

STRATAWEST
MANAGEMENT LTD.
Professional Property Managers

December 22, 2016

British Columbia Utilities Commission
6th Floor 900 Howe Street
Vancouver B.C.

Via E-Mail to: commission.secretary@bcuc.com

To: Acting Commission Secretary

Attention Laurel Ross

SEASCAPES RECONSIDERATION APPLICATION

We are Stratawest Management Ltd. representing the interests of Seascapes Strata Corporation BCS 776 (Seascapes).

Seascapes writes to apply pursuant to section 99 of the Utilities Commission Act (UCA) for reconsideration and variance of BCUC Order No. G-172-16 (the Order) dated November 28, 2016.

The Order relates to the Superior Propane Ltd. (Superior) Revenue Requirements Rate Application for the Seascapes grid system where Superior sought approval of its tariff and changes to its rate schedule.

This reconsideration focuses on two aspects of the commission's decision that awarded Superior:

- A revenue requirement for 2016 of \$75,293 an increase of 52 percent over 2015;
- A methodology for the calculation and management of propane costs and related freight charges; and
- Approval of a gas tariff representing the Terms and Conditions of service for its operation at the Seascapes development.

The specific concerns to be raised in this application for reconsideration are as follows:



1. Based on a quote, the Commission approved the amount of \$22,500 annually for insurance costs that Superior is not required to actually make and accepted this amount as the imputed value of insurance coverage.
2. The Commission has established a protocol for the purchase of propane gas from its sister company, Superior Gas Liquids which includes no oversight by the Commission of the cost of gas.

For reasons explained in this letter, Seascales believes the Commission has erred in its interpretation of the facts, and as a result, has approved rates that are unjust and unreasonable.

Insurance Costs

Seascales notes that the \$22,500 the Commission has approved as a reasonable proxy for insurance costs represents over 30 percent of the total revenue requirement. In our view this amount was awarded with no consideration of actual costs incurred or estimated to be incurred as would be expected with the Commission's reliance on the cost of service model. Moreover, the magnitude of the impact on rates and a Seascales customer bill is substantive and results in an increase that well exceeds the threshold for rate shock.

As part of its application, Superior presented Version 1 of what might have been a number of quotes it received from Zurich Insurance Company Ltd (for ease of reference a copy of this document has been attached). In its Reasons for Decision, the Commission made the following statements:

"Superior is entitled to put in place insurance that protects ratepayers against major losses, and recover those insurance premiums from ratepayers. The Panel understands Superior's position to be that it intends to continue to self-insure up to the \$250,000 per incident, and presented the Zurich quote as a proxy for the value of self-insurance. The Panel is satisfied that the quote from Zurich is a reasonable basis upon which to establish the imputed value of the insurance coverage, and therefore approves the \$22,500 amount for this line item." (emphasis added)

Seascales submits that the Commission erred in fact in that it determined the Zurich quote to be a reasonable basis to establish the value of the insurance coverage and provided no reasons as to how and why it was 'reasonable' and why the Commission was 'satisfied'. In addition, the Commission erred in fact in stating



the applicant's future intent to continue to self-insure with no evidence to support this.

To the second point, Seascapes can find no evidence to substantiate the correctness of the Commission's 'understanding' that Superior intended to self-insure and presented the Zurich quote as a proxy for the value of self-insurance. Seascapes has reviewed the application, the information request responses and Superior's arguments to support the Commission's "understanding" that Superior put the insurance quote forward as a proxy and can find no reference to where this is confirmed. Therefore, it is Seascapes position that the Panel erred in fact by making an assumption as to intent that was not supported in evidence.

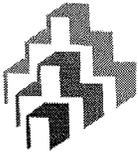
More importantly, the Panel continued and stated that it considered the quote a reasonable basis upon which to establish the imputed value of the insurance coverage. Seascapes submits that the Commission erred by failing to follow the cost of service model it has chosen to rely upon in this proceeding and also erred by accepting the Zurich quote as reasonable basis on which to impute the value of insurance coverage.

Reliance on the cost of service model

A fundamental principle underlying the cost of service model is that a utility has the right to recover prudently incurred costs. This gives Superior the right to recover costs it has actually made or expects to make. Seascapes understand and accept this principle. However, we submit it has been incorrectly applied in this instance. The only costs that Superior will incur or expect to incur are those payments for claims it has actually made as a result of being self-insured. Seascapes submits that under cost of service it is only these actual or expected costs that Superior has a right to recover.

Seascapes submits there is regulatory practice on how self-insurance expenses are accounted for in cost of service models. The Ontario Energy Board in its 2006 Electricity Distribution Rate Handbook has developed policy on the handling of the self-insurance which includes these elements and may provide some guidance. Seascapes submits that a reliance on an insurance quote that was never intended to be purchased as the Commission has done has no bearing on actual costs and cannot be reasonably relied upon under cost of service regulation. A more appropriate remedy would be to determine the recent historical actual claims costs that have been incurred by Superior, determine a reasonable average and charge a prorated amount based on the size of Seascapes in proportion to the total business.

Was the Zurich quote a reasonable proxy for value?



The Commission has accepted the Zurich quote as a proxy for the value of the insurance provided by Superior to Seascapes residents. Seascapes submits that the Commission has erred in a number of areas in making this determination.

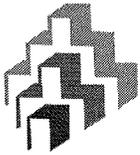
i) Superior has stated that it is self insured up to \$250,000 per incident (in effect this is its deductible). Of importance is the Zurich policy quote that has been submitted by Superior has coverage limits of \$2,000,000 for most risks. This amount is eight times as large as the self-insurance required. Seascapes submits this amount of excess coverage makes it a poor proxy for imputed value and cannot be considered reasonable.

ii) By placing a value on the self-insurance services provided by Superior, the Commission is inferring these are costs reflective of the costs of providing the service. Yet, the Commission is relying on a quote from Zurich, an actual insurance company as a means of determining that value. Seascapes submits that this is not appropriate. The quote amount provided by Zurich is prepared to not only cover its claims costs which in effect Superior is underwriting but also all of its administrative costs, claims management costs of running the insurance company and sales commissions as well as a profit margin for its shareholders. If Superior is self-insuring it is not required to bear any of these additional costs, as they are a utility not an insurance company. Moreover, Superior's administrative costs have already been accounted for in other parts of the revenue requirements and charging any additional cost would amount to double counting. Seascapes asserts that this is "an apples to oranges" comparison and it is unreasonable for Superior to be allowed to collect an amount predicated on the full cost recovery requirements of an insurance company offering a policy when they are only responsible for paying any claims.

iii) It is not apparent from a review of the Zurich quote what exactly is being insured nor is it apparent that Seascapes residents' as customers should reasonably be expected to bear these costs. In Seascapes view, the Commission should have placed little or no weight on this quote given the lack of clarity.

What constitutes an appropriate remedy for insurance costs?

Seascapes believes that it has made a prima facie case for reconsideration of the Commission's decision regarding the insurance costs to be included in Superior's revenue requirements. We would now like to address some options to remedy this matter.



As discussed earlier, one such option would be to develop a formula based on actual self-insurance claims history. This would most correctly base the amount to be charged to Seascapes on actual cost experience and satisfy cost of service requirements. As such it would likely be the most fair and reasonable remedy but might prove difficult to accurately quantify and allocate given the quality of evidence provided by Superior in the review of this application.

Another option would be to determine or have the parties agree on a formula to isolate a reasonable estimate of claims costs in proportion to the total insurance quote. This could be done using an average of several insurance quotations.

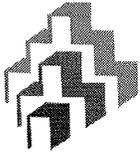
Oversight of the Cost of Gas

As stated in its Final Submission, the basis for Seascapes complaint against Superior was related to the cost of gas, service related issues and administrative practices.¹ The basis for the Seascapes residents' complaint was a desire to have some Commission oversight of the cost of propane gas. This was especially frustrating to most residents as unlike your local service station, wholesale propane gas costs are not published and there is no way for a consumer to determine whether they are being charged an amount that is fair and reasonable and equates to similar suppliers.

Seascapes interprets the Commission's intent in Order G-172-16 is to rely completely on Superior or its sister company, Superior Gas Liquids, from whom propane gas is purchased, to set the cost of gas. And, as a practical matter, the Commission will provide no oversight of the actual gas costs Seascapes customers are being charged.

As Seascapes understands it, this is the only case where the Commission has deemed it unnecessary to provide some level of oversight of gas prices. All other gas providers are required to go through a review process when the price of gas is to be either increased or decreased. Seascapes submits that the nature of the relationship between Superior and Superior Gas Liquids from whom it purchases alone would suggest that at least some oversight is reasonable. Therefore, Seascapes requests the Commission reconsider this direction and modify it to allow some level of Commission oversight while doing so in a cost effective manner.

¹ Seascapes Final Submission, p. 2.



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Seascapes' proposal to remedy this problem would be to have Superior notify the Commission by letter on a quarterly basis of the propane commodity charges to Seascapes residents in each of the past three months. The Commission could compare this against other regulated entities supplying propane and where an anomaly exists, request an explanation from Superior. This would provide comfort to Seascapes residents while creating only minimal additional reporting requirements for Superior. Seascapes submits it is the right thing to do.

Proposed Reconsideration Process

In light of the foregoing, Seascapes seeks a procedural order establishing the following:

- This application for reconsideration and variance shall proceed directly to phase two of the reconsideration process.
- This application for reconsideration and variance shall serve as Seascapes submission on the merits of reconsideration.
- The evidence and submissions filed in the BCUC proceeding shall form the evidentiary record for reconsideration purposes. This record can be added to during this reconsideration proceeding.

Given the time that has lapsed since the beginning of the proceeding Seascapes respectfully asks that a process be developed to deal with this matter expeditiously.

Ioana Oros

Property Manager
IO/jg