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

Attention: Acting Commission Secretary

January 20th, 2021

Subject: **Delivery Rate and Regulatory Account Application**
Response to Commission Exhibit A-6

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 (Delivery Rate App 2020 and Deferment Requests B-4-1 & B-5-1) that are now to be made available for public review. Stargas, based on its expectation that all the information provided in B-8 will be disclosed in a forthcoming Joint Application to be filed with the Commission has determined that the information within that document originally filed as confidential is to be made available to the public.

Stargas has, concurrent with this document, filed each of the above with the reference to their prior confidentiality removed.

Should further clarification on Stargas' filings be required, please request same by email to M. A. Blumes, President, Stargas Utilities Ltd. at info@stargas.ca.

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

STARGAS RESPONSE TO BCUC INFORMATION REQUEST NO. 1

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Stargas Update: On December 7th, 2020, Stargas and FEI executed an Asset Purchase Agreement, that subject to the review and approval of the Commission provides for the sale of Stargas' regulatory assets and operations to FortisBC Energy Inc.

A. INTRODUCTION

1.0 Reference: INTRODUCTION
Exhibit B-1 (Application), p. 1; Exhibit B-1-1 (Confidential Application), p. 1
Test Period

On page 1 of the Confidential Application, Stargas Utilities Ltd. (Stargas) states that it is in negotiation with FortisBC Energy Inc. (FEI) to sell Stargas' regulatory assets and operations "in a transaction that, with BCUC approval, is [expected] to close April 1st, 2021."

On page 1 of the Application, Stargas states that it has prepared the Application based upon the test year commencing November 1, 2020 and ending October 31, 2021.

1.1 Please confirm, or explain otherwise, that the Application for a 12-month test period ending October 31, 2020 is prepared based on the continued ownership by Stargas of its regulatory assets and operations.

Stargas response: Firstly, Stargas notes that the date in 1.1 above ought to have been October 31, 2021 and confirms that the Application contemplates continued ownership and operation of its regulatory assets and operations throughout the twelve months ended October 31st, 2021.

1.2 Please identify all revenues and costs in the test year revenue requirement which may differ depending on whether the Sale Transaction is completed.

Stargas response: FortisBC Energy Inc. and Stargas Utilities Ltd., will be filing a Joint Application to which

will be attached an executed copy of the Asset Purchase Agreement ("APA"). Completion of the transaction is subject to receipt of BCUC Final Orders. The agreement contemplates receipt of Commission approval to allow the transaction to close April 1st, 2021 based upon Stargas' March 31st, 2021 financial statements and includes provision for completion at subsequent month ends, should that be necessary. All the revenue and expenses reflected in the test year revenue requirement prior to the closing date are representative of expected capital and operating activities to that date with the balance of the data following closing no longer relevant.

1.3 Please discuss how permanent rates established by the British Columbia Utilities Commission (BCUC) in this proceeding will be impacted if the Sale Transaction is: a) completed; or b) not completed. Please explain the expected sequence of events and the financial impact on ratepayers in both scenarios.

Stargas response - a) completed: FEI/Stargas will prepare, file and address Commission/Intervenor interrogatories on their Joint Application in the expectation that Final Orders approving the sale of Stargas regulatory assets and its operations, and the purchase by FEI and treatment of the purchase price within its accounts will have been received in a time frame allowing the transaction to complete April 1st, 2021.

Effective April 1st, 2021, current Silver Star Mountain Resort Ltd. (SSMR) Stargas ratepayers will be absorbed within FEI rates 1, 2 & 3; prior thereto, all Stargas ratepayers would have been billed Stargas' currently approved interim rates ($3.98 per gj commodity and $5.77 per gj delivery) and, as anticipated, provided an accounting (the treatment of which is to be resolved) of the impact of the permanent rates to be set in response to the Applications now before the Commission. Based upon an April 1st, 2021 closing, the rates contemplated in the current commodity and delivery Applications before the Commission ($7.06 commodity and $4.59 delivery) and forecast volumes to March 31st, 2021 Stargas would

- Extra bill in its final invoices to ratepayers, the incremental costs to be recovered in the increase in the commodity (estimated at $61,754) net of the refund of excess delivery charges (estimated at $23,659); Stargas has indicated that it would accept payment of the extra billing in six equal monthly payments with interest added at the rate charged it on operating loans (that based to minimize rate shock and provide a pandemic related accommodation)
- Obtain FEI and Commission agreement to record the actual balance within a FEI regulatory account applicable to SSMR ratepayers and has suggested that whatever the period of recovery that interest be charged on WACD not WACC.

Importantly, effective forward from completion of the transaction, current Stargas ratepayers would enjoy the following impact on the change in ownership:

Annual ratepayer cost under proposed Stargas rates:

					Stargas
	Average	Stargas	Commodity		Annual
	Usage (gj's)	Basic	Total	Delivery	Cost
Residential - rate			$7.06	$4.59	
Residential - cost	73	$180	$513.92	$334.14	**$1,028.06**
Small Commercial - rate			$7.06	$4.59	
Small Commercial - cost	300	$300	$2,117.90	$1,377.00	**$3,794.90**
Large Commercial -rate			$7.06	$4.59	
Large Commercial - cost	2100	$1,200	$14,825.33	$9,639.00	**$25,664.33**

Stargas notes that within its $7.06 proposed commodity rate is included $1.24 per gj arising on the recovery of the October 31, 2020 deficit in its Gas Cost Variance Account.

Annual ratepayer cost under current applicable FEI rates:

FEI	Commodity	Commodity		Annual		
Basic	Gas cost	Transport	Delivery	Cost	Reduction	Savings
	$2.8440	$1.0190	$4.5960			
$153.89	$207.03	$74.18	$334.58	**$769.68**	**25.1%**	$258.38
	$2.8440	$1.0340	$3.5690			
$350.98	$853.20	$310.20	$1,070.70	**$2,585.08**	**31.9%**	$1,209.82
	$2.8440	$0.8620	$3.1430			
$1,752.95	$5,972.40	$1,810.20	$6,600.30	**$16,135.85**	**37.1%**	$9,528.48

Stargas notes that within its commodity cost, are transportation charges under Fortis Rate 25, aggregating $134,510; that levy, $2.79 per gj of the proposed Stargas rate is an inclusion in the commodity costs of any acquirer of Stargas' regulatory assets and operations (other than Fortis). Included within the transportation charge is a "demand" amount based on the highest month's purchase volume ($85,921 or $1.76 per gj) when were, deliveries drawn evenly through the year, the charge $46,368 – an approximate $1 per gj seasonal penalty to any non-Fortis owner/operator of the Silver Star distribution grid.

	Volume	Rate	Transport
Residential	23,950	$1.0190	$24,405
Small	11,700	$1.0340	$12,098
Large	12,600	$0.8620	$10,861
	48,250		$47,364

Transportation, within Fortis rates 1, 2 & 3 (as reflected in the above table) represents an estimated $87,146 ($1.80 per gj) reduction in transportation costs in the initial twelve months following the change in ownership. A similar annual savings is embedded in rates charged Resort ratepayers into the following years of FEI ownership.

Stargas response - b) Should the transaction, for any reason, not complete (Stargas and its investor would expect to continue in operation generating revenues and incurring expenses consistent with those reflected in the Applications before the Commission. The APA includes a clause whereby, should the transaction not complete, FEI would provide both technical and administrative services for sixty days thereafter and Stargas, would anticipate seeking of continuing provision of both technical and

administrative services at the indicated rates from FEI (its affiliate) through to October 31st, 2021. Stargas would seek to have resolved whatever circumstances precluded the transaction completing. As there material cost savings for Resort ratepayers in the transactions completion, Stargas anticipates Commission approval on the substance of the transaction, recognizing that elements of its details subject to adjustment through the Commission's assessment of the materials presented by Stargas and intervenors to the process.

In the absence of resolution of amended agreement of purchase and sale, and Commission review and approval of same, Stargas has and would rekindle arrangements for alternative technical services and take within its offices, those administrative duties currently undertaken under contract to a Fortis affiliate.

B. TECHNICAL SERVICES AND ADMINISTRATION COSTS

2.0 Reference: TECHNICAL SERVICES AND ADMINISTRATION COSTS
Exhibit B-1-1, p. 2; Exhibit B-1, p. 4
FEI Services

Under the heading "Technical services," on page 2 of the Confidential Application, Stargas states, "FortisBC Energy Inc. provides ongoing operations and maintenance to Stargas' distribution grid, and provides installation, and other technical services under a Service contract terminating **October 31st, 2020** but has agreed subject to the contemporaneous execution of an Asset Purchase Agreement between it and FEI (*sic*) to continue those service through to the completion of the sale transaction." [*Emphasis Added*]

Under the heading "Management services" on page 4 of the Application, Stargas states:

> FortisBC Energy Inc.: **Under its current contract**, Stargas charged $4,500 monthly for the conversion of its meter reads to gigajoules and preparation and distribution of its monthly invoices to ratepayers. Stargas**, in the extension provided by that firm** to the date of its sale was unable to obtain a reduction in the monthly charge, nor could it, in the five-month period to completion of the sale, justify handling those tasks internally. [*Emphasis Added*]

Page 4 of the Application further states, "Stargas was advised in December 2018 that Fortis/its affiliates, effective with the termination of its current technical and administrative services contract on **November 30th, 2019**, would no longer supply technical nor administrative services past this date." [*Emphasis Added*]

2.1 Please clarify whether there is one agreement with FortisBC Energy Inc. (FEI) which covers both technical and administrative services or if there are two agreements (i.e. one for each service).

Stargas response: A single contract covers both the technical and administrative services provided by an FEI affiliate.

2.2 Please provide copies of the contract(s) and all extensions to the contract(s) which govern the period from Stargas' last approved revenue requirement to the completion of the Sale Transaction for all FEI services.

Stargas response: Copies are provided – filed as an attachment to this document - Services Continuity BCUC IR 1.

2.2.1 Please discuss whether there any differences in the nature or cost structure of the FEI services provided since Stargas' last approved revenue requirement. If yes, please

explain how these differences are accounted for in Stargas' revenue requirement.

Stargas response: Included in the data upon which Stargas' previous revenue requirement approved (BCUC G-59-17) was costs incurred under contract with Fortis Alternate Energy Services Inc; the amounts included at that time a per gigajoule charge (then $1.51 Per gj) covering technical and a monthly administrative charge (then $4,878 per month). The ten-year contract services to November 30th, 2019 was submitted to and reviewed & approved by the Commission coincident with its execution.

The contract provided for annual rate revisions in each of the two charges based on movement in the provinces Consumer Price Index and, in the variable charge, reductions based upon a portion of volume increases over that in the initial year, and increases in the administrative component of $15 per month for each new customer added over the 237 in place at the inception of the contract.

Stargas, with FEI agreement, extended the term of the service contract, as noted above, securing in doing so, relief from further CPI adjustments, a fixed $4,500 administrative fee without increases based on added ratepayer numbers. Accordingly, the test year data includes technical services at $1.49 per gj and a monthly administrative charge of $4,500.

If there are no extension contracts, under what terms is FEI providing services?

Stargas response: Stargas has, by amendment and as contemplated within the APA both technical and administrative services covered to 60 days following a failure to complete the sale.

2.3 To the extent possible, please provide the forecast for handling "conversion of meter reads to gigajoules" and "preparation and distribution of monthly invoices" internally for the five-month period to the completion of the Sale Transaction.

Stargas response: Up to and through completion of the sale, conversion of reads and preparation of monthly invoices will be handled as at present – the former by FEI and the latter a combined exercise involving Fortis (at a cost of $4,500 monthly) and monthly corresponding duties undertaken by CMI as reflected within its submitted management fee request.

With respect to technical services, on page 2 of the Confidential Application, Stargas further states:

> If, however, the parties do not reach agreement, Stargas will seek alternative technical services and in doing so, seek to acquire those services on a time and materials basis with a modest fixed monthly standby fee (to cover availability of make safe emergency response). In that instance, Stargas would undertake to adjust its delivery rate to replace the $71,893 included in the current revenue requirement, with actual costs and to refund savings, if any, by a reduction in the subsequent delivery rate application.

2.4 In the event that the Sale Transaction does not take place, please discuss the measures Stargas is taking to seek out alternative technical services in order to ensure a smooth transition between its service providers.

2.4.1 Please discuss the alternative solutions, if any, which have been identified and provide the cost associated with these solutions (if available).

Stargas response: Stargas has, as would be expected, taken steps to protect the integrity of its operations past the sale not completing – including seeking and obtaining (failing to obtain) an extension of continuing services with FEI (its affiliate).

2.5 Please clarify how Stargas would undertake to adjust its delivery rate (e.g. application) and the expected timing of such an adjustment if the Sale Transaction is not completed.

Stargas response: Stargas' would seek, under the terms of any contract, to require detailed records be maintained over, it currently contemplates, 36 months of operations, wherein it accrues and pays $1.49 per gj and $4,500 monthly to service providers that would be coupled to

each undertaking to, based on details records maintained by and shared with Stargas, reflect actual time/rates and materials purchased in the conduct of that activity. The actual versus paid costs incurred through that 36-month period would be reflected as an adjustment in the rate approved for the succeeding 36 months.

3.0 Reference: TECHNICAL SERVICES AND ADMINISTRATION COSTS
Exhibit B-1, p. 3
Professional Fees

On page 3 of the Confidential Application, Stargas states, "if continuing independent operation," that it will secure the services of KPMG and corporate counsel for professional services totalling.

3.1 Please confirm whether the statement in the preamble means that professional fees are only expected if the Sale Transaction is not completed or explain otherwise.

Stargas response: Professional fees would continue to be incurred but on a reduced level – Stargas requiring continuing legal services in remediation and sustaining corporate filings and accounting services in the preparation of its annual corporate tax return – financial statements prepared internally by M.A. Blumes, CPA eliminating the cost of Review engagements on those. If continuing independent operations, KPMG will be re-engaged to provide that additional comfort on Stargas financial statements.

C. MANAGEMENT SERVICES

4.0 Reference: MANAGEMENT SERVICES
Exhibit B-1-1, p. 10
CMI Holdings (1998) Inc. (CMI) Administration Services

On page 10 of the Confidential Application, Stargas states:

> Stargas, should it continue in independent operations, will accept additional administrative responsibilities (billings & read conversion - tasks currently handled by Fortis) but in doing so, would expect to have the Commission acknowledge that the very nature of its continued independent operations when contrasted with other utilities of significantly wider talent pools warrants judgements specific to Stargas.

4.1 Please explain how Stargas proposes the BCUC will make "judgements specific to Stargas" in the above scenario. Will Stargas make an application to the BCUC and if so, what is the expected timing of such an application?

Stargas response: Stargas submits that it has, within its current delivery rate application identified elements within its current administrative role that warrant consideration in the context of its staffing as varied from that typical to the operation of other small utilities in the Province. Stargas, utilizing the services of Mr. Blumes and Mr. Iles would expect to bring efficiencies to the administrative processes currently in place, but would, in addressing its added role in read conversion and billing preparation, expect an increment in the management fees contemplated in the current application – Stargas, currently estimates that if, enacted, the $4,500 currently reflected in Fortis administrative services would be reduced – a current estimate between $3,500 to $4,000 monthly.

D. REGULATORY ACCOUNTS

5.0 Reference: REGULATORY ACCOUNTS
Exhibit B-1-1, p. 1

Recovery Mechanisms

On page 1 of the Confidential Application, Stargas states that it has identified costs "upon which the utility seeks inclusion in regulatory accounts." Stargas states, "[it] does not propose mechanisms for recovery of the amounts approved with the current application, but would do so, if it fails to reach agreement with Fortis and carries on in independent operations."

5.1 Please explain why Stargas' proposals with respect to regulatory account recovery mechanisms are dependent on whether the Sale Transaction is completed.

Stargas response: Stargas submits, to not address recovery mechanisms, provides each of the parties to these matters, savings that would not be available should Stargas propose, intervenor's intervene, and Commission rule on mechanisms that would, based on the high probability of the sale's completion not have force and effect. As Stargas is not seeking to have interest added to the Regulatory balances not currently approved, the delay in seeking recovery of the amounts, undertaken to the benefit of ratepayers.