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British Columbia
Utilities Commission

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November 26, 2020

Sent via email/eFile

STARGAS DELIVERY RATE AND REGULATORY ACCOUNT EXHIBIT A-3

Mr. M.A. (Moe) Blumes
President
Stargas Utilities Ltd.
1960 KLO Road, Unit 17
Kelowna, BC V1W 5L2
Info@Stargas.ca

Re: Stargas Utilities Ltd. – Delivery Rate and Regulatory Account Application – Test Year November 1, 2020 to October 31, 2021 – Project No. 1599141 – Information Request No. 1

Dear Mr. Blumes:

Further to your September 22, 2020 filing of the Delivery Rate and Regulatory Account Application, enclosed please find British Columbia Utilities Commission Information Request No. 1. In accordance with the regulatory timetable, please file your responses on or before **Thursday, December 10, 2020**.

Sincerely,

Original signed by:

Marija Tresoglavic
Acting Commission Secretary

/dg
Enclosure

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Stargas Utilities Ltd.
Delivery Rate and Regulatory Account Application
Effective November 1, 2020

INFORMATION REQUEST NO. 1 TO STARGAS UTILITIES LTD.

Table of Contents **Page no.**

A. INTRODUCTION

1.0 Reference: INTRODUCTION
Exhibit B-2 (Supplementary Information), pp. 3–4
Historical information

Based on the information and table provided on pages 3 and 4 of the Supplementary Information, British Columbia Utilities Commission (BCUC) staff created the following table:

For 12-months November 1 - October 31

	2017 Approved	2017 Actual	2018 Actual	2019 Actual	2020 Projected*	20201 Forecast
Technical Services	$ 60,766	$ 72,221			$ 69,481	$ 71,893
Administration						
Professional services	6,200	5,980			7,140	7,225
Insurance	13,130				8,822	9,000
Office and sundries	15,028	18,904			22,307	20,659
Office lease	-	-			-	6,240
Administration - Fortis	59,735	60,289			55,544	54,000
Administration - CMI	46,757				48,063	66,743
	$ 201,616				$ 211,357	$ 235,760
Amortization	54,804				20,308	23,250
Catch-up dividend	6,794				6,794	6,794
Basic charge recovery	(62,990)	(63,025)			(73,305)	(75,915)
Sundry revenue	(4,102)	(4,989)			(5,987)	(6,480)
Income tax	9,300				10,919	3,251
Net meter and lines (recovery)	(170)				-	-
	$ 205,252				$ 170,086	$ 186,660
Earned return						
Return on debt	11,567				11,567	12,997
Return on equity	20,306				20,306	21,956
	$ 31,873				$ 31,873	$ 34,953
	$ 237,125				$ 201,959	$ 221,613
Deliveries (GJ)	41,093.6	47,163.7			46,769.5	48,250.0

*11 months actual and 1 month forecast as stated on page 2 of the Supplementary Information

1.1 Please confirm, or explain otherwise, that the completed portions of the above BCUC staff table are correct.

1.2 Please confirm that the amortization of deferral accounts is not included in the table above and explain why. If not confirmed, please clarify which line item(s) include the amortization of deferral amounts and the amount included in each year.

1.3 Based on the responses to BCUC Information Request (IR) 1.1 and 1.1 above, and as illustrated in the BCUC staff table above, please recreate the table provided on page 3 of the Supplementary Information and include additional columns for 2017 to 2019 Actuals based on a November 1 - October 31 year. For clarity, for any columns that report on actual or projected actual data, please provide the actual costs incurred for all amounts (e.g. based on actual CMI administration hours, capital assets and rate base) and correct any amounts which were not correct in the BCUC staff table above.

B. DELIVERY FORECAST

2.0 Reference: DELIVERY FORECAST
Exhibit B-1 (Application), p. 1
Delivery Forecast Model

On page 1 of the Application, Stargas Utilities Ltd. (Stargas) states:

> Stargas forecasts the delivery of 48,250 gj's [gigajoules] to 363 customers in the test year November 1st, 2020 to October 31st, 2021. In its fiscal year ending October 31st, 2020, Stargas forecasts the delivery of 47,813.0 gj's (includes ten months actual deliveries and estimates for September and October of 5,734 gj's – deliveries in September/October of 2019 were 5,437 gj's) to its current 348 ratepayers. Stargas' anticipated volume increase is based on the addition of 15 accounts in the fall of 2020. In developing its' forecast Stargas considered the current La Nina forecast (an anticipated colder winter) and the impact of the pandemic…

2.1 Please provide supporting calculations or the model used to produce Stargas' delivery forecast volume for each month in the test period, including the number of customers and use per customer.

2.2 Please provide the basis for the weather forecast used and explain how weather forecast data is taken into account by Stargas' delivery forecast model.

2.3 Please discuss the observed impacts of the Covid-19 pandemic on Stargas' natural gas deliveries to-date and explain how this was taken into account in the delivery forecast.

2.4 Please provide further details of the forecast addition of 15 accounts in the fall of 2020, including information on connection or occupancy dates and forecast delivery volumes.

2.5 Please provide Stargas' historical actual annual gas deliveries (GJ) and delivery revenues for the previous five years based on a November 1 – October 31 year, including the number of customers and use per customer.

2.5.1 Please explain how these values compare with any forecasts provided in the previous delivery rate application.

C. ADMINISTRATION COSTS

3.0 Reference: ADMINISTRATION COSTS
Exhibit B-1, p. 3; Exhibit B-2, pp. 1, 3
Office and Sundries

On page 3 of the Application, Stargas explains that Office and Sundries includes office consumables, bank changes, and various sundry costs. The test year estimate is $20,659.

On page 1 of the Supplementary Information, Stargas states that the test year increase in "Administration costs (other than management)" compared to 2017 approved reflects "normalized increases in underlying costs, including bank charges, office supplies and similar items… Forecast costs reflect a 7.3% increase in the fourth full year over that incurred in the amounts approved in G-59-17."

3.1 Please provide reasons for the increase in 2021 forecast Office and Sundries of $20,659 as compared to 2017 approved of $15,028. If applicable, please explain any "normalized increases" and provide Stargas' assumptions for these amounts.

4.0 Reference: ADMINISTRATION COSTS
Exhibit B-1, p. 3
Office Lease

On page 3 of the Application, Stargas states:

> Stargas considered only briefly acquiring square footage at the Resort but recognized that doing so would introduce costs not sensitive to the episodic and part-time nature of its management requirements. It did, however, determine that a lease of secondary office space (second story or similar) to accommodate a single 10 by 12 square foot office would have a cost approximating $520 monthly (triple net charges included) and submits that amount equitable compensation for the offices maintained in each of Stargas management homes. [*Emphasis added*]

4.1 Please provide the total estimated cost of the offices maintained in each of Stargas managements' homes with a breakdown of the component costs.

4.2 Please provide the basis for the $520 monthly estimate.

4.3 Please provide Stargas' rationale for including the full amount of the estimated cost (i.e. $520 monthly) given the "episodic and part-time nature" of Stargas' management requirement.

D. MANAGEMENT SERVICES

5.0 Reference: MANAGEMENT SERVICES
Exhibit B-1, pp. 6, 11–13
CMI Holdings (1998) Inc. (CMI) Administration/Management Fees

Based on the information provided on pages 6 and 13 and of the Application, BCUC staff created the following table:

Breakdown of CMI Management Fee

	2017 Approved	2021 Forecast
Administration	$ 15,703	$ 15,892
Bookkeeping	10,432	11,031
Accounting	7,062	16,101
Executive	13,560	14,598
Regulatory	-	5,400
Sub-total	**$ 46,758**	**$ 63,022**
Fees paid to IEC Ltd.	-	1,200
Contingency	-	2,521
Total	**$ 46,758**	**$ 66,743**

5.1 Please confirm that the above BCUC staff table is correct. If not confirmed, please provide the correct table.

On pages 11 and 12 of the Application, Stargas seeks approval of a fixed annual retainer of $1,200 in its management fee structure. Stargas explains that Mr. Ken Fuhr [Independent Energy Consultants Ltd. (ICE)] has agreed to serve on the company's Board of Directors and will provide additional support in all aspects of the utility's operations.

Additionally, on page 13 of the Application, Stargas requests a contingency of $2,521 with respect to CMI management fees.

5.2 Please explain how Stargas determined the annual retainer to IEC Ltd. of $1,200 and calculated the contingency of $2,521.

5.3 Please discuss whether the circumstances which existed at the time the BCUC "denied the inclusion of a gross up of approved hours/rates by 4% to cover contingencies"[1] continues to exist. If not, please explain and discuss how the circumstances have changed.

5.4 Please explain the difference between the contingency proposed and the forecasted hours with respect to "Incidents" which are included in Bookkeeping, Accountant and Executive hours.

5.5 Please explain why an additional board member is required.

[1] Exhibit B-1, p. 14.

6.0 Reference: MANAGEMENT SERVICES
Exhibit B-1, pp. 8, 11–12
CMI Hourly Rates and "Executive – Regulatory" Hours

Stargas provides the following table on page 11 of the Application, showing the proposed inflationary increases in management rates:

Rates per category	BC CPI	Executive	Accounting	Bookkeeping	Administration*
As originally authorized	112.7	$132.50	$63.60	$42.40	n/a
As currently authorized	122.7	$144.26	$69.24	$46.16	$24.46
As at July 2020	132.1	$155.30	$74.54	$49.69	$26.33

*Stargas, as described below seeks an increase in the administrative rate from the inflation adjusted $26.33 to $29.00

6.1 Please provide the source for the BC CPI of 132.1.

On page 8 of the Application, Stargas states in Note 12, "As discussed in Stargas' review of applicable hourly rates Stargas submits that activities related to maintaining market awareness in the development of commodity purchase plans and their execution ought, equitably be awarded a separate and higher rate regulatory category."

On page 11 of the Application, Stargas proposes that the hourly rate for the proposed "Executive – Regulatory" category is $225 per hour and the forecast hours required is 24 hours.

On page 12 of the Application, Stargas explains the proposed "Executive – Regulatory" rate, stating:

> The Commission, in an earlier decision stipulated an Inflation adjusted executive rate for services provided by Mr. Blumes and that accepted and reflected by Stargas with respect to continuing executive time – doing so, however, Stargas submits not equitable <u>with respect to time incurred in the preparation, filing and review of Applications before the Commission</u>. Mr. Blumes has now, over twenty with the Commission on regulatory matters. Mr. Blumes has now, over twenty years of interaction with the Commission on regulatory matters. Stargas notes that Stargas' earlier application sought 35 hours <u>in respect of gas purchase planning and execution that was reduced to 24 hours in G-59-17</u>. [*Emphasis Added*]

6.2 For clarity, please confirm whether the proposed hours and rate for the "Executive – Regulatory" category relates to executive time for: i) maintaining market awareness in the development of commodity purchase plans and their execution; ii) preparation, filing and review of Applications before the BCUC; or iii) both of the above.

6.2.1 If it relates to both, please provide a breakdown of the forecast 24 hours into the two activities (i.e. maintaining market awareness in the development of commodity purchase plans and their execution; and preparation, filing and review of Applications before the BCUC). Please also explain the basis for the forecast.

6.2.2 To the extent that the proposed rate category relates to commodity purchase plans and their execution, please elaborate on the reasons why a "separate and higher rate" category for these activities is warranted compared to the BCUC's previous approval under the "Executive" rate.

6.3 Please provide the basis for the proposed rate of $225 per hour for the "Executive – Regulatory" category, versus some other amount, and provide any supporting evidence available.

On page 12 of the Application, Stargas submits that an additional increase of $2.67 per hour to the inflation adjusted rate of $26.33 in the "Administrative" rate category is warranted. Stargas states, "Mr. Iles is both reception and supervisor in Stargas' management structure and is deserving of an incremental inclusion in its rate structure. Stargas notes that Mr. Iles time awarded these duties is called upon in irregular hours. Stargas submits that the increase of $2.67 sought is consistent with the nature of the role discharged by Mr. Iles in the conduct of his activities on behalf of ratepayers and suppliers."

6.4 Please provide the basis for the proposed increase of $2.67 per hour for the Administrative category, versus some other amount, and provide any supporting evidence available.

7.0 Reference: MANAGEMENT SERVICES
Exhibit B-1, pp. 9–10
CMI Hours Required – Monthly Activities

Stargas provides the following table on page 9 of the Application:

Actual hours	Executive	Accounting	Bookkeeping	Admin	Total
Nov-19	1.5	13.5	26.0	56.5	97.5
Dec-19	1.5	14.0	20.5	46.0	82.0
Jan-20	1.5	18.5	11.5	46.0	77.5
Feb-20	2.5	13.5	21.5	44.0	81.5
Mar-20	1.5	16.5	19.5	54.0	91.5
Apr-20	1.0	11.5	23.5	55.5	91.5
May-20	3.5	12.5	16.5	40.0	72.5
Jun-20	2.5	13.5	17.0	47.0	80.0
Jul-20	1.5	13.0	20.0	40.5	75.0
Aug-20	2.0	15.5	16.5	46.5	80.5
	19.0	142.0	192.5	476.0	829.5
Average	1.9	14.2	19.3	47.6	83.0
Annual	22.8	170.4	231.0	571.2	995.4

Stargas provides the following table on page 10 of the Application:

		Regulatory	Executive	Accounting	Bookkeeping	Administration	Totals
Monthly routines (current actual)			23	170	231	571	995
Eliminate contingency*	96%		1	7	9	23	40
Hours required -monthly activities			22	164	222	548	956

7.1 Please confirm, or explain otherwise, that the hours in the row labelled "Monthly routines (current actual)" in the table above are meant to correspond to the hours in the "Annual" line on page 9 of the Application (rounded).

7.1.1 If confirmed, please explain the rationale for the line labelled "Eliminate contingency" in the table on page 10 of the Application given that the hours in the line "Monthly routines (current actual)" are based on actuals.

8.0 Reference: MANAGEMENT SERVICES
Exhibit B-1, pp. 6–8, 14
CMI Accounting Hours

Based on the information provided on pages 6 and 14 of the Application, BCUC staff created the following table:

Accounting Hours

	2017 Approved	2021 Forecast	Proposed Increase/Decrease
Monthly routines	36	164	128
Annual reports	66	52	-14
	102	216	114

8.1 Please confirm, or explain otherwise, that the above BCUC staff table is correct.

On pages 6 to 8 of the Application, Stargas explains its proposals with respect to adjusting 2017 approved hours. In those adjustments, Stargas proposes to add 66 hours to the monthly routines for Accounting and to remove 14 hours from its periodic activities related to annual reports.

8.2 Please explain the remaining difference between 2017 approved and 2021 forecast Accounting hours for monthly routines (i.e. 62 hours, calculated as 128 hours less 66 hours explained).

E. OTHER INCLUSIONS IN REVENUE REQUIREMENT

9.0 Reference: OTHER INCLUSIONS IN REVENUE REQUIREMENT
Exhibit B-1, p. 35; Order G-59-17 dated April 27, 2017, Appendix A (Reasons for Decision), p. 19
Application to Recover Allowed but Undistributed Returns on Equity

On page 35 of the Application, Stargas states that it seeks "to recover from ratepayers its allowed but unpaid return on equity in the three years and five months [from June 1, 2017 to October 31, 2020] of $69,373… [it] seeks recovery by the inclusion in its revenue requirement over twenty years of $3,469 ($69,379 equally over the 20 years."

Stargas further states, "The utility with the agreement of its investor (CMI) did and will not distribute these returns to its investor to eliminate what otherwise would be a recurring annual interest deficit."

9.1 Please provide the delivery rate impact of the above-noted $3,469 in Stargas' test year revenue requirement.

9.2 Please confirm, or explain otherwise, that Stargas seeks BCUC approval to establish a regulatory account to record $69,373 in costs and to recover the balance from ratepayers over twenty years.

9.2.1 If confirmed, please clarify whether the proposed regulatory account is a rate-base or non-rate base deferral account and the proposed interest rate applicable to the account.

On page 19 of the Reasons for Decision to Order G-59-17, the BCUC stated:

> The Commission sets rates under sections 59 to 60 of the UCA to allow utilities to recover approved costs and to allow utilities the <u>opportunity, but not the guarantee, of a return on invested capital</u>. Investors in utilities risk their capital, and if the utility

makes a higher or lower return than that allowed by the Commission, investors do correspondingly better or worse. The Commission considers a rate is just and reasonable if it allows utilities to recover a fair and reasonable return on capital invested in assets serving ratepayers… To provide a utility the opportunity to earn a fair return, the Commission has provided a deemed capital structure for regulated utilities… If a utility differs from the ratio deemed by the Commission, or pays more or less for its equity or debt than the deemed return, ratepayers are not affected." [*Emphasis added*]

9.3 Please elaborate on what is meant by the "recurring annual interest deficit" and explain how it impacted Stargas' opportunity to earn the allowed return from June 1, 2017 to October 31, 2020.

9.3.1 Please explain and provide any other reasons for why Stargas did not have the opportunity to earn its allowed return, if any.

9.4 Please discuss whether Stargas considers its proposal results in a guaranteed return on invested capital for the period June 1, 2017 to October 31, 2020. Please explain why or why not.

9.5 Please explain the rationale for why ratepayers are impacted because Stargas did not recover its allowed return on equity.

9.6 Please discuss whether Stargas considers that inclusion of the return on equity for June 1, 2017 to October 31, 2020 in its future revenue requirements may result in double recovery, given that return has already been recovered in the delivery rates effective June 1, 2017 to October 31, 2020. Please explain why or why not.

9.7 Please identify and discuss any considerations with respect to retroactive ratemaking in the above proposal.

F. RATE BASE

10.0 Reference: RATE BASE
Exhibit B-1, p. 16; Exhibit B-2, Financial Schedule 5.ii
Historical Information

BCUC staff prepared the following table based on the information provided on page 16 of the Application and Supplementary Information, Financial Schedule 5.ii., and included Forecast "31-May 31-17" from table 10 of the Reasons for Decision to Order G-59-17:

	Forecast 31-May-17	Actual 31-May-17	Actual 31-May-18	Actual 31-May-19	Actual 31-May-20	Projected 31-Oct-20	Forecast 31-Oct-21
Distribution Grid/Pipeline System							
Capital cost, beginning of year	$ 643,037		$ 645,845	$ 645,845	$ 692,338	$ 724,625	$ 751,026
Additions/(Disposals)	-		-	46,493	32,287	26,401	22,000
Capital cost, end of year	643,037	645,845	645,845	692,338	724,625	751,026	773,026
Accumulated amortization, beginning of year			246,224	262,295	278,950	296,729	303,939
Additions/(Disposals)			16,071	16,655	17,779	7,210	18,776
Accumulated amortization,end of year	246,226	246,224	262,295	278,950	296,729	303,939	322,715
Net capital cost, end of year	396,811	399,621	383,550	413,388	427,896	447,087	450,311
Teresen Contribution, net accumulated amortization							
Capital cost, beginning of year			444,329	444,329	444,329	444,329	444,329
Additions/(Disposals)			-	-	-	-	-
Capital cost, end of year		444,329	444,329	444,329	444,329	444,329	444,329
Accumulated amortization, beginning of year			399,896	422,112	444,329	444,329	444,329
Additions/(Disposals)			22,216	22,217	-		
Accumulated amortization,end of year		399,896	422,112	444,329	444,329	444,329	444,329
Net capital cost, end of year	44,433	44,433	22,217	-	-	-	-
Safety Initiative							
Capital cost, beginning of year	-	-	-	-	16,136		30,008
Additions/(Disposals)	-	-	-	16,136		-	-
Capital cost, end of year	-	-	-	16,136		30,008	30,008
Accumulated amortization, beginning of year	-	-	-	-			3,000
Additions/(Disposals)	-	-	-	-			3,000
Accumulated amortization,end of year	-	-	-	-		3,000	6,000
Net capital cost, end of year	-	-	-	16,136		27,008	24,008
Remediation							
Capital cost, beginning of year	-	-	-	-			8,710
Additions/(Disposals)	-	-	-	-			-
Capital cost, end of year	-	-	-	-		8,710	8,710
Accumulated amortization, beginning of year	-	-	-	-	-	-	-
Additions/(Disposals)	-	-	-	-	-	-	-
Accumulated amortization,end of year	-	-	-	-	-	-	-
Net capital cost, end of year	-	-	-	-	-	8,710	8,710
Billing/Read software							
Capital cost, beginning of year	-	-	-	-	4,245	7,373	7,373
Additions/(Disposals)	-	-	-	4,245	3,128	-	-
Capital cost, end of year	-	-	-	4,245	7,373	7,373	7,373
Accumulated amortization, beginning of year	-	-	-	-	-	-	-
Additions/(Disposals)	-	-	-	-	-	-	1,475
Accumulated amortization,end of year	-	-	-	-	-	-	1,475
Net capital cost, end of year	-	-	-	4,245	7,373	7,373	5,898
Net Plant in Service, end of year	441,244	444,054	405,767	433,769	435,269	490,178	488,927
Working capital allowance	43,024			49,065	58,526	54,225	54,225
Rate Base, end of year	**$ 484,268**			**$ 482,834**		**$ 544,403**	**$ 543,152**
Mid-year Rate Base	**$ 502,928**						**$ 543,778**

10.1 To the extent that the information is available, please complete the above BCUC staff table based on an October 31 year-end. Otherwise, please confirm, or explain otherwise, that the completed portions of the above BCUC staff table are correct and complete the above BCUC staff table. Please note some portions of the BCUC staff table were not completed due to discrepancies between amounts provided on page 16 of the Application and the Supplementary Information, Financial Schedule 5.ii. For clarity, please explain these discrepancies and resolve them in the completed table.

11.0 Reference: RATE BASE

Exhibit B-1, p. 16; Exhibit B-2, Financial Schedules 5.ii, p. 5
Accounting and Regulatory Policies

11.1 Please describe Stargas' capitalization policies and criteria related to capital additions.

11.2 Please clarify if, after the test period, forecast capital additions will be adjusted in rate base to reflect actual capital additions.

On page 5 of Exhibit B-2, Stargas states, "Stargas amortizes its capital assets as follows; Pipeline system – 40 years, Safety initiative – 10 years Software – 5 years; Remediation, involving a further estimated $20,000 cost of survey, is to amortized over 5 years when completed."

11.3 Please provide further details regarding Stargas' depreciation policies (e.g. method; when depreciation begins; provisions for salvage).

12.0 Reference: ADDITIONS TO RATE BASE
Exhibit B-1, pp. 16, 19; Order G-164-17 dated November 9, 2017, Appendix A (Reasons for Decision), p. 3
Distribution Grid

Pages 19-20 of the Application contain tables titled "Details of Changes in Capital Accounts: Distribution Grid" for years 2019, 2020, and 2021. Stargas provides a current estimate of $20,000 for 2021 Installations titled "October Installs."

12.1 Please explain the basis for the estimated 2021 installations.

12.2 Please discuss the likelihood of the "October Installs" in 2021 not being in service prior to October 31, 2021.

Directive 1 of BCUC Order G-164-17 states:

1. Modifications to the Stargas tariff and the regulatory accounting treatment for new residential and small commercial service installation costs are approved as set forth in the Application and subsequent amendments. Specifically, a $25 service line installation charge and the inclusion of service installation costs in rate base earning the Stargas' weighted average cost of capital are approved, as outlined in the reasons for decisions attached as Appendix A to this order.

Page 3 of the Reasons for Decision attached as Appendix A to Order G-164-17 states:

> Specifically, Stargas proposes to charge new residential and small commercial customers its contractor's cost of installing new meters, while adding new service line and applicable manifold costs related to these installations to rate base.

12.3 Please confirm, or explain otherwise, that Stargas has collected the $25 service line installation charge from new customers as approved by Order G-164-17. If confirmed, please explain how it is reflected in the tables on pages 19-20.

13.0 Reference: ADDITIONS TO RATE BASE
Exhibit B-1, pp. 15, 20–21
Safety Initiative

On page 20 of the Application, Stargas provides the following table:

Details of Changes in Capital Accounts: Safety Initiative:

Cost incurred summarized as follows:	Notes		
FAES meter survey	1	$2,134	
FAES mapping update	2	19,500	
Paid meter reader - initial survey		594	
Costs recovered from homeowner		(272)	
Stargas management personnel	3	5,553	
Meter Relocation (awaiting invoices)	4	2,500	Completed July 2020
		$30,009	

On page 21 of the Application, Stargas states in Note 1, "Stargas commissioned its service provided [*sic*] (FAES) to conduct a review of 72 metes identified as potentially at peril and communicated with property owners to ensure the safety issue addressed at each."

Further, Stargas states in Note 2, "FAES was contracted to complete its mapping and to update its format (digitize) to conform line locates within the Stargas service area to those throughout the province."

13.1 Please explain how the costs of the "Safety Initiative" meet Stargas' capitalization policies and Canadian accounting standards for private enterprises and why they are not operating costs.

On page 15 of the Application, Stargas states that it has, "from November 1st, 2019, amortized its investment in its safety initiative over 10 years."

13.2 Please clarify whether there are portions of the "Safety Initiative" project in-service and used and useful prior to November 1, 2019.

13.2.1 Please explain why Stargas proposes to begin amortization of the "Safety Initiative" from November 1, 2019.

13.2.2 Please explain why Stargas proposes to amortize capital costs regarding the safety initiative over a period of 10 years and specifically how the proposed amortization period compares to Stargas's accounting treatment of similar capital assets.

14.0 Reference: ADDITIONS TO RATE BASE
Exhibit B-1, pp. 16, 23
Remediation

On page 23 of the Application, Stargas states:

> On July 17, 2020, received and has finalized a 2-year License of Occupation from the Province of British Columbia providing for access to its gas lines on Crown land within the Controlled Recreation Area of Silver Star Mountain Resort…
>
> Within the two-year period of the License, Stargas will complete a survey (estimated at a cost of $20,000) and thereafter will be granted a Statutory Right of Way in perpetuity over the gas lines.

14.1 Please explain whether Stargas had ever obtained access rights for the above-noted areas prior to 2020. If not, please explain why not.

14.2 Please confirm if the statutory right-of-way and/or license of occupation is required for Stargas to continue operations and explain why or why not.

14.3 Please explain when Stargas intends to complete the survey required to be granted a statutory right-of-way in perpetuity.

On page 16 of the Application, the table titled "Capital Structure" contains the following rows:

Rate Base	31-May 19	Additions	31-May-20	Additions	31-Oct-20	Addictions	31-Oct-21
Remediation	0	6,428	6,428	2,282	8,710	0	8,710

14.4 Please explain whether the remediation capital additions to-date are used and useful to Stargas ratepayers prior to Stargas obtaining a Statutory Right of Way (SRW).

14.5 Please explain why Stargas does not propose to begin amortization of the expenditures related to remediation at the same time that they are added to rate base.

14.6 Please confirm, or explain otherwise, that once granted, the SRW will remain useful to Stargas for the lifetime of the Stargas system.

14.7 Please provide rationale for the proposed depreciation rates for remediation capital additions.

15.0 Reference: ADDITIONS TO RATE BASE
Exhibit B-1, p. 23
Read Conversion and Billing Software

On page 23 of the Application, Stargas states:

> Stargas preparatory to the termination of administrative services provided by Fortis Alternate Energy Inc. (initially scheduled to terminate November 30th 2019) developed internal software to covert meter reads to gigajoules and to prepare monthly ratepayer invoices forward from that date… administrative services were extended with FortisBC Energy, Inc. initially to May 31st, 2020 and laterally to October 31st, 2020.

On page 16 of the Application, the table titled "Capital Structure" contains the following rows:

Rate Base	31-May-19	Additions	31-May-20	Additions	31-Oct-20	Additions	31-Oct-21
Billing/Read software	4,245	3,128	7,373	0	7,373	0	7,373
Amortization					0	1,475	1,475
	4,245	3,128	7,373	0	7,373	(1,475)	5,898

15.1 Please explain how the costs of the read conversion and billing software meet Stargas' capitalization policy and criteria.

15.2 For clarity, please confirm whether the read conversion and billing software is used and useful to Stargas ratepayers at this time, and if not, whether it is likely to become used and useful within the test period.

15.3 Please explain how Stargas determined the proposed amortization period for the read conversion and billing software.

15.3.1 Please discuss how the proposed amortization period compares to Stargas' accounting treatment of any similar capital assets

G. RETURN ON DEBT AND EQUITY

16.0 Reference: RETURN ON DEBT AND EQUITY
Exhibit B-1, pp. 16–17; Order G-59-17 dated April 27, 2017, Appendix A (Reasons for Decision), p. 19
Return on debt and equity

On page 16 of the Application, Stargas states:

> Stargas determined that it could best conform to the conventional model adopted in BCUC Order G-59-17 by redeeming preferred/issuing preferred shares on an annual basis, such that the value of the issued and outstanding common and preferred shares would stand as a proxy for the approved equity component in the utility's approved rate base. Accordingly, Stargas, for regulatory purposes reflects its preferred share investment as $231,000 with a corresponding $69,000 increase in its investor's loans. [*Emphasis added*]

On page 19 of the Reasons for Decision to Order G-59-17, the BCUC stated: "To provide a utility the opportunity to earn a fair return, the Commission has provided a deemed capital structure for regulated utilities. Thus, a utility is considered by the Commission to be funded by a particular ratio of equity and debt and is allowed to earn deemed rates of return on both its deemed equity and debt. If a utility differs from the ratio deemed by the Commission… ratepayers are not affected." [*Emphasis added*]

16.1 Please explain why it is necessary to reflect the preferred share investment as $231,000 with a corresponding increase to investor loans of $69,000 for regulatory purposes.

16.1.1 Please explain the impact of the above-noted adjustment on Stargas' test year return on debt of $12,997 and return on equity of $21,956. If applicable, please provide an alternative calculation of Stagas' test year return on debt and return on equity which are calculated in the absence of that adjustment.

On page 17 of the Application, Stargas provides the following calculation for its weighted average cost of debt (WACD):

	Avg outstanding	Rate	Weight	WACD
Bank Debt - operating	$159,901	3.70%	32.16%	1.19%
Bank Debt - term	$110,310	3.70%	22.19%	0.82%
Shareholder loans	$227,000	4.70%	45.65%	2.15%
	$497,211			4.16%

16.2 Please explain the balances in the column "Avg outstanding." What are these balances based on?

16.3 Please clarify whether the $227,000 in shareholder loans represents actual average outstanding loans due to the shareholder or explain otherwise.

16.4 Please explain why there is an interest rate premium on shareholder loans (4.7 percent) compared to bank debt (3.7 percent interest).

16.4.1 Please explain the rationale for using more financing from shareholder loans compared to bank debt.

H. WORKING CAPITAL ALLOWANCE

17.0 Reference: WORKING CAPITAL ALLOWANCE
Exhibit B-1, p. 18; Order G-59-17 dated April 27, 2017, Appendix A (Reasons for Decision), p. 17
Working capital allowance

On page 18 of the Application, Stargas provides a calculation for its forecast working capital allowance of $54,225.

17.1 Please provide a detailed explanation of the calculation. Please include, but not be limited to, the following in the explanation:

- Methodology for determining the "Gas cost recoveries" days of 49.3 days;
- Methodology for determining the "Accounts payable" days of 25 and 20 days for FortisBC and Shell, respectively;
- Explanation for why the analysis of "Accounts payable" is limited to FortisBC and Shell;
- In "Non gas expenditures", the differences between the amounts shown on page 18 and page 2 of the Application for "Office and sundry" and "Insurance" line items; and
- In "Non gas expenditures", explanation for why FortisBC administration costs are not included.

In Table 10 page 17 of the Reasons for Decision accompanying Order G-59-17, the BCUC notes that the Stargas' forecast mid-year rate base for fiscal 2017 includes a working capital allowance of $43,024.

17.2 Please provide reasons for the increase in Stargas' working capital allowance from $43,024 in the fiscal 2017 forecast to $54,225 in the current forecast test period.

17.3 Please provide the rationale for including a working capital allowance of $30,783 related to gas cost recoveries and accounts payable from FortisBC and Shell, in addition to 1/8 of non-gas expenditures.

17.4 Please describe the purpose of the working capital balance of 1/8 of non-gas expenditures, why the 1/8 is applied to non-gas expenditures only and provide reference to any previous BCUC orders that relate to this calculation.

I. REGULATORY ACCOUNTS

18.0 Reference: REGULATORY ACCOUNTS
Exhibit B-1, p. 24; Order G-164-17 dated November 9, 2017
New Service Installation Regulatory Accounts

On page 24 of the Application, Stargas states:

> Stargas, was by BCUC Order G-161-17, allowed to establish a Regulatory Account to cover a change to its rate schedule to include installation costs in rate-base rather than charging those to ratepayers. Stargas was allowed recovery of $9,395 over sixty months, or until settled…

Directives 2 and 3 of BCUC Order G-164-17 state:

2. Stargas is approved to establish a 2017 Installation Application Regulatory Account related to the cost of the Application, to a maximum of $9,500. The regulatory account is approved to accrue

interest based on Stargas' current weighted average cost of capital. Stargas' request to amortize this account over 24-months is denied. However, Stargas is approved to use a rate rider to recover the balance in the regulatory account from customers over a period of 60 months from the date of this order.

3 Stargas is directed to establish a regulatory account to capture the incremental revenues and costs associated with new service installations added prior to November 1, 2019 and to include its proposed disposition of this account as part of its next revenue requirements application, as outlined in the reasons for decisions attached as Appendix A to this order.

18.1 Please confirm, or explain otherwise, that the $9,395 regulatory account referenced by Stargas refers to the 2017 Installation Application Regulatory Account established by directive 2 of Order G-164-17 (i.e. not Order G-161-17).

18.1.1 Please clarify whether there are any amounts captured in the above-noted regulatory account which relate to incremental revenues and costs associated with new service installations from November 9, 2017 onwards (i.e. directive 3 of Order G-164-17). If yes, please provide details for these amounts.

18.1.1.1 If no, please explain Stargas' accounting treatment of incremental revenues and incremental costs associated with new service installations since November 9, 2017 (i.e. directive 3 of Order G-164-17). If they have been captured in separate regulatory account, please provide details of that account and explain how Stargas proposes to dispose of the balance. If they have been captured and moved to rate base, please explain why and clarify where this is reflected in the Application.

18.2 For clarity, please provide the number of new installations by year and a breakdown of the incremental revenues and expenses by year for the years ended October 31, 2018, 2019, 2020, and forecast 2021, which can be attributed to new customers since November 1, 2017. Incremental expenses and revenues include but are not limited to the incremental delivery rate revenue, application fee revenue and associated expenses, incremental administrative cost, and service contractor's variable cost.

19.0 Reference: REGULATORY ACCOUNTS
Order G-159-18 dated August 27, 2018, Appendix A (Reasons for Decision), pp. 4–5
2018 Regulatory Account to Cover Incident Shortfall

On pages 4 to 5 of Appendix A to Order G-159-18, the BCUC stated:

> In order to ensure an efficient review of these items in the Stargas' 2019 delivery rate application, Stargas is directed to file the following supplemental information as part of its 2019 delivery rate application:
>
> …
>
> Discussion of the utilization of alternative recovery mechanisms of the 2018 Regulatory Account to Cover Incident Shortfall balance (including supporting calculations): i) amortizing the deferral balance into 2019 delivery rates; ii) amortizing the deferral balance over 2019 and 2020 delivery rates; and iii) using a rate rider with recovery over 12 and 24 months.

19.1 Please discuss the pros and cons of alternative recovery mechanisms for the 2018 Regulatory Account to Cover Incident Shortfall, including supporting calculations for alternatives including:

i) amortizing the deferral balance into proposed delivery rates over one year ii) amortizing the deferral balance into proposed delivery rates over two years; and iii) using a rate rider with recovery over 12 and 24 months.

19.1.1 Please identify Stargas' preferred recovery mechanism for the incident shortfall deferral account balance of the recovery mechanism alternatives discussed in the response above.

19.2 Please discuss and provide the impact on the deferral account balance that would arise from delaying the recovery of the 2018 Regulatory Account to Cover Incident Shortfall until the next Stargas rate application.

19.2.1 Please discuss and provide the impact on ratepayers of the above response.

20.0 Reference: REGULATORY ACCOUNTS
Exhibit B-1, pp. 26–27, 29
2018 Regulatory Account to Cover Incident Shortfall

On page 26 of the Application, Stargas states:

Stargas seeks recovery from Ratepayers of $16,687.30 as follows:

	Costs Incurred	Anticipated Denial	Costs Claimed
FAES - Final settlement July 5, 2018	$9,081.72		$9,081.72
Five Star Utility – relights	650.00		$650.00
D.K. Stargas meter reader; status of relights	190.40		$190.40
Direct costs	9,922.12		$9,922.12
M.A. Blumes, executive time	5,157.00	757.00	$4,400.00
Total before interest	15,079.12	757.00	14,322.12
Interest			
July 5, 2018 to May 31, 2019 (WACC 6.95% to 7.10%)	867.00	43.53	823.47
Reported Balance - May 31, 2019	15,946.12		
May 31st, 2019 to Oct 31, 2019 (WACC 7.10% to 7.12%)	476.11	23.90	452.21
October 31, 2019 to May 31, 2020 (7.12% to 6.80%)	669.63	33.62	636.01
Reported Balance - May 31, 2020	17,091.86		
June 1, 2020 to Oct 31, 2020 (WACC-6.28% Aug 2020)	477.45	23.97	453.48
Reported Balance - October 31, 2020	17,569.31	882.01	$16,687.30

20.1 Please confirm whether Stargas attempted to recover all or any portion of the $5,997.40 (calculated as: $650.00 + $190.40 + $5,157.00) in direct and indirect costs (incurred on top of the FAES costs) from the damager's insurer. Please explain why or why not.

On page 27 of the Application, Stargas states, "The incident occurred outside the Stargas service area (demarcation the Silver Star Mountain Resort boundary); the damage was to a Fortis main bringing gas to the Stargas service area."

20.2 Please explain why Stargas ratepayers are responsible for the incident costs which arose from damage to a FEI main. Please include discussion of any contractual terms which make Stargas, and not FEI, is responsible for the costs.

On page 27 of the Application, Stargas states:

> Stargas submits that its decision to accept the settlement amount expedient and notes that, were Stargas to have sought to further narrow direct costs that indirect costs (its own and those of legal counsel) would have ballooned well beyond their prospect of recovery in litigation. Stargas suggests that the damagers' insurer would expect to secure a reduction in its costs based on finding and Stargas agreeing to a "point of indifference" usual to these circumstances.

Page 29 of the Application contains a table of executive hours included in the incident shortfall regulatory account. The table includes the following information:

		M.A. Blumes
	Description	Executive Hrs
		$144.26
5-Aug-18	Discussion with Stargas counsel - re status/position on Incident	1.25
6-Aug-18	Draft/redraft reponses - Stargas & that of legal counsel	4
28-Aug-18	Summarize info to date for subsequent (2019 application)	2.75
		8
	Total hours involved at $144.26	$1,154
		$5,157

20.3 Please confirm, or explain otherwise, that the three line-items above are related to BCUC regulatory proceedings and did not arise directly as a result of incident costs or Stargas' work to recover incident costs from the damagers' insurer.

20.4 Please confirm, or explain otherwise, that Stargas discussed alternatives with legal counsel prior to accepting the damagers' insurer's offer.

20.4.1 If confirmed, please summarize any discussions that occurred regarding the potential for recovery of the remaining uncovered costs from the final FAES settlement and additional amounts for relights, status of relights, and executive time. Please provide the legal cost incurred and Stargas' proposal for the treatment of the cost (e.g. capture in the 2018 Regulatory Account to Cover Incident Shortfall or expense).

20.4.2 If not confirmed, please explain why Stargas believes it was prudent to accept the settlement without involvement of legal counsel.

21.0 Reference: REGULATORY ACCOUNTS
Exhibit B-1, Attachment Fii, p. 3
2018 Regulatory Account to Cover Incident Shortfall

On page 3 of 8 of Attachment Fii to the Application, in an FAES email dated May 7, 2018, FEI invoiced amounts to FAES are outlined as follows:

FEI Invoice amount to FAES for re-gasifying the Stargas system:

30933150 – Star Gas Relights

Description	Actuals	O/H	Total
Star Gs Relight Survey	290.00	36.25	326.25
Meals	1,547.29	193.41	1740.70
Other	500.00	62.50	562.50
Admin Exp	25.66	3.21	28.87
Contractor-Mis	26,970.64	3,371.33	30,341.97
IBEW Wages-Reg	10,955.05	3,560.39	14,515.44
IBEW Wages-OT	18,274.88	5,939.34	24,214.22
Vans & PU's	506.88.	63.36	570.24
Vans & FU's 4x4	1,650.47	206.31	1,856.78
Med Duty Trucks	285.22	35.65	320.87
	61,006.09	**13,471.75**	**74.477.84**

21.1 Please provide a breakdown of hours and hourly rates for the above services, if Stargas has obtained such information.

21.2 Please explain whether rates for each of the above invoiced items are included in the FAES service agreement.

21.3 Please explain what steps Stargas has taken to ensure that the invoiced amounts were fair and reasonable for the services provided.

22.0 Reference: REGULATORY ACCOUNTS
Exhibit B-1, pp. 5, 29–30; BCUC Regulatory Account Filing Checklist[2]; Exhibit B-2, p. 5; Financial Schedules, p. 1
Regulatory account to recover the costs of the current delivery and regulatory account application

On page 29 of the Application and page 2 of the Supplementary Information Financial Schedules, Stargas states that it seeks the BCUC's approval to establish a regulatory account to recover the costs of the Application.

On page 30 of the Application, Stargas states that it has incurred to date (i.e. October 26, 2020) $38,458 in costs, in three areas:

1. $5,741.44 – preparation of the current Application
2. $25,841.03 – preparation of the September 2019 application; and
3. $6,867 – technical services/BCUC staff updates

On page 5 of the Application, Stargas states, "If and to the extent that any of the amounts deferred in Stargas' accounts are not authorized, they will be transferred to, and included within management costs, incurred in the fiscal year ended October 31st, 2020."

[2] https://www.bcuc.com/Documents/Guidelines/2017/05-03-2017_RegulatoryAccountFilingChecklist.pdf

On page 5 of the Supplementary Information, Stargas states "If and to the extent that any of the amount sought for inclusion in a 2020 Regulatory Account is denied, that amount will increase the $55,544 currently within the CMI administration caption."

22.1 Please confirm, or explain otherwise, that the $6,867 is not related to the preparation of this Application but relates to securing technical services through the end of the test period.

22.2 Please confirm, or explain otherwise, that the $38,458 relates to costs incurred prior to the test period. If confirmed, please identify and discuss any considerations with respect to retroactive ratemaking for each of the three cost areas.

22.3 In the event that the $6,867 is not approved deferral account treatment, please confirm, or explain otherwise, that this amount will be added to the CMI administration costs of $48,063 for the year ended October 31, 2020 (rather than $55,544).

In the BCUC Regulatory Account Filing Checklist, "item III" of the regulated entity's regulatory account filing considerations states:

> Identify any alternate treatments that were considered, including an overview of what the accounting treatment would be in the absence of approval of the request to establish a regulatory account, and explain why these alternate treatments may not be appropriate.

22.4 For each of the three cost areas, please provide Stargas' assessment of "item III" in the BCUC Regulatory Account Filing Checklist.

22.5 For each of the three cost areas, please provide an assessment of the appropriate amortization period for the deferred amount and explain why.

22.5.1 For each of the three cost areas, pleases provide the impact of the following, with supporting calculations: i) amortizing the deferred balance into the proposed delivery rates over one year; ii) amortizing the deferred balance into the proposed delivery rates over two years; and iii) using a rate rider with recovery over 12 and 24 months.

On page 30 of the Application, Stargas requests that "further costs" in addressing BCUC and intervener IRs in this proceeding be accepted within the proposed regulatory account as well.

By Order G-59-17, the BCUC approved the establishment of a 2016 Delivery Rate Application Regulatory Account to capture certain costs[3] of that proceeding.[4] On page 1 of the Supplementary Information Financial Schedules, Stargas shows that the final cost recorded in that regulatory account is $41,450.

22.6 Please provide a forecast breakdown of "further costs" which Stargas proposes to include in the above-noted regulatory account. Please include an explanation of the assumptions used to develop the forecast.

22.6.1 Please compare the $41,450 recorded in the 2016 Delivery Rate Application Regulatory Account to the forecast total expected cost for this Application as provided in the IR above. In what areas does Stargas forecast costs to be higher or lower?

[3] Legal counsel costs, Stargas internal time, BCUC expenses, and Participant Assistance/Cost Awards.

[4] Stargas Application to Vary Delivery Rate, Amend Cost of Service Formula and Approve Replacement Term Financing/Redemption of Preferred Shares.

23.0 Reference: REGULATORY ACCOUNTS
Exhibit B-1, pp. 33–34
Interest Deficit Regulatory Account

On page 33 of the Application, Stargas seeks to establish a regulatory account to recover an interest deficit of $18,005 incurred in the period June 1, 2017 to October 31, 2020. Stargas states, "where available (as are they in this instance) actual interest costs incurred ought, Stargas submits, be allowed as a transitory accommodation in place of estimates derives on the formula used in this instance." [*Emphasis added*]

On page 34 of the Application, Stargas provides a table showing the calculation of the $18,005. Note 3 to that table states, "Details of excluded costs and the calculation of interest costs incurred thereon can be provided should those be required."

23.1 Please explain the factors which lead to a variance between actual interest costs and the formula estimate for interest costs (e.g. interest rate, outstanding balance, other).

23.2 Please provide the rationale for why it is necessary to recover actual interest costs and explain the meaning of the "transitory accommodation" requested.

23.3 Please identify and discuss any considerations with respect to retroactive ratemaking in the above-noted proposal for interest costs.

23.4 Please provide the details of the excluded costs and interest calculation as noted in Note 3.