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

Attention: Acting Commission Secretary

January 25th, 2021

Subject: Commodity Rate Application
Response to Commission Exhibit A-7

Dear Ms. Tresoglavic:

Stargas, on Friday, January 15th, 2021 filed its response to the above request seeking clarification of documentation filed as confidential, that based on the execution of an agreement of sale between it and FortisBC Energy Inc., need not thereafter be withheld from public dissemination. Accordingly, Stargas filed revised documents (B1, B-1-1-2, B-5-1 and B-6-1) that are now to be made available for public review. Stargas, based upon its expectation that all the information provided in B1, B-1-1-2 and B-6-1 will be disclosed in a forthcoming Joint Application to be filed with the Commission has determined that the information within these documents originally filed as confidential is to be made available to the public.

Should further clarification on Stargas' filing on the 15th of January 2021 be required, please request same by email to M. A. Blumes, President, Stargas Utilities Ltd. at info@stargas.ca.

Moe Blumes
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Stargas Utilities Ltd.
Natural Gas Purchase Plan and Updated Application to Vary Commodity Rate
Effective November 1, 2020

STARGAS RESPONSE TO INFORMATION REQUEST NO. 1

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Stargas Introduction: Stargas, December 7, 2020 entered into an agreement to sell its regulatory assets and operations to FortisBC Energy Inc. ("FEI"), that subject to Commission review and approval of the sale by Stargas and the purchase by FEI is scheduled to close April 1st, 2021. Pursuant to BCUC Order G-271-20 Stargas' commodity rate is to remain at its current $3.98 per gigajoule rate. If, as anticipated prior to March 31st, 2021, the Commission has rendered a decision on Stargas' commodity rate Stargas would pursuant to G-271-20 extra bill its ratepayers $59,641 plus the difference between the approved rate and the interim rate of $3.98 multiplied by the deliveries billed at the $3.98 rate now subject to current pricing. Stargas has suggested consideration of an alternative treatment (Doc B-3 in the current application) that would, if accepted by the Commission, establish a FEI/Silver Star Regulatory Account through which it would recover, with interest, at the utility's weighted average cost of debt, the amount it would have paid Stargas in completing the sale.

While Stargas recognizes the review and approval of the FEI transaction is a process not yet initiated, as there are meaningful cost savings for ratepayers in its completion, Stargas submits that a number of the interrogatories included in this and the non-confidential information request would be applicable only if the sale were not to conclude.

A. NATURAL GAS PURCHASE PLAN

1.0 **Reference: NATURAL GAS PURCHASE PLAN**
Confidential Exhibit B-1, Attachment "Exhibit B1", pp. 1–2; Attachment "Exhibit B5"
Alternatives considered

On page 1 of Attachment "Exhibit B1" to Stargas Utilities Ltd.'s (Stargas) Natural Gas Purchase Plan and Updated Application to Vary Commodity Rate Application dated October 21, 2020 (Application), Stargas states:

> Stargas, in collaboration with its consultant (Independent Energy Consultants Ltd.) continuously reviews third party sources for the commodity including the commercial section of www.fortisgas.com as well as market updates from marketers other than Shell (it's current supplier) to ensure that offered prices are competitive wholesale rates. As the date hereof, Stargas has not contracted any purchases with respect to winter deliveries and while it would consider doing so, would seek Commission approval only if those available at or below $2.25 per gj.

If the utility's purchase plan accepted as filed, Stargas will take winter deliveries and those through the balance of the fiscal year at daily index.

1.1 Please explain which alternate suppliers have been considered by Stargas.

Stargas response: Prior to retaining IEC, Stargas supplied by a gas marketer charging $0.10 per Gigajoule and selling at Sumas Index price plus markup. IEC recommended and Stargas accepted deliveries at Station 2 from Shell avoiding a marketer upcharge. Shell has proven to be a reliable supplier, as evidenced when the Enbridge Pipeline exploded; Stargas experienced no disruption nor additional administrative costs during that situation. IEC, advises that in addition to reliable supply other benefits include that only the gas consumed, as measured by Fortis each day is billed. Purchases are based on the widely used Gas Daily Midpoint (thereby providing transparency). Shell's fee includes the physical premium for commodity plus daily nomination services. Transmission related charges such as Compressor Fuel and Taxes are billed on a flow through basis without markup and the transmission cost itself is billed to reflect the Stargas demand profile but includes no take or pay volume commitments.

1.2 Please confirm, or explain otherwise, that the prices offered by Shell are the lowest available to Stargas among the alternatives considered. Provide supporting pricing data from other suppliers if available.

Stargas response: Stargas rate 5, adjusted quarterly, is currently at $3.515 per gj and, based upon data on current deficit balances can be expected to be subject to further quarterly increases. Stargas notes that historical comparisons of purchases from Shell/Station 2 have brought meaningful savings to Stargas ratepayers over costs that would have been absorbed with supply Fortis Rate 5/Sumas.

1.3 Please explain how $2.25 was selected as a threshold above which Stargas would not consider contracting for winter deliveries.

1.3.1 Please discuss how this threshold compares to Stargas' commodity costs from November 2019 to October 2020.

Stargas response: The market commodity price increased over the last number of months due to a decline in drilling activity resulting a higher threshold. Fortis Cost of Commodity (not including Storage and Transport Charges that make up their commodity charge) increased from $1.549 to $2.84 over the course of those same few months.

1.3.2 Please discuss how this threshold compares to any threshold set by Stargas for contracting its winter 2019/2020 gas supply.

Stargas response: In late 2019 early 2020 the market price of gas was lower so that Stargas felt less urgency to secure a fixed rate and opted to avoid incremental administrative costs associated with securing a fixed price.

1.3.3 Please discuss how pricing for supply contract options considered for winter 2019/2020 compared to actual day-ahead index pricing observed during the period.

Stargas response: The forward Station 2 Winter 2019/2020 pricing was elevated heading into fall at a price of approximately $3.30. Actual daily variable rates at Station 2 were averaging $2.40 per Gigajoule (before transmission charges) providing significant savings versus Fortis Rate 5. Stargas' commodity cost averaged $2.58 through the contract year ended October 31, 2020 (a high of $3.06 October 2020 and a low of $2.27 February 2020); the foregoing included $.10 per gigajoule paid Shell and ICE. Stargas, did not contemplate a threshold price in and for 2019/2020 gas supply based upon two factors – its perception of market extant when crafting its plan for

that period, and in recognition that its management costs would be increased addressing Commission requirements should it have opted to lock in any portion of winter purchases. As supply option contracts include a hedge to the provider, Stargas would have seen a neutral (immaterial) cost.

1.4 Please discuss to what extent mitigating energy price volatility is a benefit to Stargas customers.

Stargas response: Natural gas markets have been in a continual price decline so that as recommended by IEC, Stargas was to remain on the daily variable market at Station 2 trading hub. Station 2 continues to experience a glut of supply and resultant downward pressure on prices. The Covid-19 Pandemic has impacted the energy market with the decline in demand negatively impacting drilling activity. Stargas continues to receive updates from our Gas Consultant on the changing market and continues to actively review changes to its procurement approach. At this time, all purchases are at the daily Station 2 Gas Daily midpoint and for the period of January 2021 to March 31, 2021 a fixed price contract would only be entertained if the market dipped below $2.25 and approved by the BCUC as an acceptable price target.

Stargas recognizes predictability comes with a cost, both in the hedge built into whatever fixed price contract by the supplier, and in the incremental management costs required to manage/obtain approval for a purchase differing from that approved in precedent Stargas applications. Stargas has summarized within its annual reports its cost performance against that of Fortis Rate 5 and submits that its record outweighs the benefit derived in mitigating price volatility in fixed price strategies.

1.5 Please discuss the potential impacts of price volatility Stargas and its customers are exposed to by taking deliveries "at daily index."

Stargas response: A colder than anticipated winter would expose the utility to price increases but purchasing 100% at Station 2 has seen less volatility than the Sumas where volatility more common. There was a greater economic risk to fix a price in advance of November 1st when Station 2 was above $3 for the November 1, 2020 to March 31, 2021 period.

1.6 Please explain why the risk of exposure to price volatility proposed by taking deliveries "at daily index" is appropriate for Stargas and its customers.

Stargas response: Only in the current reporting period has the "at daily index" had a consequent impact on the utility's objective of maintaining a relatively neutral balance in its Gas Cost Variance Account, and that the case, only as a result of its withdrawing its application to vary rates, filed September 2019 as rates in that stub period to October 31, 2020 largely responsible for the increase in the balance at October 31, 2020.

1.7 Please explain what alternative purchasing strategies Stargas has considered to mitigate energy price volatility to its customers.

1.7.1 Please discuss the forecast costs of any alternative purchasing strategies Stargas has considered, relative to its proposed purchasing strategy.

Stargas response: In contemplation of the sale, Stargas elected to remain on a purchase program unchanged from that approved by the Commission in the past.

1.7.2 Please explain why Stargas ultimately did not include any strategies for mitigating energy price volatility in its Natural Gas Purchase Plan.

Stargas response: Given Stargas' relatively small volume of total gas sales, financial products such as basis swaps, collars are not economical when also factoring in the administrative cost of filing for BCUC approval. If daily variable rate is not considered the preferred approach, a fixed

price rate is the only viable option given the relatively small volume of gas consumed. As above, Stargas focus' was on reaching agreement with FEI on a sale, recognizing that its completion would bring meaningful ongoing reduction in costs to current and future Silver Star Mountain Resort ratepayers.

On page 1 of Attachment "Exhibit B1" to the Application, Stargas states:

> Stargas has and proposes to continue delivery from Station 2; while incurring third party transportation costs, aggregate commodity costs would have been higher were delivery from Sumas and the utility considers that savings will continue to be generated from that source.

Attachment "Exhibit B5" to the Application contains a table titled "Daily Energy Market Update – October 20, 2020."

1.8 Based on the row labeled "Sumas, BC, Basis" in Attachment "Exhibit B5", please provide a Sumas pricing forecast as a Canadian dollar per gigajoule equivalent.

Stargas response: Stargas noted elsewhere herein that Fortis Rate 5 is currently at $3.515 and that, based on existing deficits, further increases are anticipated. Stargas, to minimize the time awarded to this response, submits that its purchases of 48,742.2 gj's (its current estimate) at the current FEI rate 5 would have a cost of $171,329 – Stargas commodity purchases from Station 2 are projected at an cost of $167,581.

Sumas pricing forecast $4.27; based on Shell Market Update dated November 23, 2020 wherein US/MMBtu at Henry Hub $2.77, Sumas addition $.70 = $3.44 US converted to Cdn $ at $1.3082 - $4.50 Cdn. Converted from MMBtu by dividing $4.50 by 1.055 = $4.27

1.9 Please quantify the difference in transportation costs and any other differences in costs between obtaining delivery from Sumas as opposed to Station 2.

Stargas response: Transportation costs would be unchanged were Stargas to have switched supply from Shell (Station 2) to Fortis Rate 5 (Sumas).

1.10 Please confirm, or explain otherwise, that the data provided in Attachment "Exhibit B5" and the difference in other costs supports the statement that "aggregate commodity costs would have been higher were delivery from Sumas".

Stargas response: Should Fortis Rate 5 commodity prices remain at their current level through the contract year, Stargas would have achieved a modest incremental aggregate benefit – if, and to the extent that FEI increases its Rate 5 commodity charges, assuming current forecast rates from Station 2, remain at or below current levels the assertion confirmed.

On page 2 of Attachment "Exhibit B1" to the Application, Stargas provides the following table comparing

historical gas costs "versus those had it been operating under Fortis Rate 5":

Fiscal Year	Stargas Gas Cost	Fortis BC Rate 5	Delta Cost	Impact per GJ
2014	$159,970	$156,185	($3,785)	($0.11)
2015	$108,063	$166,573	$58,510	$0.99
2016	$67,995	$107,164	$39,169	$1.61
2017	$130,283	$116,245	($14,038)	($0.30)
2018	$78,913	$98,673	$19,760	$0.44
2019	$69,635	$118,826	$49,191	$1.07
2020	$69,635	$123,006	$53,371	$1.16
			$202,178	

1.11 Please confirm, or explain otherwise, if the "Stargas Gas Cost" for each year arose based on taking deliveries entirely at daily index prices.

Stargas response: Confirmed

1.11.1 If not confirmed, please explain what impact taking deliveries at daily index prices would have had on historical Stargas Gas Costs for this period.

1.12 Please confirm, or explain otherwise, that the "Stargas Gas Cost" column includes all costs associated with transportation, markups, consulting charge, FortisBC Energy Inc. (FEI) Rate Schedule (RS) 25 demand charges, and any other costs which could be avoided by taking delivery under FEI RS 5.

Stargas response: The table column reflects only the costs incurred (paid Shell including the $.10 fees levied by it and ICE) for the commodity and excludes the transportation charges paid under Fortis Rate 25 which would, be identical to that levied were Stargas to have taken delivery under Fortis Rate 5.

1.12.1 If not confirmed, please provide an updated table showing total costs associated with Stargas' gas supply to FEI RS 5 gas costs.

1.13 Please provide a comparison of total forecast energy costs under Stargas' proposed purchasing strategy to taking delivery under FEI RS 5 on a monthly basis for the year ending October 31, 2021.

Forecast Deliveries	Allow ance **1.00%**	Purchase	per GJ	Commodity	Fortis Demand	Fortis Transport $0.8720	Fortis Ad/Basic	Rate 5 Total Gas Cost	Shell/Stn 2
4,750.0	47.3	4,797.3	$3.515	$ 16,862	$ 7,030	$ 4,183	$ 508	$ 28,587	$ 29,212
7,600.0	75.7	7,675.7	$3.515	$ 26,980	7,030	6,693	508	41,215	43,061
7,700.0	76.7	7,776.7	$3.515	$ 27,335	7,186	6,781	508	41,814	43,140
7,250.0	72.2	7,322.2	$3.515	$ 25,737	7,186	6,385	508	39,820	41,142
5,500.0	54.8	5,554.8	$3.515	$ 19,525	7,186	4,844	508	32,066	33,013
3,500.0	34.8	3,534.8	$3.515	$ 12,425	7,186	3,082	508	23,205	20,975
2,200.0	21.9	2,221.9	$3.515	$ 7,810	7,186	1,937	508	17,445	16,042
1,450.0	14.4	1,464.4	$3.515	$ 5,147	7,186	1,277	508	14,122	13,196
1,250.0	12.4	1,262.4	$3.515	$ 4,437	7,186	1,101	508	13,236	12,437
1,250.0	12.4	1,262.4	$3.515	$ 4,437	7,186	1,101	508	13,236	12,437
2,200.0	21.9	2,221.9	$3.515	$ 7,810	7,186	1,937	508	17,445	16,042
3,600.0	35.8	3,635.8	$3.515	$ 12,780	7,186	3,170	508	23,648	21,354
48,250.0	480.4	48,730.4		$171,287	$ 85,921	$ 42,493	$ 6,096	$ 305,839	$ 302,050

B. COMMODITY PRICING FORECAST

2.0 Reference: COST ESTIMATES
Confidential Exhibit B-1, Attachment "Exhibit B1", pp. 1–2; Attachment "Exhibit B5"; Attachment "Exhibit B3a"
Commodity pricing forecast

On page 1 of Attachment "Exhibit B3a" to the Application, Stargas states:

> Station 2 prices reflected in Exhibit B3 were extracted from Shell Energy North America's Daily Energy Market Update, dated October 20, 2020. These prices will be updated on receipt of the Commission's interrogatories.

Attachment "Exhibit B5" to the Application contains a table titled "Daily Energy Market Update – October 20, 2020."

2.1 Please explain how the prices in Attachment "Exhibit B5" relate to the "Index Price Table" in Attachment "Exhibit B3." Please account for any discrepancies between these three data series.

Stargas response: Attached

2.2 Please provide the latest Shell Energy North America Daily Energy Market Update and updated Attachments "Exhibit B2" and "Exhibit B3" to reflect the latest price forecasts.

Stargas response: Attached

2.3 Please explain whether "Exhibit B5 - Daily Energy Market Update" is intended to be an index price forecast or Shell's quoted prices for winter forward contracts.

2.3.1 If the "Daily Energy Market Update" is intended to be an index price forecast, please discuss the expected level of accuracy of the price forecast.

Stargas response: The Daily Energy Market Update is a snapshot of the current price indications only. Weather will determine the path forward and impact the Daily Index accordingly. A warmer winter overall will see index prices fall lower than what is posted on the Daily Energy Market Update and vice versa.

2.3.2 If the "Daily Energy Market Update" is intended to be an index price forecast, please provide quoted prices for winter delivery contracts.

Stargas response: As of November 23, 2020. The December 2020 to March 2021 Station 2 updated price is $2.83 Cdn/Gj. The price does not include all other costs such as Shell Premium, Transmission costs etc.

2.3.3 If the "Daily Energy Market Update" is Shell's quoted prices for forward contracts, please explain how the day ahead Station 2 price to be paid by Stargas is expected to compare to the forward prices quoted.

Stargas response: Since the start of November the Daily Rate at Station 2 has fallen given the mild temperatures, particularly in the Mid-West U.S. The milder temperatures (those forecast) the lower the price at Station 2. Current Forecasts suggest a mild winter for the key consuming regions in the East. Station 2 Winter Gas price forward contracts were well over $3 in early October. Current Daily Index Price at Station 2 on November 24, 2020 estimated at $2.46 before all other charges.

2.4 Please provide actual Station 2 day-ahead pricing observed for November 2020 to-date and discuss how the day-ahead prices compare to the November 2020 prices quoted in the "Daily Energy Market Update."

Stargas response: Station 2 forward Price for the month of November was $3.00 on October 26th which is the last day of trading for that individual month.

On page 1 of Attachment "Exhibit B3a" to the Application, Stargas states:

> Sprectra transportation charges vary summer/winter and initially estimated at 42 cents per GJ through summer and 48 cents through winter were confirmed as increased significantly in resolving the replacement supply contract with Shell at 46 cents per GJ through summer and 80 cents per GJ through winter. Compressor fuel costs include an estimate of applicable carbon and motor fuel taxes and are estimated at 5 cents summer and 6 cents winter.

2.5 Please confirm, or explain otherwise, that "Sprectra transportation charges" refers to Spectra Energy T-south Pipeline transportation charges.

Stargas response: Confirmed

2.6 Please confirm, or explain otherwise, that the transportation charges shown are a regulated rate with no markup.

Stargas response: Confirmed

2.7 Please explain how estimated compressor fuel costs were calculated.

Stargas response: Fuel costs are a variable; the methodology is set out in an Enbridge Transmission Agreement as approved by the National Energy Board and updated each billing cycle. Shell passes their cost to Stargas with no mark up

On page 1 of Attachment "Exhibit B3a" to the Application, Stargas states:

> …our commodity costs include only a six cent per GJ charge levied by our supplier (included within their reported index price) and a further four cents per GJ commission to our consultant. Given the relatively low volume taken by Stargas (the markup to the two firms less than $5,000) we are more than comfortable with respect to the value provided.

2.8 Please explain how the services provided by Stargas' consultant benefit Stargas given that Stargas' proposed Natural Gas Purchase Plan involves taking deliveries at daily index prices.

Stargas response: Stargas has in the past, and were it to continue in independent operation, could have, in the future sought to lock in winter deliveries. ICE's principal, Mr. Ken Fuhr shares a lifetime within gas markets at a modest cost and provides Stargas management a sounding board for all its commodity purchases. While Stargas has remained on index in the recent past and for the test year, it does so in following a careful and ongoing review of the market (a review facilitated by Stargas ongoing relationship with ICE).

2.9 Please discuss how the six cents per GJ charge levied by Stargas' supplier compares to the charges levied by any alternate suppliers Stargas has considered.

Stargas response: Stargas submits that that comparison decidedly secondary to the determination of its supplier; the amount paid Shell well justified in Stargas' view based on its continuing access to the senior executive within that organization charged with its interface with large consumers of natural gas (Stargas clearly not numbered amongst those). Prior to moving to Shell, Stargas was paying $0.10/Gj with another supplier and their cost of gas was set at the Sumas Price Hub.

3.0 **Reference: FORECAST OF COMMODITY COST**
Confidential Exhibit B-1, Attachment "Exhibit B3"
Commodity pricing forecast

Attachment "Exhibit B3" to the Application contains the table titled "Stargas Utilities Ltd. Forecast of Commodity Cost – Twelve Months Year Ended October 31, 2021."

3.1 Please provide the excel spreadsheet model for Attachment to the Application "Exhibit B3."

Reference: As understood in these offices, Stargas can not file an excel spreadsheet in the conventional fashion; it will email the spreadsheet to the acting Commission Secretary.