British Columbia Utilities Commission

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VIA EFILE
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December 1, 2016

STARGAS DELIVERY RATE
EXHIBIT A2-2

Mr. M. A. Blumes
President
Stargas Utilities Ltd.
1960 K.L.O. Road
Unit 17
Kelowna, BC V1W 5L2

Dear Mr. Blumes:

Re: Stargas Utilities Ltd.
Application to Vary Delivery Rate, Amend Cost of Service Formula and
Approve Replacement Term Financing/Redemption of Preferred Shares

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Commission staff submits the following document for the record in this proceeding:

Schedule D from the Stargas Utilities Ltd. 2002 Application for
Approval of Rate, Tariff and Ownership Changes

Yours truly,

Original signed by:

Laurel Ross

SS/cms
Enclosure

Schedule D

Stargas Utilities Ltd.

Financial

Background and details supporting application for changes in the Company's finances

August 15, 2002

Dividend Rate:

Stargas Utilities Ltd. was established in 1999 as an independent corporate entity to bring less costly and more efficient natural gas to Silver Star resort. Its shareholders' at that time owned both hospitality and lift operations at the resort and, given the relative proximity of natural gas supply, sought to access those benefits in collaboration with BCG Services Ltd. At that time, the investors acknowledged and accepted that any return on (or of) the capital invested would be deferred until expansion of the resort generated significant increases in delivered volumes as well as following the recovery (through transportation charges) of BCG Services' license fee paid to the company to fund its term loan with the CIBC. Notwithstanding the change in the ownership of the Company, and in the ownership of various assets at the resort, the company's current shareholders' do not seek any variation in the original arrangement with respect to patient investment of their capital. They seek, however, to set the stage for the return on their investment by the acknowledgement of the time value of the funds invested by the establishment of an appropriate dividend rate on the newly issued preferred shares.

As an element of the re-capitalization of the Company, the company's shareholders' agreed to the placement of $400,000 of newly issued preferred shares ($350,000 of which will be utilized in reducing existing open shareholder advances and the redemption of existing preferred shares). By issuing cumulative preferred shares, the shareholders' are able to confirm some notion of the "time value" of their investment in the company. Note that the company is seeking, at this time, to recover only its cash costs of operation without return to its shareholders. While it would have been preferable, in terms of the compounding factor, to record interest on the shareholders advances, but doing so would have had adverse tax consequences to the investors.

The Company's financial projections (see E-1) indicate that absent changes to either rates or costs that the Company's shareholders' would be required to provide additional

monies (by way of shareholders' advances or by the purchase of additional equity shares) approximating $59,000 annually. We do not seek the maximum increases that could be justified on a competitive basis because maximizing rates in that fashion could have a deleterious impact on conversions, the choice of heating alternatives in new development, and would, over time, diminish returns to all stakeholders. The shareholders take the position that the burden of further cash calls would be unfair given their current position whereby they will not see any cash return on their not insignificant investment in the utility until termination of the original BCGSL service agreement in October 2009.

In considering the rate at which this long-term equity instrument should be appropriately marked, we considered the following:

- BC Gas has reported a rate of return of 12% on equity in each of the last four years
- 1% as recognition that while an annual return will be calculated, such will not be paid until some years into the future
- 2% in recognition that their ought to be a premium awarded to a much, much smaller and riskier venture
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We believe, and seek the commission's approval, on a 15% rate to be attached to the newly issued preferred shares. We acknowledge and accept that that determination will not necessarily be utilized in approving rates, and rates of return, in subsequent applications.

Note that the Company's rate base will, following the initial ten winters of operation, include the following:

- Natural gas pipeline at a net book value of $353,668
- Deferred amortization of $117,890
- Deferred interest on the amortization account approximating $35,000

The foregoing represents an estimated rate base approximating $507,000; at that point the Company's balance sheet will reflect no long-term liabilities (both the term and Business Improvement loans will have been retired). It is anticipated that, at that time, the Company would again be re-capitalized, by the redemption of a portion of the newly issued $400,000 in preferred shares from the proceeds of a common stock issue and new term loan. In that fashion, the Company would be in a position to regularize its rate setting applications in a manner consistent with more typical utilities.