STARGAS UTILITIES RESPONSE:

INFORMATION REQUEST	**SSPOA ROUND NO: #1**
TO:	**Silver Star Property Owners Association**
DATE:	**December 15, 2020**
APPLICANT NAME:	**Stargas Utilities Ltd. – Natural Gas Purchase Plan and Updated Application to Vary Commodity Rate – Project No. 1599142**

Introduction to Stargas Responses: Stargas, when filing its Natural gas Purchase Plan and Application to Vary Commodity Rate, provided an undertaking to amend its application based on updated estimates included in the determination of its proposed commodity rate. Concurrent with filing responses to this interrogatory and that of the BCUC, Stargas filed current estimates of its projected costs in the test year and based upon the actual deficit in its Gas Cost Variance Account, reduced the rate sought in its original application to **$7.06** per gigajoule from the $7.87 sought in its original application.

On December 7th, 2020, Stargas and FortisBC Energy Inc. (FEI) executed an agreement, that subject to BCUC approval, provides for the sale of Stargas' regulatory assets and operations to FEI. An Application seeking approval of the disposition of utility assets will be filed in 2021.

1.0 Topic: Historic Rate Changes:

Reference - (B-1-1) Page PDF 11 The notice to ratepayers states: **"***The increase in the commodity cost is based on a Stargas estimate of volumes, its forecast of the cost of the commodity and includes its recovery of its shortfall of $57,820 experienced in the seventeen months ended October 31, 2020."*

The Stargas application, submitted to adjust the Commodity Rate to be effective on November 1, 2020 was last adjusted 2 years ago in 2018. Prior to that the last adjustments were done annually per the table below:

Can Stargas explain why there was not an adjustment applied for in 2019?

Stargas response: Stargas, with the approval of the Canada Revenue, effective October 31st, 2019 changed its fiscal year end from May 31st, to October 31st to coordinate its annual report/tax filings with those in gas contracting and related regulatory filings and to, in doing so, eliminate continuing reconciliations between the two dates. Stargas prepared and filed an application to vary its commodity rate, effective November 1st, 2019 for the contract year ended October 31st, 2020 expecting then, to file annually thereafter, as had it previously. Stargas, expecting to execute an FEI agreement of sale in the next days, on October 3, 2019 filed and subsequently received Commission approval to withdraw that application. In hindsight, had the parties recognized that agreement would be reached only following protracted discussion, Stargas would not have withdrawn its commodity application as were it to have done so, it would have sought approval to move the current $3.98 per gigajoule rate to $4.95 with a consequent reduction in the deficit (commodity costs recoveries versus commodity costs incurred).

2.0 Topic; Gas and Transport Costs:

Reference - (B-1-1-1) Page 3, "Appendix C 1"
Appendix C 1 shows the historic changes in gas and transport costs over the period June 2019 to the Forecast month of October 2020. The SSPOA has added the additional columns showing the cost per Gigajoule hoping to understand the drivers of the rapid increase in the GCVA.

Table provided by SSPOA not repeated

2.1 The cost of gas saw a radical increase from about $1.08 per GJ (average of the 5 months June -October 2019) to $3.02 in November 2019. Can Stargas explain why this did not cause alarm and an application being made by Stargas to adjust the Commodity Rate in November 2019?

Stargas response: As noted in 1.1, Stargas had anticipated an early resolution of agreement to vend its operations to FEI. Commodity costs incurred by Stargas, as with other utilities, are accepted and recovered on a flow through basis via the operation of the Gas Cost Variance Account, so that it neither has an opportunity to profit, nor exposed to losses in the commodity. Stargas' not seeking to adjust rates November 1, 2020 was, then, a time valued benefit to ratepayers.

2.2 The cost of transport (Rate 25 Tariff) appears to have remained the same since November 1, 2018. Please confirm that the source of the GCVA deficit was based entirely on the cost of the gas itself?

Stargas response: While transportation charges largely consistent (modest incremental increases) the deficit arises principally, but not entirely in the cost of the commodity.

3.0 Topic: Fortis Rate 25 Transport Costs

3.1 Please explain the choice of Fortis Rate 25 for transport or is that the only option for Stargas?

Stargas response: Stargas, or for that matter, any other independent owner of the distribution of natural gas to the Resort, has one of two options for the transport of the commodity to the Resort. Stargas takes delivery under Fortis Rate 25, when in the alternative, it could have opted for Fortis Rate 5 – under Rate 5, all of the transport costs would be unchanged from those applicable in Rate 25 with the addition, that the utility would be purchasing the commodity from Fortis rather than from independent sources – currently Shell. Stargas notes that it has, historically, provided meaningful savings to its ratepayers in opting for Rate 25.

3.2 Stargas ratepayers are heavily penalized on the transport charge due to the seasonality of the resort. The highest Commodity charge of $10.91 / GJ experienced in August 2020. Has Stargas made representation to the BCUC on the inequity of using a full calendar year in the take or pay model?

Stargas response: Stargas has not formally made representations to the BCUC on the methodologies embedded in the determination of the transportation charges that it, other independent utilities endure (whether supplied under either of Rate 5 or 25) as the underlying calculations are complex and would involve engineering and other consulting dollars defeating any expectation of a net benefit to ratepayers.

2.4 When the "Fortis Rate 25" is reviewed and approved by the BCUC does Stargas obtain intervenor status?

Stargas response: As noted above, for the reasons indicated**,** Stargas has not participated in a Commission review of Fortis Rate 25.

2.5 What impact did "The demand volume charge is set once a year and is based on a peak daily consumption calculation." have on the transport costs in 2018 versus 2019

Stargas response: The current demand charge is $7,030 monthly, is forecast to increase to $7,188 in the new year, and was $5,381 in 2017, $6,284 in 2018 and $6,493 monthly in 2019. Happily, under FEI ownership, transportation charges will be significantly lower.

4.0 Topic: Interest charges in the GCVA

4.1 What part of the GCVA amount of $57,820 is interest?

Stargas response: There is no interest included within this account; none charged when there an under recovered balance, nor credited when there an over recovery in the balance.

4.2 Who is the interest paid to, Stargas' s financial institution or is the GCVA funded by CMI?
4.3 What is the current interest rate on the outstanding balance of $57,820?
4.4 Where is the GCVA interest recorded in the application (noting that most of the document is redacted)?

Stargas Response to 4.2-4.4: There is no interest charged nor credited within the GCVA

5.0 Administrative Costs Associated with the Commodity Rate:

The Stargas Delivery Rate Application before the Commission makes the following statements

> *"Retainer – Independent Energy Consultants: Retainer - $1,200 ($100 monthly): Stargas has asked and Mr. Ken Fuhr (Independent Energy Consultants Ltd. "IEC") has agreed to serve on the company's Board of Directors and while continuing to assist Stargas in the development of its annual forward planning and execution of commodity acquisition strategies will provide additional support in all aspects of the utility's operations. IEC is paid four cents ($.04) per gigajoule by our commodity supplier; that cost included in commodity costs (a relatively modest $1,857 in the fiscal year ended May 31, 2019 and $1,813 May 31, 2018)."* [2]

5.1 IEC appears to be receiving a commission from Shell as well as being a Director of Stargas Utilities, please clarify that the rate payers' interest is being served in seeking the best possible supplier?

> *Stargas notes that Mr. Blumes' time on regulatory matters <u>(other than time in the utility's annual commodity price application)</u> is adjudicated for inclusion in a regulatory account or similar recovery mechanic in whatever the application before the Commission.*[3] (emphasis added)

Stargas Response: IEC compensation at $.04 per gigajoule purchased is included within the cost of the commodity as has it been over the years under which that company has provided "independent" consultation on the supply of natural gas (currently from Shell). With his guidance, Stargas develops its natural gas purchase plan and executes its purchase of the commodity after a review of all possible alternatives including switching from Fortis Rate 25 to Rate 5 as well as opting for supply from Station 2 rather than Sumas. Mr. Fuhr has not yet been added to the Stargas board, as the intent was to add his expertise to the management of the utility were Stargas to remain in independent operation.

5.2 Where is the cost of Mr. Blumes time accounted for in this application?

Stargas Response: As the preparation of the gas purchase plan, and its execution an annual activity, Mr. Blumes' time included within the CMI management fee.

5.3 Please provide a brief explanation of how "*the development of its annual forward planning and execution of commodity acquisition strategies"* resulted in the commodity rate being allowed to remain unchanged for 2 years?

Stargas Response: Stargas would note that the rate being "allowed to remain" a benefit, not a detriment to ratepayers. Stargas management, with ICE assistance, maintains an ongoing assessment in and of what remains a very complex market environment and while that activity ongoing throughout the 2 years, the determination to address the commodity rate as was it, based on minimizing administrative costs ultimately borne by ratepayers.

6.0 Topic: Rate increase Comparisons

The Fortis commodity rate was just increased on October 1, 2020 from $2.279 / GJ to $2.844. the Storage and Transport charge remained the same at $1.019 / GJ. That means the Comparable Fortis increase would be:

$2.279 + $1.019 = $3.298 was increased to $2.844 + $1.019 = $3.863 or a 17% increase

By contrast Stargas seeks an increase from $3.98 to $7.48 of an 88% increase. Using the forecast for the test year of 48,250 GJ, even if we discount the effect of the GCVA deficit of $57,820 the Stargas Commodity increase is:

48,250 GJ x $7.48 = $360,910 less $57,820 = $303,090 or $6.28/GJ

Deducting the average Fortis Rate 25 from 2020 of $2.6926/GJ = $3.59/ GJ
Fortis gas **$2.844** Stargas gas **$3.59**

6.1 Can Stargas confirm that in our comparison that the Fortis commodity is only gas and that our comparative analysis of gas pricing is correct?

Stargas Response: The analysis presented fails to make the necessary comparisons: The SSPOA analysis reflects the cost of gas, if provided by Fortis as $2.844 but excludes the current storage and transport charge, that was $.671 but increased to $1.019 (for residential consumers) effective October 1st, 2020; that amount is added to the commodity price so that Fortis gas currently delivered to residential ratepayers at a cost of $3.863. Stargas paid $3.06 for its October 2020 delivery from Shell and currently projects commodity costs throughout the test year will average $3.04. FEI reviews and potentially changes its commodity pricing quarterly, and within its various reports related to its commodity purchases, details the status in what can fairly be described as its Gas Cost Variance Account – based on current values there remains a significant deficit that would indicate that its current approved price of $3.863 likely to be further increased through the next nine months.

Stargas' updated request of a $7.06 commodity rate effective November 1st, 2020 is based on estimates as follows:

Stargas' current delivery rate application contemplates purchase of the commodity through to October 31, 2021 of 48,730.4* gj's at a cost of $146,451 – estimate dated December 3rd, 2020 equating to $3.04 per gj on delivery of 48,250 gj's. *includes an estimate of "lost and unaccounted for gas" of 480.4 gj's – 1.0% (based on prior year losses)

Stargas included in its initial application an estimate of the deficit in its GCVA October 31st, 2020 of $57,820 (actual - $59,641); recovery of that amount within the estimate of costs to be incurred/recovered in fiscal 2021 added $1.23 to the price sought in the current application. The inclusion of this amount in the rates charged through fiscal 2021 recovers the shortfall/has ratepayers make up amounts that would have been paid had rates been adjusted with perfect knowledge effective November 1st. 2019.

Stargas estimate of costs incurred for delivery - $134,510 resulting in the inclusion of $2.79 in the estimate of Stargas' sought for commodity price of $7.06 per gj. (3.04 +1.23 + 2.79 =$7.06). It to be highlighted that, upon the completion of sale to FEI, Silver Star ratepayers delivery charges included in their commodity costs will be significantly reduced (the quantum of the reduction, as to typical residential, small and large commercial customer category will be disclosed in the forthcoming joint Application (seeking approval of the sale by Stargas and purchase by FEI).

6.2 If your forecast in the table for October is $2.59/GJ and your average for the last 12 months (including the forecast for October of $2.59) is $2.60/GJ can you explain why Stargas seeks an additional dollar for gas the 2021 years commodity rates?

Stargas Response: Stargas based projection of future commodity costs on forward cost estimates supplied to the utility community by varied sources and utilized those estimated reflected in its supplier's daily bulletin. Our cost is based on our best estimate and has been updated upon receipt of Commission interrogatories to reflect as current a forecast of costs as can be obtained.

7.0 Topic: GCVA deficit reduction:

The Stargas Commodity Rate Application before the Commission shows Stargas reducing the GVAC to zero in 12 months. We note the additional information filed on November 13th (Exhibit B-2) that Stargas is offering to amortize the deficits over 36 months.

> *"Stargas is concerned that in the current pandemic environment, that the quantum of the amount to be "extra" billed will be a hardship to both residential and commercial ratepayers. Should the net amount to be recovered exceed $30,000, ($54,336 in the following example) Stargas suggests that the amount be captured in a Regulatory Account and recovered over 36 months with interest at the utility's weighted average cost of debt"* [4]

7.1 What determined the change in the Stargas decision on the recovery period?

7.2 Will the 36-month amortization also be applied to the GCVA deficit of $57,820?

7.3 It is noted from the delivery rate application that CMI is financing some of the Stargas debt at a rate higher that the banking institution, can Stargas confirm the lender and the Interest rate to be used.

Stargas response to 7.1 to 7.3: Pursuant to Commission Orders G-271-20 & G-272-20**,** Stargas would, upon the determination of revisions to its commodity and delivery rates, charge the additional increment in commodity costs, reduced by the refund due in delivery charges to its customers'. Stargas has proposed, for the Commission's consideration, establishment of the additional Regulatory Account and rate rider to recover from Silver Star Mountain Resort ratepayers the net balance owing with interest over 36 months. Stargas recommended the alternative to ease the impact on what potentially would be a material additional charge to Resort homeowners and businesses' in spring 2021 while dealing with an ongoing pandemic.

The $57,820 estimate of the October 31st, 2020 deficit in the GCVA will have been dealt with as an inclusion in the costs to be recovered in the established commodity rate so that it recovered in commodity rates and not as a separate item.

Stargas has, pursuant to prior Commission decisions and anticipated unchanged in its current Application been allowed a 1% increment in the current rate levied by its banker (TD) on borrowings (currently 3.7%).