing cycle as well as post copies on our web site and at the Resort.

We would remind the Commission that we are a very small utility with limited human and financial resources and while we are prepared to answer all of the interrogatories raised by BCUC staff, ask your continued indulgence in our response to a highly technical and nuanced regulatory process. We ask that the resolution of this application be addressed by written submission. All enquiries should be addressed to:

M.A. (Moe) Blumes, President
Stargas Utilities Ltd.
1960 K.L.O. Road, Unit 17
Kelowna, BC. V1W 5L2
Telephone (250) 763-6717; email Info@Stargas.ca

Yours truly

M. A. Blumes
President

Stargas Utilities Ltd.

Index to Documents (Attachment B1)

Stargas Utilities Ltd.

Proposed Amendments to Cost of Service

We are seeking Commission approval on two amendments to the formula determining cost of service. The first of the changes we seek, if approved, would reduce delivery rates by allowing us to replace higher cost equity investment with term bank debt. The second would allow the inclusion of interest on shareholder advances.

Debt service in replacement of amortization:

Stargas is proposing to replace amortization in the cost of service calculation with debt service and has, in negotiating the terms of its proposed replacement term loan structured the terms of repayment so as to reflect meaningful reductions in the amount that would otherwise be included in that determination.

Under the current approved rate setting model, cost of service includes dividends on $400,000 invested in preferred shares, an allowance for dividends accrued but unpaid in the early years of operation, and amortization of capital investment. Stargas pays annually a dividend on the preferred shares ($38,000 in the fiscal year ending May 31, 2017 at benchmark return plus 75 basis points), $6,794 as the "catchup" amount on unpaid dividends (BCUC Order G157-12), and through to May 31, 2019 records amortization of $54,800. The inclusion of the current level of amortization in cost of service/delivery rate generates revenue in an amount that approximates the funds required to service the term loan. In our fiscal year ended May 31, 2016 we paid $52,428 on our TD term loan (2015 - $52,757). A similar equivalence will repeat in each of the test (fiscal 2017) and two following fiscal years but thereafter, having fully amortized deferred amounts, the utility will record reduced amortization expense. While amortization currently serves as a <u>surrogate</u> for debt service, it will not thereafter. With BCUC approval to include debt service in lieu of amortization, the utility would reduce its cost of service by redeeming preferred shares with the proceeds of additional term bank loans. Inclusion of its debt servicing cost would allow the utility to provide investors both a return on and <u>of</u> its investment in Stargas; with the first proposed redemption of $100,000 the annual preferred share dividend would reduce from $38,000 to $28,500. Stargas would provide its' customers a meaningful reduction in the annual delivery charge, while securing Stargas cash flows and establishing a more typical debt/equity relationship in its balance sheet.

If the replacement term loan approved, the preferred share dividend reduces to $28,500 and the annual amount required to service the replacement term loan $56,241 (a total of $84,741) reducing cost of service by $8,059. Amortization in the fiscal years forward from June 1, 2019 will be reduced to $16,072 so that absent approval of the proposed changes cost of service would include $54,072. In refinancing the term loan (reflected to be negotiated as amortized over 10 years with a further redemption effective June 1st, 2019 annual term loan payments from June 1, 2019 would reduce to $34,282 so that there remains (albeit modest) reductions in cost of service going forward.

If approved to include debt service in place of amortization, Stargas would, in future refinancing transactions, redeem higher cost preferred shares with lower cost term loans; the forecast 2019 refinancing as with any subsequent refinancing's would, of course, be subject to BCUC approval.

Stargas submits that the proposed change in its calculation of cost of service and acceptance of the proposed
refinancing positions it to continue to meet the natural gas supply requirements of the resort at lower costs than would otherwise customers incur.

Interest on Shareholder Advances

Stargas seeks BCUC approval to include interest of shareholder advances in the determination of its cost of service. CMI Holdings (1998) Inc. (Stargas parent company) and its shareholders' provide cash advances and personal guarantees as "backstops" to its banks requirements with respect to the operating facility utilized to cover seasonal cash flows and to finance receivables. While interest on the operating loan provided by the bank is included in the computation of "cost of service" (and then in rates) Stargas does not, currently, include interest on shareholder's advances in that calculation. Through each fiscal year, the utility operates with unused credits in its operating facility so that through those periods, it could operate without shareholder funds. Given the underlying basis for these advances (consistent with and a backstop for operating funds provided by our banker) we believe that this cost ought, equitably, be included in cost of service/rates.

Stargas Utilities Ltd.
Delivery Rate Application
September 26, 2016

Amortization: Stargas is proposing replacing amortization in its cost of service calculation with debt service; the following table summarizes capital expenditures and amounts deferred as approved by the Commission in previous filings and as reported upon by our accountants as at May 31, 2016.

	31-May-16	31-May-16	31-May-16
	Cost	Amortization	NBV
Property & Equipment	$ 643,037	$ 230,151	$ 412,886
Deferred - Fortis contribution	444,329	377,680	66,649
Deferred - amortization	117,702	82,391	35,311
Deferred - interest	47,413	33,189	14,224
	$1,252,481	$ 723,411	$ 529,070
	Years	Annual	Remaining
Annual amortization - P&E	40	$ 16,072	23
Annual amortization - contribution	20	22,216	3
Annual amortization - amortization	10	11,770	3
Annual amortization - interest	10	4,741	3
		$ 54,800	
Amortization - Fiscal years 17 through 19		$ 54,800	
Amortization - Fiscal years 20 through 39		$ 16,072	

Stargas Utilities Ltd.

Submission to the BCUC

Replacement Term Loan

Introduction: The Utility's banker has authorized a replacement committed reducing term loan of $300,000 (see Exhibit B7a); its proceeds will be used to retire existing term debt and to redeem 1,000 Class G preferred shares of Stargas having a par value of $100,000. The replacement loan is conditioned upon BCUC approval of the refinancing/change in the calculation of "cost of service" (refer to Drawdown on page 3 of the TD Bank commitment letter). The loan is to be amortized over 72 months from the date of drawdown. At the company's option, interest is to float at 1.25% over prime or be fixed for whatever period selected by Stargas. The choice amongst pricing alternatives has not been made at this point (indicative rates will vary between the date of commitment and drawdown). As of September 12th, 2016 the bank has indicated that the rate fixed for 1, 2 or 3 years would be 3.61%, 3.83% or 3.95% respectively; if Stargas opts to float with prime, the current rate would be 3.95%. The attached projections assume a rate of 3.95% throughout.

Discussion: CMI Holdings (1998) Inc. (its predecessors) invested $400,000 in funding the capital investment made to bring natural gas to Silver Star Mountain Resort; the utility, from its fiscal year ending May 31, 2007, paid a dividend at a 75 basis point premium to the benchmark return on equity set by the BCUC and was, in 2012 authorized to recoup foregone dividends from earlier years in the amount of $135,887 over the following twenty years. The balance of the initial capital investment was funded by bank loans (in excess of $500,000) and a contribution from Fortis Gas (then BC Gas). As at May 31, 2016 the utility's committed reducing term bank loan had been reduced to $208,388 and, absent the proposed loan, would be further reduced to $163,259 by the end to the test year.

Based upon the company's history and its forecasts, the covenant of CMI and its shareholders, management obtained the commitment for the replacement term loan – the loan has a five year term, so that, absent an earlier refinancing, will be retired by a lump sum payment November 30th, 2021; Stargas expects to at that time, if not earlier, replace that loan with a further committed reducing term loan (its terms subject to BCUC approval) and would in doing so expect to redeem a further $100,000 tranche of its outstanding preferred shares. If the current refinancing is approved, at May 31, 2017 bank debt would approximate $277,000 and equity investment $340,000 ($300,000 in preferred shares and $40,000 in shareholder advances). While CMI, its shareholders, currently enjoy the current level of return on their investment, under the current regulatory model there is no prospect of a return of their investment given that amortization as a surrogate for debt service will, after a further three years at its current level, reduce to $16.076 (an amount that would generate revenue in an equivalent amount sufficient to service only the current term debt).

Conclusion: Replacing preferred share investment with term debt will benefit customers - lower cost bank financing will allow for a meaningful reduction in delivery rates. Stargas can proceed to do so, however, only if amendments to its cost of service formula establish a basis from which revenues can be generated in amounts necessary to cover both principal and interest payments on its term debt.

Note: The additional term loan will be drawn at the later of December 1st, 2016 and the date of approval for the application; therefor, the changes reflected in the test year will not be fully recognized in its results. However, for rate setting purposes, we've assumed the additional financing and preferred share redemption to have taken effect on June 1st, 2016.

Stargas Utilities Ltd,
Forecast - Test Year Ending May 31, 2017

2016-09-25

Balance Sheet	**Opening**	**June**	**July**	**August**	**September**	**October**	**November**	**December**	**January**	**February**	**March**	**April**	**May**
Current assets													
Cash	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts receivable	62,588	40,623	33,149	27,466	31,644	44,241	88,350	124,566	134,334	123,106	114,284	69,561	50,216
Prepaid insurance	10,933	9,841	8,748	7,655	6,562	5,469	4,376	3,283	2,190	1,097	13,204	12,104	11,004
	73,521	50,464	41,897	35,121	38,206	49,710	92,726	127,849	136,524	124,203	127,488	81,665	61,220
Capital assets	643,037	643,037	643,037	643,037	643,037	643,037	643,037	643,037	643,037	643,037	643,037	643,037	643,037
Accumulated amortization	230,150	231,490	232,829	234,169	235,509	236,848	238,188	239,528	240,867	242,207	243,547	244,886	246,226
	412,887	411,547	410,208	408,868	407,528	406,189	404,849	403,509	402,170	400,830	399,490	398,151	396,811
Deferred charges	444,329	444,329	444,329	444,329	444,329	444,329	444,329	444,329	444,329	444,329	444,329	444,329	444,329
Accumulated amortization	377,680	379,531	381,383	383,234	385,085	386,937	388,788	390,640	392,491	394,342	396,194	398,045	399,896
	66,649	64,798	62,946	61,095	59,244	57,392	55,541	53,689	51,838	49,987	48,135	46,284	44,433
Deferred amortization	35,311	34,330	33,349	32,368	31,388	30,407	29,426	28,445	27,464	26,483	25,503	24,522	23,541
Deferred interest	14,224	13,829	13,434	13,039	12,644	12,248	11,853	11,458	11,063	10,668	10,273	9,878	9,483
	49,535	48,159	46,783	45,407	44,031	42,655	41,279	39,903	38,527	37,151	35,776	34,400	33,024
	$ 602,592	$ 574,968	$ 561,834	$ 550,491	$ 549,009	$ 555,946	$ 594,395	$ 624,951	$ 629,059	$ 612,171	$ 610,889	$ 560,499	$ 535,487
	Opening	**June**	**July**	**August**	**September**	**October**	**November**	**December**	**January**	**February**	**March**	**April**	**May**
Current liabilities													
Operating line	$ 98,539	$ 91,573	$ 97,311	$ 124,124	$ 131,016	$ 143,165	$ 146,408	$ 123,492	$ 110,730	$ 72,750	$ 58,190	$ 57,005	$ 83,822
Accounts payable	47,139	42,829	51,927	39,005	40,457	52,627	67,879	80,916	85,200	81,910	79,145	61,453	55,663
Statutory payables	9,708	9,343	1,955	3,122	6,434	4,036	13,638	25,122	16,276	25,543	29,855	6,113	8,448
Gas Cost Variance Account	19,870	14,840	9,247	3,863	(1,606)	(7,429)	(4,683)	(695)	2,168	3,789	4,864	2,898	0
Income tax payable	10,521	10,521	10,521	-	-	-	-	-	-	-	-	-	9,000
Interest due shareholders	-	200	200	200	200	200	200	200	200	200	200	200	200
	185,777	169,307	171,160	170,315	176,502	192,599	223,442	229,034	214,574	184,192	172,254	127,670	157,133
TD Term Loan	208,388	204,682	201,029	197,280	193,903	190,515	187,116	-	-	-	-	-	-
TD Replacement Term Loan								295,642	291,929	288,203	284,465	280,715	276,952
Deferred Finance Charges	-	-	-	-	-	-	-	-	-	-	-	-	-
	208,388	204,682	201,029	197,280	193,903	190,515	187,116	295,642	291,929	288,203	284,465	280,715	276,952
Shareholders' interests													
Shrhlders'/Affils' loans	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Preferred shares	400,000	400,000	400,000	400,000	400,000	400,000	400,000	300,000	300,000	300,000	300,000	300,000	300,000
Common shares	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Deficit	(232,573)	(240,021)	(251,355)	(258,103)	(262,396)	(268,169)	(257,164)	(240,725)	(218,444)	(201,224)	(186,830)	(188,885)	(239,598)
	208,427	200,979	189,645	182,897	178,604	172,831	183,836	100,275	122,556	139,776	154,170	152,115	101,402
PAGE B1 - 5	$ 602,592	$ 574,968	$ 561,834	$ 550,491	$ 549,009	$ 555,946	$ 594,395	$ 624,951	$ 629,059	$ 612,171	$ 610,889	$ 560,499	$ 535,487

Includes proposed replacement term loan and redemption of preferred

Stargas Utilities Ltd,
Forecast - Test Year Ending May 31, 2017

Income Statement	**June**	**July**	**August**	**September**	**October**	**November**	**December**	**January**	**February**	**March**	**April**	**May**	**2017**
	Actual	**Actual**	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	
Gigajoules delivered	**1,500.0**	**1,348.7**	**1,047.7**	**1,484.5**	**2,232.7**	**4,833.6**	**6,534.4**	**6,582.6**	**5,659.0**	**5,252.6**	**2,379.8**	**1,828.2**	**40,683.7**
Revenue													
Commodity recovery	$ 4,425	$ 3,979	$ 3,091	$ 4,379	$ 6,586	$ 24,889	$ 33,646	$ 33,895	$ 29,139	$ 27,046	$ 12,254	$ 9,414	$ 192,743
Delivery	11,070	9,953	7,732	10,956	16,477	33,787	45,675	46,012	39,556	36,716	16,635	12,779	287,349
Basic charges	5,245	5,205	5,245	5,245	5,245	5,245	5,260	5,260	5,260	5,260	5,260	5,260	62,990
Meters and line	-	-	-	-	1,870	-	-	-	-	-	-	-	1,870
Sundry revenue	156	144	121	154	212	479	634	639	555	518	256	206	4,073
	20,896	19,281	16,188	20,734	30,391	64,400	85,216	85,806	74,510	69,539	34,405	27,659	549,024
Cost of sales													
Natural gas-variable per Gj	3,972	4,088	2,991	4,365	6,926	16,659	24,175	25,047	21,533	19,986	8,236	6,327	144,305
Demand/other gas costs	5,483	5,483	5,483	5,483	5,483	5,483	5,483	5,985	5,985	5,985	5,985	5,985	68,308
GCVA adjustments	(5,030)	(5,593)	(5,384)	(5,469)	(5,823)	2,746	3,988	2,863	1,622	1,075	(1,966)	(2,898)	(19,870)
Meters and line	-	-	-	-	1,700	-	-	-	-	-	-	-	1,700
	4,425	3,979	3,091	4,379	8,286	24,889	33,646	33,895	29,139	27,046	12,254	9,414	194,443
	16,471	15,302	13,098	16,355	22,104	39,511	51,570	51,911	45,371	42,493	22,151	18,245	354,582
Expenses													
Operations & maintenance	7,128	6,900	6,445	7,105	8,234	12,162	14,746	14,819	13,424	12,810	8,472	7,639	119,882
Professional fees	-	6,200	-	-	-	-	-	-	-	-	-	-	6,200
Office and sundry	1,013	891	831	834	923	1,225	1,594	1,781	1,752	1,660	1,369	1,096	14,969
Insurance	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,100	1,100	13,130
Management fees	8,951	5,790	5,790	5,790	11,790	8,161	7,371	5,790	5,790	6,581	7,371	8,951	88,127
Interest - term debt	642	694	599	649	638	627	329	973	961	949	936	924	8,922
Shareholder interest	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Other interest	324	301	320	409	431	471	482	406	364	239	192	188	4,129
Amortization	4,567	4,567	4,567	4,567	4,567	4,567	4,567	4,567	4,567	4,567	4,567	4,567	54,804
	23,918	26,636	19,846	20,647	27,877	28,506	30,381	29,630	28,151	28,099	24,207	24,664	312,562
Income (loss) before tax	(7,448)	(11,334)	(6,748)	(4,292)	(5,773)	11,005	21,188	22,281	17,220	14,395	(2,056)	(6,419)	42,019
Provision for income tax	-	-	-	-	-	-	-	-	-	-	-	9,000	9,000
Net income	(7,448)	(11,334)	(6,748)	(4,292)	(5,773)	11,005	21,188	22,281	17,220	14,395	(2,056)	(15,419)	33,019

PAGE B1-6

Includes proposed replacement term loan and redemption of preferred

Stargas Utilities Ltd,
Forecast - Test Year Ending May 31, 2017

Gas Cost Variance Account	June	July	August	September	October	November	December	January	February	March	April	May	2017
Commodity recovery	$ 4,425	$ 3,979	$ 3,091	$ 4,379	$ 6,586	$ 24,889	$ 33,646	$ 33,895	$ 29,139	$ 27,046	$ 12,254	$ 9,414	$ 192,743
Commodity cost	9,455	9,571	8,475	9,848	12,410	22,143	29,659	31,032	27,517	25,971	14,221	12,312	212,613
Excess/(Shortfall)	(5,030)	(5,593)	(5,384)	(5,469)	(5,823)	2,746	3,988	2,863	1,622	1,075	(1,966)	(2,898)	(19,870)
GCVA - opening	19,870	14,840	9,247	3,863	(1,606)	(7,429)	(4,683)	(695)	2,168	3,789	4,864	2,898	19,870
GCVA - closing	14,840	9,247	3,863	(1,606)	(7,429)	(4,683)	(695)	2,168	3,789	4,864	2,898	0	0

Cash Flow

Receipts	June	July	August	September	October	November	December	January	February	March	April	May	2017
Cash receipts	$ 46,941	$ 30,467	$ 24,862	$ 20,600	$ 23,733	$ 33,181	$ 66,262	$ 93,425	$ 100,751	$ 92,330	$ 85,713	$ 52,171	$ 670,434
TD#2							300,000						300,000
Shareholder advances	-	-	-	-	-	-	-	-	-	-	-	-	-
	$ 46,941	$ 30,467	$ 24,862	$ 20,600	$ 23,733	$ 33,181	$ 366,262	$ 93,425	$ 100,751	$ 92,330	$ 85,713	$ 52,171	$ 970,434
Disbursements													
Expense disbursements	32,510	22,023	35,860	23,713	25,071	31,094	43,483	52,215	54,562	65,577	50,887	37,475	474,471
Statutory payments	3,118	9,634	746	(448)	6,584	1,104	3,111	23,561	3,322	7,306	28,755	1,332	88,123
Capital expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments on TD #1	4,348	4,348	4,348	4,026	4,026	4,026	187,116	-	-	-	-	-	212,238
Payments on TD#2							4,687	4,687	4,687	4,687	4,687	4,687	28,120
Preferred share redemption							100,000						100,000
Dividends - preferred	-	-	-	-	-	-	4,750	-	-	-	-	35,294	40,044
Income tax	-	-	10,521	-	-	-	-	-	-	-	-	-	10,521
Interest - shareholders	-	200	200	200	200	200	200	200	200	200	200	200	2,200
	39,975	36,205	51,675	27,491	35,882	36,424	343,347	80,663	62,770	77,770	84,528	78,987	955,717
Cash flow	6,966	(5,737)	(26,814)	(6,891)	(12,149)	(3,244)	22,916	12,762	37,981	14,560	1,185	(26,817)	14,717
Cash (overdraft) opening	(98,539)	(91,573)	(97,311)	(124,124)	(131,016)	(143,165)	(146,408)	(123,492)	(110,730)	(72,750)	(58,190)	(57,005)	(98,539)
Cash (overdraft) closing	(91,573)	(97,311)	(124,124)	(131,016)	(143,165)	(146,408)	(123,492)	(110,730)	(72,750)	(58,190)	(57,005)	(83,822)	(83,822)
Highest loan balance	**$146,408**												

PAGE B1-7

Includes proposed replacement term loan and redemption of preferred

Stargas Utilities Ltd.

Application to Alter Delivery Component of our Rates

Stargas is requesting a reduction of its delivery rate from its current $7.38 per gigajoule to $6.93 per gigajoule; its application to do so is based upon requested changes in inclusions in the determination of its cost of service and upon a proposed refinancing, that, if approved, will establish an ongoing basis under which Stargas would be able to replace higher cost preferred shares with lower cost term debt. The first such replacement financing and preferred share redemption is contemplated to close on December 1, 2016 (or later, if BCUC approval obtained thereafter) and, if approved accounts for 21 cents of the 45 cent reduction.

Stargas last changed its delivery rate November 1st, 2012 (BCUC Order Number G 157-12). The $7.38 rate established on that date included a $.53 increase from that charged previously.

Stargas currently services 287 customers from its grid within the Silver Star Mountain Ski Resort boundaries; operating in its seventeenth year, the utility was established to access natural gas for the resort community from the nearby city of Vernon; in addition to their initial investment Stargas shareholders underwrote not insignificant losses while building customer numbers and delivery volume.
Stargas has prepared a forecast for the fiscal year ended May 31, 2017 (the test year) upon which its proposed reduction in delivery rates is based. Included within that forecast is an annual dividend on the shareholder's $400,000 preferred share investment as well as a $6,794 amount approved for inclusion in the utility's costs to compensate the shareholder for dividends foregone in those early years. A Fortis subsidiary provides all of the physical aspects of the operation of the utility as well as certain of its administrative functions under a ten year contract approved by the BCUC running to November 30th, 2019. Okanagan Funding Ltd, a subsidiary of CMI Holdings (1998) Inc. (the utility's shareholder) provides management services on an as required basis at rates approved by the BCUC.

Natural gas is supplied to the resort at a significantly lower cost than other heating alternatives. This application and a companion application seeking approval for an increase in the commodity component of our variable rate contemplate a combined price of $12.08 per gigajoule. The average residence at Silver Star Resort consumes 80 gigajoules of natural gas (which equates to 3,152 liters of propane and 22,226 Kwh of electricity). The average customer would pay $966 plus our fixed monthly charge of $15 and carbon tax of $119 or a total of $1,265 for a full year's supply of natural gas. At an average of 65 cents per liter with two deliveries and applicable carbon tax, propane customers' would pay $2,234 for their consumption of that alternative. Customers using electricity would pay $2,147 for the equivalent volumes of natural gas (at an average of .089423 cents per KwH). While there remains a number of propane heated homes within the resort, they are typically smaller cabins whose owners appear unwilling to incur the connection and conversion costs requisite to generating the savings that would accrue on their conversion from propane to natural gas.

Stargas has, as has the resort, experienced only modest growth in recent years; a renewed commitment to the resort's growth is evidenced in a "master plan" promulgated by the resort's management and supported by its many business partners. While significant capital investment is contemplated within that plan, major expenditure under it appears to be some years off. However, as those plans take hold, Stargas would enjoy meaningful growth in customer numbers and delivery volumes that in its early stages would not involve expansion of its mains. In result, with its costs remaining relatively static, increased volumes will result in further reductions in the delivery component of our variable rate.

Customer Participation:

We have had exploratory conversations with major (2 of the 6) customers to share with them our plans with respect to both delivery and commodity rates. In addition to management of one of our larger customers, the one individual acts as rental agent on a large number of residences made available for short term rentals at the resort (and will, thereby, be a conduit to residential customers on both those discussions and on the applications as filed). We will be circulating a note to our customers (both by highlighting the attachment on our month end billing and by posting copies on our web site and at the resort. We understand that a recently formed Property Owners' Association at the resort has been in contact with the Commission – we have attempted to contact directors' of that association but to date have not made contact; we will, however, continue to do so. We would expect to hear from the association if they've questions beyond the determination that a rate application has been filed (as will be evidenced by the notice included with the September invoices.

We note that while the proposed commodity increase contemplates a significant increase, the resulting rate remains well below that charged in prior years and is consistent with (and lower than) rates charged by Fortis in adjacent Okanagan cities. We believe that in taking the initiative to address a "serial' replacement of higher cost preferred shares with term debt, with its consequent reduction in delivery rates charged customers that we've established an ongoing path that will ensure our ability to finance growth in the utility along with that of the resort.

Stargas Utilities Ltd.

Application to Alter Delivery Component of our Rates

Cost of Service

The following items/amounts are proposed as allowed in the determination of the Utility's cost of service

		As proposed		As proposed	
As Presently Constituted	**Test Year**	Without Refinancing	**Test Year**	With refinancing	**Test Year**
	2017		2017		2017
Operations & maintenance	$119,882	Operations & maintenance	$ 119,882	Operations & maintenance	$ 119,882
Administration	122,426	Administration	122,426	Administration	122,426
Income tax	9,000	Income tax	9,000	Income tax	9,000
Net, meters and lines	(170)	Net, meters and lines	(170)	Net, meters and lines	(170)
Basic charges	(62,990)	Basic charges	(62,990)	Basic charges	(62,990)
Sundry revenue	(4,073)	Sundry revenue	(4,073)	Sundry revenue	(4,073)
Annual dividend	41,000	Annual dividend	41,000	Annual dividend	28,500
Catch up dividend arrears	6,794	Catch up dividend arrears	6,794	Catch up dividend arrears	6,794
Interest - operating line	4,129	Interest - operating line	4,129	Interest - operating line	4,129
Amortization	54,804	Interest - shareholders	2,400	Interest - shareholders	2,400
		Payments - term debt	52,173	Payments - term debt	56,241
Cost of Service	$290,801	Cost of Service	$ 290,570	Cost of Service	$ 282,138
Deliveries Forecast	40,683.7	Deliveries Forecast	40,683.7	Deliveries Forecast	40,683.7
Annualized Delivery rate	$7.15	Annualized Delivery rate	$7.14	Annualized Delivery rate	$6.93

Proposed changes: Stargas is proposing to amend the elements in its cost of service by excluding its annual amortization expense ($54,804 in the test year) and adding in its stead its annual debt service; the current term loan is serviced with monthly payments of $4,348 ($52,173 annually) and if approved, the replacement term loan would require an annual outlay of $56,241 (assumes a 3.95% interest rate with fixed principal and interest payments over 72 months). Stargas is also seeking inclusion in the determination of its cost of service, interest on its shareholder advances (forecast at $2,400 in the test year).

Cost of Service (continuing inclusions)

The following items have been allowed in the determination of the Utility's cost of service:

Operations and maintenance: FortisBC Alternate Energy Services Inc. provides all of the physical aspects of the operation of the utility as well as certain of its administrative functions under a ten year contract running to November 30th, 2019. The contracted services include emergency standby and response, system maintenance, leak survey and remedial action, meter servicing and replacement, as well as general oversight and operating responsibility.

The contract provided for an initial variable monthly charge of $1.62 per GJ and an annual fixed charge of $48,000 payable monthly plus $15 per month for customers added after October 1st, 2009. The fixed charge is subject to an annual inflation adjustment based on changes in the Consumer Price Index – British Columbia and has increased to $4,187 from the $4,000 amount stipulated in the original contract. The variable charge is subject to both adjustments based on changes in CPI and to an annual adjustment based on fiscal year deliveries contrasted against those in the base year. The current variable charge is $1.51 per GJ.

Administration: Includes costs typical to the operation of a small business, including professional fees, bank charges, insurance and management fees paid Okanagan Funding Ltd. for administrative and management services provided on an as required basis at rates charged and approved by the BCUC.

Income tax: Income tax payable with respect to the test year is a continuing component of the utility's cost of service; tax is payable at the small business tax rate (currently 13%) on pre-tax income subject to adjustments to account for timing differences between write offs recorded for tax and accounting purposes.

Net, meters and lines: The utility is allowed a 10% contribution to its administrative costs on costs incurred, recoveries invoiced on the installation of new services at the resort. There but one service installation scheduled within the test year.

Basic Charges: Residential and commercial customers are charged a fixed monthly fee; the test year total of which serves to reduce the utility's cost of service.

Sundry Revenue: The utility generates modest levels of miscellaneous income; included in the items contributing are late charges levied customers and commissions earned on monthly remittances of Provincial Sales Tax.

Annual Dividend: CMI Holdings (1998) Inc. owns 4,000 non-voting Class G Preferred shares having an aggregate par value of $400,000. The Benchmark return on Common Equity established by the BCUC is 9.5% (effective from July 1st, 2009 – BCUC G-158-09). The test year includes a dividend of $41,000 based on the benchmark rate plus an allowed 75 basis point premium.

Catch up Dividend Arrears: Cumulative dividends accrued on the Class G shares were unpaid in the Company's fiscal years 2002 through 2006; the shortfall aggregated $135,887. Pursuant to BCUC Order G157-12 dated October 29, 2012, Stargas was authorized to annually, over twenty years, pay and include in its revenue requirement an additional dividend of $6,794. The balance yet to be included in cost of service over the next 16 years is $108,711.

Interest – operating line: The utility's revenues are highly seasonal while its administrative and certain of its gas and operating costs are not; accordingly, through the summer and fall season meeting obligations as they become due requires the use of bank (and shareholder advance) facilities.

Stargas Utilities Ltd.

Application to Alter Delivery Component of our Rates

Administrative Costs

The following amounts are included in the determination of the Utility's administrative costs:

Prefessional fees	$ 6,200
Office and sundry	14,969
Insurance	13,130
Management fees	88,127
	$ 122,426

Professional fees: Third party professional fees, principally amounts estimated as payable to the Company's accountants for their annual review of financial statements and preparation of tax return, together with minor expenditures through legal counsel to attend to corporate matters.

Office and sundry: Included are bank charges, office supplies, meter read costs, and other outlays typical to the operation of a small incorporated enterprise.

Insurance: The utility carries insurance on its equipment, commercial general liability (as required by the Resort) and directors and officers liability coverage.

Management fees: The utility forecasts management fees of $88,127 through the test year; included in that estimate is a $6,000 increment anticipated as that relating to the preparation of the "delivery price change and refinancing" components of this application.

Okanagan Funding Ltd, a company owned by Mr. and Mrs. Blumes, provides continuing administrative and management services to Stargas on an as required basis. The rates approved by the BCUC for administrative services are currently billed at $44.03 per hour, accounting services at $66.03 per hour and executive time at $137.56 per hour. These rates are based on those originally approved together with inflation adjustments based on in British Columbia's Consumer Price Index. The rates set (Order G-157-12) were based on the BC CPI of 117.0; the original rates of $42.40, $63.60 and $132.50 were set in 2008/09 when the BC CPI was 112.7. At May 31, 2016 BC CPI was at 122.7 so that the utility is asking BCUC approval to adjust these rates as follows:

	Original Rate	CPI 2008/09	CPI 2016-05-31	Revised Rate
Administrative	$42.40	112.7	122.7	$46.16
Accounting	$63.60	112.7	122.7	$69.24
Executive	$132.50	112.7	122.7	$144.26

The following schedule reflects the management fee budget for the test year as provided by Okanagan Funding Ltd.

Stargas Utilities Ltd.
Management Budget Submitted by Okanagan Funding Ltd.
For the Test Year Ended May 31, 2017

		Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Year
Monthly routines														
Adm	Deposit/on line/credit card	14	16	16	16	18	18	18	18	18	18	16	14	200
Adm	Collection/follow up	2	4	4	5	6	6	5	5	5	5	5	5	57
Acc	Expense recording/payment	6	7	7	7	7	7	7	7	7	7	7	6	82
Adm	Enter read report/follow-up	5	5	5	5	5	5	5	5	5	5	5	5	60
Acc	Receive Fortis reports, post	6	6	6	6	6	6	6	6	6	6	6	6	72
Acc	Reconcile bank, A/R ledger	6	6	6	6	6	6	6	6	6	6	6	6	72
Adm	Billing enquiries, file changes	4	4	5	6	6	6	6	6	6	5	4	4	62
Adm	Check message line/follow-up	7	7	7	7	7	7	7	7	7	7	7	7	84
Acc	Month -end financials	3	3	3	3	3	3	3	3	3	3	3	3	36
	Total	53	58	59	61	64	64	63	63	63	62	59	56	725
	Administrative	32	36	37	39	42	42	41	41	41	40	37	35	463
	Accounting	21	22	22	22	22	22	22	22	22	22	22	21	262
Exc	Review/Supervision	1	1	1	1	1	1	1	1	1	1	1	1	12
		54	59	60	62	65	65	64	64	64	63	60	57	737
General duties														
Adm	Contacts with Customers	5	5	8	8	8	5	5	5	5	5	5	5	69
Adm	Liason with Fortis	6	5	4	6	5	6	4	4	4	4	4	4	56
Adm	Incidents	0			5		5	5				5		20
Adm	Oversight	2	3	3	3	3	3	3	3	3	3	3	2	34
Adm	Administrative	13	13	15	22	16	19	17	12	12	12	17	11	179
Other Functions														
Exc	Marketing and relationships	3	5	5	5	5	5	5	5	5	5	5	3	56
Exc	Annual Credit Review		2	4	4									10
Exc	Gas Contracting/commodity rates		8	9	9	6	3							35
Exc	Interface with Resort	2	2	2				4			2	2	2	16
		5	17	20	18	11	8	9	5	5	7	7	5	117
Annual Report														
Acc	Work papers for KPMG	18	7										15	40
Exc	Financial Statement preparation	0	10											10
Exc	Initial and subsequent drafts	5	6	5										16
Exc	Review and edit	6	6	5										17
		29	29	10	0	0	0	0	0	0	0	0	15	83
Acc		18	7	0	0	0	0	0	0	0	0	0	15	40
Exc		11	22	10	0	0	0	0	0	0	0	0	0	43
		29	29	10	0	0	0	0	0	0	0	0	15	83
Rate Application - Commodity														
Exc		5	5	3	6	6	0							25
Total Budgetted Hours		106	123	108	108	98	92	90	81	81	82	84	88	1,141
Hours by Category														
	Accounting	39	29	22	22	22	22	22	22	22	22	22	36	302
	Administrative	45	49	52	61	58	61	58	53	53	52	54	46	642
	Executive	22	45	34	25	18	9	10	6	6	8	8	6	197
		106	123	108	108	98	92	90	81	81	82	84	88	1,141
RATES														
	Accounting	$69.24												
	Administrative	$46.16												
	Executive	$144.26												
	Contingency - additional hours	4%												
	Accounting	$2,809	$2,088	$1,584	$1,584	$1,584	$1,584	$1,584	$1,584	$1,584	$1,584	$1,584	$2,592	$21,748
	Administrative	$2,160	$2,352	$2,496	$2,929	$2,785	$2,929	$2,785	$2,544	$2,544	$2,496	$2,592	$2,208	$30,822
	Executive	$3,301	$6,751	$5,101	$3,751	$2,700	$1,350	$1,500	$900	$900	$1,200	$1,200	$900	$29,555
		$8,269	$11,192	$9,182	$8,263	$7,069	$5,863	$5,869	$5,029	$5,029	$5,281	$5,377	$5,701	$82,125

The above doesn't include the $6,000 (rounded) estimate of accounting and executive time contemplated for the full rate case

Stargas Utilities Ltd.

Estimated Income Tax – Test Year

	Opening Balance	Additions	Amortize	Closing Balance	
	31-May-16			31-May-17	
Net Book Values					
Capital assets	$ 412,891	$ -	$ 16,076	$ 396,815	
Deferred charges	116,184	-	38,728	$ 77,456	
Per financial statements	$ 529,075	$ -	$ 54,804	$ 474,271	
Tax Equivalents					**Rate**
Unclaimed Capital Cost	$ 695,525	$ -	$ 27,821	$ 667,704	**4%**
Incorporation costs	219	-	15	$ 203	**7%**
	$ 695,743	$ -	$ 27,836	$ 667,907	
Temporary differences	$ (166,668)	$ -	$ 26,967	$ (193,636)	
Tax rate	13.0%		13.0%	13.0%	
Timing difference amount	($21,667)		$3,506	($25,173)	
Rounding	($22,000)		$4,000	($25,000)	
Losses carried forward					
Income before tax				$ 42,019	
Add: book amortization				54,804	
Deduct: tax equivalent capital cost allowance				(27,821)	
Deduct: tax equivalent cumulative eligible capital				(15)	
Taxable income				$ 68,987	
Tax cost				$ 8,968	
Rounded				$ 9,000	

Stargas Utilities Ltd.

Projected Delivery Rate Impact – Changes in Cost of Service

Commentary

Introduction: The attached spreadsheet (Exhibit B6a) reflects Stargas actual and forecast results for the fiscal years ending May 31, 2014 through 2024; prepared as of September 25, 2016, they reflect managements' current expectations with respect to natural gas volumes delivered and related costs. Included within the forecasts are assumptions with respect to the proposed replacement financing (the subject of the current BCUC application) and, for illustrative purposes only a further additional term loan drawn June 1, 2019.

Comparison: We calculate the indicated delivery charge under the proposed methodology and compare that to the rates that would have been applicable had the current cost of service formula be maintained. The revenue reduction (lesser amount charged Stargas customers) by virtue of the change is disclosed in support of the proposed change.

2017: As the proposed replacement term loan will, if approved, be drawn midyear, actual costs incurred in this year will vary from those included in the determination of cost of service for the test year. The indicated rate for 2017, as reflected on the attached spreadsheet is $7.04 rather than the reduced rate of $6.99 per gigajoule in the test year; it based on an assumed redemption of $100,000 of preferred and replacement term loan as of June 1, 2016.

2018: Administration costs are reduced – the prior year forecast includes an estimate of additional management fees incurred in preparing and responding to this application.

2020: For illustrative purposes, a further $100,000 loan is forecast; the proceeds used to redeem preferred shares so that the annual dividend requirement reduced from $30,750 to $20,500 (assumes a continued 10.25% rate).

2021: **Revenue Growth Assumptions**: Silver Star resort has, in its recent history, had only modest growth; Stargas has seen its customer numbers increase only marginally (from 276 customers at May 31, 2014 to 287 at May 31, 2016) and we project only modest growth in volumes over the next three years. We do, however, anticipate meaningful annual customer and volume growth thereafter. Resort ownership, in collaboration with business and residential owners, has promulgated a "master plan" that, in its current version contemplates capital expenditures in excess of four hundred million dollars in five phases to grow Silver Star into "the premier, boutique, family oriented, four season resort of BC". The

first phase contemplates four new lifts and a doubling of the current 3302 bed units, and in discussing details with senior Resort management, an indoor/outdoor pool to be added in the next three years.

We do not anticipate major, if any, capital expenditures through the first phase but, we believe conservatively, reflect the addition of volumes to heat a pool forward from the fiscal year commencing June 1, 2021 and those to supply an additional condominium unit in the village core, forward from the fiscal year commencing June 1, 2022.

Delivery Rates: Given that Stargas' costs will remain relatively constant its determination to file further applications on its delivery rates will be based upon increased delivery volumes; should the indicated rate for the coming year suggest a reduction greater than 15 cents a gigajoule, an application will be filed to have that reduction reflected in rates.

The indicated delivery rate through 2014 to 2016 was not that levied; set at $7.38 actual delivery volumes/costs will inevitably vary from those projected so that actual recoveries from those based on a rate set only following "full" rate applications. On a cumulative basis the current rate has generated only a modest under recovery from its introduction November 1, 2012.

Stargas Utilities Ltd.

Projected Delivery Rates - Following Proposed Changes to Cost of Service

Under Proposed Methodology	**Actual**	**Actual**	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Year Ended May 31	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
GJ's delivered	**40,811.5**	**36,252.1**	**39,738.6**	**40,683.7**	**40,811.6**	**41,011.0**	**41,225.4**	**44,023.7**	**44,983.6**	**45,669.5**	**45,955.3**
Cost of Service											
Operations & Maintenance	$ 117,064	$ 109,971	$ 118,494	$ 119,882	$ 119,778	$ 120,839	$ 121,774	$ 126,446	$ 125,931	$ 126,879	$ 127,424
Administration	117,798	114,999	120,656	122,426	116,794	119,790	125,668	123,039	124,138	124,554	124,795
Interest-operating line	4,716	4,903	3,609	4,129	4,029	3,889	3,397	3,161	2,442	2,038	1,912
Interest - shareholder's advance	-	-	-	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Term debt - principal & interest	-	-	-	53,242	56,241	56,241	34,282	34,282	34,282	34,282	34,282
Amortization - assets	54,800	54,800	54,804	-	-	-	-	-	-	-	-
Amortization - DFC	2,732	2,732	509	-	-	-	-	-	-	-	-
Income tax	10,371	7,727	10,489	9,000	10,800	9,800	5,100	4,900	5,400	5,200	5,100
Preferred share dividend	47,794	47,794	47,794	33,250	28,500	28,500	19,000	19,000	19,000	19,000	19,000
Deferred returns	-	-	-	6,794	6,794	6,794	6,794	6,794	6,794	6,794	6,794
Basic charge revenue	(59,310)	(60,280)	(62,070)	(62,990)	(63,300)	(61,770)	(62,490)	(63,390)	(64,650)	(65,010)	(65,280)
Sundry revenue	(4,559)	(3,863)	(4,110)	(4,073)	(4,521)	(4,653)	(4,471)	(4,569)	(4,710)	(4,779)	(4,855)
Net installation/service	(409)	(1,170)	(2,460)	(170)	(340)	(510)	(510)	(2,067)	(1,987)	(1,987)	(680)
Cost of Service	$ 290,997	$ 277,613	$ 287,715	$ 283,889	$ 277,175	$ 281,320	$ 250,943	$ 249,996	$ 249,040	$ 249,372	$ 250,892
Indicated delivery charge	**$7.13**	**$7.66**	**$7.24**	**$6.98**	**$6.79**	**$6.86**	**$6.09**	**$5.68**	**$5.54**	**$5.46**	**$5.46**

Under Current Methodology	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Add	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Amortization	$ 54,804	$ 54,804	$ 54,804	$ 16,076	$ 16,076	$ 16,076	$ 16,076	$ 16,076
Preferred share dividends (no redemption)	41,000	41,000	41,000	41,000	41,000	41,000	41,000	41,000
Remove								
Term debt -principal & interest	(53,242)	(56,241)	(56,241)	(34,282)	(34,282)	(34,282)	(34,282)	(34,282)
Preferred share dividends	(33,250)	(28,500)	(28,500)	(19,000)	(19,000)	(19,000)	(19,000)	(19,000)
	9,312	11,063	11,063	3,794	3,794	3,794	3,794	3,794
Cost of Service	$ 293,201	$ 288,238	$ 292,383	$ 254,737	$ 253,790	$ 252,833	$ 253,166	$ 254,686
Indicated delivery charge	**$7.21**	**$7.06**	**$7.13**	**$6.18**	**$5.76**	**$5.62**	**$5.54**	**$5.54**
Reduction to customers	$9,312	$11,063	$11,063	$3,794	$3,794	$3,794	$3,794	$3,794

The projection contemplates the redemption of preferred shares in the amount of $100,0000 on December 1st, 2016 and June 1st, 2019.

Stargas Utilities Ltd.
Application to Vary Delivery Rate
Contrast to Conventional Rate Setting Model
September 22, 2016

In a previous application considering delivery rates, Stargas was asked to contrast its current rate setting model with rates that would have obtained deploying a more "conventional" rate based model. We have, therefore, attached a spreadsheet that contemplates varied debt/equity and return assumptions and contrasts the rates that would obtain under those alternatives with those proposed under the modifications to our existing model.

If approved, the modifications proposed to the cost of service calculation in our current will ensure that Stargas customers see the benefits of utilizing tern bank debt in lieu of shareholder investment. Happily the benefit to customers is coupled to the utility having established a path to a return of as well as on its investment.

The following spreadsheets carry forward the utility's rate base and working capital allowance as reported in its May 31, 2016 annual report; we've assumed interest rates on term debt and shareholder's advances as reflected therein and calculated indicated rates at each (returns on rate base of 6.1 and 5.9%) and compare those with the rates obtained utilizing the current formulation (as amended by this application).

Note that revenue generated through the period of the forecast is marginally reduced under the Stargas proposal than would it be under either of the alternative "conventional" rate models.

Stargas Utilities Ltd.
Contrast to Conventional Rate Model

Year Ended May 31	2017	2018	2019	2020	2021	2022	2023	2024
Rate Base before "WCA"	$ 590,503	$ 528,905	$ 460,513	$ 356,108	$ 340,032	$ 323,956	$ 307,881	$ 291,805
Working capital allowance*	48,736	42,484	44,795	44,132	47,689	47,470	47,394	45,528
Rate Base	$ 639,239	$ 571,389	$ 505,308	$ 400,240	$ 387,722	$ 371,427	$ 355,275	$ 337,332
*1/8 of operating/lead-lag on gas								
Operating expenses	$ 435,868	$ 435,868	$ 435,868	$ 435,868	$ 435,868	$ 435,868	$ 435,868	$ 435,868
Interest at 4.5%	$ 2,193	$ 1,912	$ 2,016	$ 1,986	$ 2,146	$ 2,136	$ 2,133	$ 2,049

Conventional Structure

Equity	Debt	Equity	Overall
40%	3.8%	9.50%	6.1%
35%	4.0%	9.50%	5.9%

	2017	2018	2019	2020	2021	2022	2023	2024
Rate Base	$639,239	$571,389	$505,308	$400,240	$387,722	$371,427	$355,275	$337,332
Assumed at 6.1%	$38,866	$34,740	$30,723	$24,335	$23,573	$22,583	$21,601	$20,510
Assumed at 5.9%	$37,875	$33,855	$29,939	$23,714	$22,973	$22,007	$21,050	$19,987
Interest cost	$8,922	$10,110	$8,255	$10,408	$9,789	$8,803	$7,779	$6,713
Return - equity at 6.1%	$29,944	$24,630	$22,468	$13,927	$13,785	$13,779	$13,822	$13,797
Return - equity at 5.9%	$28,953	$23,744	$21,685	$13,307	$13,184	$13,204	$13,271	$13,274
Cost of service - application	283,889	277,175	281,320	250,943	249,996	249,040	249,372	250,892
Remove- current dividend	(26,456)	(21,706)	(21,706)	(19,000)	(19,000)	(19,000)	(19,000)	(19,000)
Interest adjustment (Note)	(1,936)	(2,118)	(1,874)	(1,411)	(1,015)	(306)	94	136
Revenue requirement - at 6.1%	294,364	288,092	288,463	254,867	253,555	252,316	252,067	252,538
Revenue requirement - at 5.9%	293,373	287,207	287,680	254,247	252,954	251,741	251,517	252,016

	2017	2018	2019	2020	2021	2022	2023	2024
Volume	40,683.7	40,811.6	41,011.0	41,225.4	44,023.7	44,983.6	45,669.5	45,955.3
Rate - conventional @ 6.1%	$7.24	$7.06	$7.03	$6.18	$5.76	$5.61	$5.52	$5.50
Rate - conventional @ 5.9%	$7.21	$7.04	$7.01	$6.17	$5.75	$5.60	$5.51	$5.48
Rate - application	$6.98	$6.79	$6.86	$6.09	$5.68	$5.54	$5.46	$5.46

Stargas Utilities Ltd.
Contrast to Conventional Rate
Model

B1 Page 21

	2017	2018	2019	2020	2021	2022	2023	2024
Volume	40,683.7	40,811.6	41,011.0	41,225.4	44,023.7	44,983.6	45,669.5	45,955.3
Cost of service - application	$ 283,889	$ 277,175	$ 281,320	$ 250,943	$ 249,996	$ 249,040	$ 249,372	$ 250,892
Remove- current dividend	(26,456)	(21,706)	(21,706)	(19,000)	(19,000)	(19,000)	(19,000)	(19,000)
Interest adjustment (Note)	(1,936)	(2,118)	(1,874)	(1,411)	(1,015)	(306)	94	136
Add return - on rate base - 6.1	38,866	34,740	30,723	24,335	23,573	22,583	21,601	20,510
Revenue requirement	$ 294,364	$ 288,092	$ 288,463	$ 254,867	$ 253,555	$ 252,316	$ 252,067	$ 252,538

Volume	40,683.7	40,811.6	41,011.0	41,225.4	44,023.7	44,983.6	45,669.5	45,955.3
Cost of service - application	$ 283,889	$ 277,175	$ 281,320	$ 250,943	$ 249,996	$ 249,040	$ 249,372	$ 250,892
Remove- current dividend	(26,456)	(21,706)	(21,706)	(19,000)	(19,000)	(19,000)	(19,000)	(19,000)
Interest adjustment (Note)	(1,936)	(2,118)	(1,874)	(1,411)	(1,015)	(306)	94	136
Add return - on rate base - 5.9	37,875	33,855	29,939	23,714	22,973	22,007	21,050	19,987
Revenue requirement	$7.24	$7.06	$7.03	$6.18	$5.76	$5.61	$5.52	$5.50
Delivery rate - application	$6.98	$6.79	$6.86	$6.09	$5.68	$5.54	$5.46	$5.46
	$ 293,373	$ 287,207	$ 287,680	$ 254,247	$ 252,954	$ 251,741	$ 251,517	$ 252,016

	2017	2018	2019	2020	2021	2022	2023	2024
Conventional @ 6.1%	$ 294,364	$ 288,092	$ 288,463	$ 254,867	$ 253,555	$ 252,316	$ 252,067	$ 252,538
Conventional @ 5.9%	$ 293,373	$ 287,207	$ 287,680	$ 254,247	$ 252,954	$ 251,741	$ 251,517	$ 252,016
As filed - application	$ 283,889	$ 277,175	$ 281,320	$ 250,943	$ 249,996	$ 249,040	$ 249,372	$ 250,892

	Cumulative Forecast
Conventional @ 6.1%	$2,136,263
Conventional @ 5.9%	$2,130,732
As filed - application	$2,092,629

Notice to Stargas Utility Customers

September 26, 2016

Stargas has filed two applications with the British Columbia Utilities Commission that, if approved as filed, will result in a $1.75 increase of the variable charge per gigajoule from the current rate of $10.33 to $12.08. The first application seeks BCUC approval:

- To amend the utility's current cost of service calculation to exclude amortization to be replaced by debt service,
- To refinance by funding a replacement term loan, the net proceeds of which will be used to redeem preferred shares.
- To reduce the delivery component of the variable charge.

If approved as filed, the delivery component of our variable charge would be reduced from its current $7.38 per gigajoule by 45 cents to $6.93; increases in the volume delivered, together with the replacement of $100,000 of preferred shares with term bank debt allow for the lower cost per gigajoule.

The second application contemplates an increase in the commodity component of the variable charge from $2.95 per gigajoule to $5.07 per gigajoule and is based on our estimate of volumes and our forecast cost of the commodity net of the refund of the over recovery of $19,870 generated in the fiscal year ended May 31, 2016.

We at Stargas want to assure you that we'd welcome your questions on our rates and suggest, that if you'd like to have further detail that we'd provide you copies of the full delivery application (all of which is available to the public) and of the non-confidential portions of our commodity price applications (certain of its details are withheld to protect information that exposed to the public could adversely impact pricing). Please contact us initially by email at Info@Stargas.ca and we'll respond either by email or by telephone (if your number provided).

Note this notice to be included in our billing cycle, posted on our web site and at various locations at the Resort

Attachment to the September 26, 2016 Rate Application

Commercial Banking

BC Interior
1633 Ellis St Suite 310
Kelowna, BC
V1Y 2A8
Telephone No.: (250) 374 -2493
Fax No.: (250) 470 3090

September 07, 2016

STARGAS UTILITIES LTD.
2475 Dobbin Rd, Unit 3
West Kelowna, BC
V4T 2G3

Dear Morley Blumes,

The following amending agreement (the "Amending Agreement") amends the terms and conditions of the credit facilities (the "Facilities") provided to the Borrower pursuant to the Agreement dated September 1, 2016 and the subsequent Amending Agreement(s) dated August 15, 2011, September 5, 2013, January 22, 2014 and August 7, 2014:

BORROWER

STARGAS UTILITIES LTD. (the "Borrower")

LENDER

The Toronto-Dominion Bank (the "Bank"), through its BC Interior branch, in Kelowna, BC.

CREDIT LIMIT

3) CAD$300,000

TYPE OF CREDIT AND BORROWING OPTIONS

3) **Committed Reducing Term Facility (Single Draw)** available at the Borrower's option by way of:
- Fixed Rate Term Loan in CAD$
- Floating Rate Term Loan available by way of:
  - Prime Rate Based Loans in CAD$ ("Prime Based Loans")

PURPOSE

3) Takeout of facility #2, and provide additional financing

TENOR

3) Committed

CONTRACTUAL TERM

3) 60 month(s) from the date of first/each drawdown

RATE TERM (FIXED RATE TERM LOAN)

3) Fixed rate: 6 month, 12-60 months but never to exceed the Contractual Term Maturity Date
3) Floating rate: No term

AMORTIZATION

3) 60 month(s)

INTEREST RATES AND FEES

Advances shall bear interest and fees as follows:

3) **Committed Reducing Term Facility:**
- Fixed Rate Term Loans: as determined by the Bank, in its sole discretion, for the Rate Term selected by the Borrower, and as set out in the Rate and Payment Terms Notice applicable to that Fixed Rate Term Loan.
- Floating Rate Term Loans available by way of:
  - Prime Based Loans: Prime Rate + 1.250% per annum

ARRANGEMENT FEE

The Borrower will pay prior to any drawdown hereunder a non-refundable arrangement fee of CAD$150.

DRAWDOWN

Assigned Facilities	Description
3)	One time drawdown prior to Dec. 31 2016, after which time, any amount not drawn is reassessed. Amounts repaid may not be redrawn.

REPAYMENT AND REDUCTION OF AMOUNT OF CREDIT FACILITY

Assigned Facilities	Description
3)	All amounts outstanding will be repaid on or before the Contractual Term Maturity Date. The drawdown will be repaid in equal [monthly/quarterly/semi-annual/annual] payments. The details of repayment and interest rate applicable to such drawdown will be set out in the" Rate and Payment Terms Notice" applicable to that drawdown. Any amounts repaid may not be re-borrowed. 6 year amortization to be provided , with a lump sum payment at end of Year 5

PREPAYMENT

Assigned Facilities	Description
3)	Floating rate: no prepayment penalty. Fixed rate: standard prepayment penalty applies

POSITIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will and will ensure that its subsidiaries and each of the Guarantors will observe the Standard Positive Covenants set out in Schedule "A" and in addition will:

Assigned Facilities	Description
3)	Provide Review Engagement Financial Statements and Annual Report for Stargas Utilities Inc. within 120 days of fiscal year end.
3)	Provide annual notice to reader financial statements within 120 calendar days of CMI Holdings 1998 Inc.'s fiscal year end

PERMITTED LIENS

Permitted Liens as referred to in Schedule "A" are:

Assigned Facilities	Description
3)	Purchase Money Security Interests in equipment which Purchase Money Security Interests exist on the date of this Agreement ("Existing PMSIs") which are known to the Bank and all future Purchase Money Security Interests on equipment acquired to replace the equipment under Existing PMSIs, provided that the cost of such replacement equipment may not exceed the cost of the equipment subject to the Existing PMSI by more than 10%

SCHEDULE "A" - STANDARD TERMS AND CONDITIONS

Schedule "A" sets out the Standard Terms and Conditions ("Standard Terms and Conditions") which apply to these credit facilities. The Standard Terms and Conditions, including the defined terms set out therein, form part of this Agreement, unless this letter states specifically that one or more of the Standard Terms and Conditions do not apply or are modified.

Unless otherwise stated, the amendments outlined above are in addition to the Terms and Conditions of the existing Agreement. All other terms and conditions remain unchanged. We ask that the Borrower acknowledges agreement to these amendments by signing and returning the attached duplicate copy of this Amending Agreement to the undersigned on or before September 30, 2016.

ACCURACY OF INFORMATION

The Borrower hereby represents and warrants that all information that it has provided to the Bank is accurate and complete respecting, where applicable:

(i) the names of the Borrower's directors and the names and addresses of the Borrower's beneficial owners;
(ii) the names and addresses of the Borrower's trustees, known beneficiaries and/or settlors; and
(iii) the Borrower's ownership, control and structure.

The Borrower will provide, or cause to be provided, such updated information and/or additional supporting information as the Bank may require from time to time with respect to any or all the matters in the Borrower's foregoing representation and warranty.

Yours truly,

THE TORONTO-DOMINION BANK

Connie Procter
Account Manager

Jack Leung
Manager Commercial Credit

Borrower Acknowledgement Section.

TO THE TORONTO-DOMINION BANK:

STARGAS UTILITIES LTD. hereby accepts the foregoing offer this 13th day of September, 2016. The Borrower confirms that, except as may be set out above, the credit facility(ies) detailed herein shall not be used by or on behalf of any third party.

M.A. Blumes (original signed)
Signature

M.A. Blumes, President
Print Name & Position