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British Columbia
Utilities Commission

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January 8, 2021

Sent via eFile

BIG WHITE RATE APPLICATION
EXHIBIT A-4

Mr. Cameron Lusztig
President
Keppel Gate Consulting,
on behalf of Big White Gas Utility Ltd.
5315 Big White Road
Kelowna, BC V1P 1P3
cameron@keppelgate.com

Re: Big White Gas Utility Ltd. – Application to Amend Rates – Project No. 1599146 – BCUC IR No. 1

Dear Mr. Lusztig:

Further to the above-noted matter, enclosed please find British Columbia Utilities Commission Information Request No. 1. Please file your responses by no later than February 9, 2021.

Sincerely,

Original signed by:

Marija Tresoglavic
Acting Commission Secretary

/jo
Enclosure

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Big White Gas Utility Ltd.
Application to Amend Rates

INFORMATION REQUEST NO. 1 TO BIG WHITE GAS UTILITY LTD.

Table of Contents **Page no.**

A. PROPOSED CHARGES

1.0 Reference: Proposed Charges
Exhibit B-1, pp. 2, 6; Order G-150-16
Proposed Rate Design Changes

On page 2 of the Application to Amend Rates (Application), Big White Gas Utility Ltd. (BWGU or Utility) states:

> The current minimum charge is $45.00 per month for commercial customers, and $10.00 per month for residential customers…
>
> The minimum charge is currently levied monthly to each customer, and applies only in cases where this charge exceeds the consumption charge. With this Application, the Utility is proposing to change this minimum charge to a basic charge, applicable each month in addition to the consumption charge. The Utility is proposing that this basic charge be set at the same level as the prevailing minimum charge.

BWGU notes that the consumption charge is set as a per-litre increment over the bulk market price per litre paid by BWGU to its supplier, Superior Propane. BWGU proposes to increase the $0.12 per litre increment to the bulk propane price to $0.13 per litre.

On page 6 of the Application, BWGU provides Table 2.2 as follows:

Table 2.2

	Actual	Actual	Actual	Actual	Forecast	PROPOSED				
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue Requirement	181,087	176,417	208,847	213,230	238,287	267,810	270,098	272,627	278,467	284,479
Fixed Charge Revenue	-	-	-	-	-	65,580	66,180	66,780	67,380	67,980
Variable Charge Revenue	250,715	168,543	283,012	297,658	265,693	293,349	299,216	305,201	311,305	317,531
Total Revenue	$ 250,715	$ 168,543	$ 283,012	$ 297,658	$ 265,693	$ 358,929	$ 365,396	$ 371,981	$ 378,685	$ 385,511
Net	$ 69,628	$ (7,874)	$ 74,165	$ 84,429	$ 27,406	$ 91,119	$ 95,298	$ 99,354	$ 100,218	$ 101,032

1.1 Please confirm, or explain otherwise, that the fixed charge revenue showing zero means that no residential or commercial customers paid any minimum charge from fiscal 2017 to fiscal 2020. Please confirm, or explain otherwise, the same for forecast fiscal 2021.

1.2 Please provide a monthly breakdown of the proportion of customers in cases where the minimum charge exceeds the consumption charge. Please provide this information by each residential and commercial rate class since fiscal 2017.

By Order G-150-16 dated September 22, 2016, the British Columbia Utilities Commission (BCUC) approved an amendment to the Minimum Monthly Charge to $45.00 for Commercial customers and $10.00 for Residential customers, effective October 1, 2016. The BCUC also acknowledged that BWGU's previous billing system did not have the capability for the fee to be billed, while the new system enabled the Minimum Monthly Charge to be billed.[1]

1.3 Please confirm, or explain otherwise, that BWGU has accurately billed customers by either the minimum charge or the consumption charge in accordance with the approved tariff effective October 1, 2016.

1.4 Please explain whether BWGU has conducted any customer consultation for the proposed change from a minimum charge to a basic charge and the proposed rate change prior to filing this current application. If so, please provide a summary of the consultation process and the feedback received. If not, please explain why customer consultation was not conducted.

1.5 Please provide the rationale for the current rate design to bill customers either a minimum charge or a consumption charge. As part of the response, please discuss whether the current rate design is intended to address certain costs (i.e. recovery of fixed and variable cost) and whether the current rate design is intended to encourage certain customer behaviour.

1.6 Please provide the rationale and objectives for the proposed rate design to bill customer with a basic charge plus a consumption charge. As part of the response, please discuss whether the proposed rate design is intended to address certain costs (i.e. recovery of fixed and variable cost) and whether the current rate design is intended to encourage certain customer behaviour.

1.6.1 Please provide any other alternative rate designs that BWGU has considered, but rejected, and the reasons for such.

1.7 Please provide an estimated bill impact for an average residential and an average commercial customer with billing under the current rate design compared to the proposed rate design. Please show the supporting calculations and any assumptions used.

1.8 Under a scenario where the BCUC rejects BWGU's proposal to change the minimum charge to a basic charge and the proposed increase to the consumption charge, please reproduce Table 2.2 to show the revenue for each year in fiscal 2022 to fiscal 2026.

1.8.1 Under a scenario where the BCUC approves BWGU's proposal to change the minimum charge to a basic charge, please recalculate the consumption charge that would be required to achieve the same revenue for each year in fiscal 2022 to fiscal 2026 as calculated in the preceding information request (IR).

1.9 Under a scenario where the BCUC rejects BWGU's proposal to change the minimum charge to a basic charge, please recalculate the consumption charge that would be required to achieve the total revenue proposed for each year in fiscal 2022 to fiscal 2026 in Table 2.2 (i.e. net annual return of approximately $100,000).

2.0 Reference: Proposed Charges

[1] Order G-150-16 https://www.ordersdecisions.bcuc.com/bcuc/orders/en/180881/1/document.do

Exhibit B-1, pp. 2, 5, 6; Exhibit A2-2, BWGU 2019-2020 Annual Report Extract, p. 9; Rules for Natural Gas Energy Supply Contracts, Order G-130-06
Cost of Gas and Consumption Charge

On page 2 of the Application, BWGU states that the utility leases tanks and vapourizers from Superior Propane, which supplies the propane gas in bulk. Superior Propane also owns the main distribution meter.

BWGU notes that the consumption charge is set as a per-litre increment over the bulk market price per litre paid by BWGU to its supplier, Superior Propane. BWGU proposes to increase the $0.12 per litre increment to the bulk propane price to $0.13 per litre.

Section 71 of the *Utilities Commission Act* requires that a person who enters into an energy supply contract must file a copy of the contract with the BCUC. BCUC Order G-130-06 sets out the Rules for natural gas energy supply contracts, which the definition of natural gas includes propane.

On page 9 of its 2019-2020 Annual Report, BWGU indicates that BWGU previously filed its propane supply contract between BWGU and ICG Propane Ltd. as part of its original certificate of public convenience and necessity (CPCN) application which was granted via Order C-10-97 dated December 18, 1997. Superior Propane was assigned as the successor propane supplier.

2.1 Please file a copy of the propane supply contract between BWGU and Superior Propane. Please indicate when the propane supply contract was last amended and accepted by the BCUC pursuant to section 71 of the UCA.

2.1.1 If BWGU is of the view that the propane supply contract between BWGU and Superior Propane does not require BCUC review and acceptance (as outlined in section 71 of the UCA), please explain why.

2.2 Please elaborate on what is meant by "bulk market price per litre paid by BWGU to its supplier." For example, is this a flow-through commodity cost without any mark-up by BWGU? What is the reference market for the bulk market price paid by BWGU? In other words, what are the controls in place to ensure that BCGU's customers are paying a fair and reasonable price for propane? Please discuss.

2.2.1 Please illustrate how BWGU translates the bulk market cost of propane into the monthly consumption charge for its customers?

On page 6 of the Application, BWGU discusses the Cost of Gas – Vapourizer, and states:

> This represents the cost of (unsold) gas lost in the vapourizer. The vapourizer is needed to maintain system operating pressures during times of high demand, when gas in the tanks will not vapourize fast enough to keep pace with consumption.

On page 5 of the Application, Table 2.1 shows the cost elements that make up the utility's revenue requirement for each year of the Test Period.

2.3 Please confirm, or explain otherwise, that the "Tank Vapourizer Usage" line item in Table 2.1 represents the cost of unsold gas lost in the vapourizer. If not confirmed, please specify which line item(s) in Table 2.1 represents the cost of unsold gas lost in the vapourizer.

2.4 Please provide a schedule that includes the propane supply purchase, propane sold, company-use propane, and the unaccounted-for propane in the BWGU system. Please provide this information for each year since fiscal 2016.

3.0 Reference: Proposed Charges
Exhibit B-1, pp. 2–3; Exhibit A2-1, BCUC Staff Questions 2.1, 2.2, 2.5, 4.1, 6.1.1; *Utilities Commission Act*, Section 1
Development Cost Charge

On page 3 of the Application, BWGU states:

> Customers connecting through the subdivisions set out in Appendix A are also responsible for paying a development cost charge ("DCC"), to the extent these customers have not already developed their properties and paid DCCs.
>
> […]
>
> The Utility expects to add approximately 1955 service factors […] from the still-undeveloped lots in the subdivisions listed in Appendix A (meaning all lots with the same subdivision will ultimately pay the same level of DCC charges). At the current rate of $260 per service factor, which the Utility is proposing to retain in this Application, this will recover an estimated $518,700. Added to the current DCC balance of $805,000, this is expected to provide sufficient funds to move the gas plant (a project currently estimated to cost approximately $1.3 million).

Section 1 of the *Utilities Commission Act* (UCA) defines "service" as including:

a) the use and accommodation provided by a public utility,

b) a product or commodity provided by a public utility, and

c) the plant, equipment, apparatus, appliances, property and facilities employed by or in connection with a public utility in providing service or a product or commodity for the purposes in which the public utility is engaged and for the use and accommodation of the public;

3.1 Please confirm, or explain otherwise, that the customers in the subdivisions set out in Appendix A to the Application, whom BWGU is proposing to collect DCCs from, are not currently connected to and receiving the delivery of gas from the BWGU system.

3.1.1 If confirmed, please explain the "service" that these customers are receiving as defined in the UCA.

3.1.2 Please identify the customer class (e.g. residential, commercial) that these customers belong to.

3.1.3 Please discuss whether these customers should be subject to the minimum or basic charge. Why or why not?

3.2 Please explain whether service can be provided to the properties in the subdivision listed in Appendix A to the Application without relocating the gas distribution plant.

In response to BCUC staff question 2.1, BWGU stated:

> The practice of BWGU collecting Development Cost Charges ("DCCs") predates its regulation by the BCUC. At that time, and since, the responsibility for developers to pay DCCs was set out in the land purchase contract between Big White Real Estate Ltd. and each developer purchasing land at the Resort.

3.3 Please confirm, or explain otherwise, that the DCCs that BWGU proposes to collect under its tariff will be collected from each developer who purchases land in the subdivisions set out in

Appendix A to the application.

3.4 Please clarify whether the DCCs previously collected were recorded as income for BWGU.

3.5 Please confirm, or explain otherwise, that the current $805,000 DCC balance does not include interest charges.

3.5.1 If not confirmed, please provide the amount of interest included, the interest rate and how that rate was determined.

In response to BCUC staff question 2.5, BWGU provided a schedule with a breakdown of the $805,000 of DCCs collected by developer. That schedule shows that $1,135,383.43 of DCCs have been collected since fiscal 2001, of which $330,000 was applied in fiscal 2004 as a contribution towards BWGU's capital infrastructure.

3.6 Please explain why $330,000 was applied in fiscal 2004 as a contribution toward BWGU's capital infrastructure instead of the entire balance of $502,184.53 (i.e. $330,000 applied contribution + $172,184.53 ending fiscal 2004 balance).

3.7 Please clarify whether the $805,000 DCC balance was collected solely for the purpose of relocating the gas distribution plant. If not, please elaborate on the purpose of collecting the DCCs. Please also clarify where and how the purpose of this collection was disclosed to the developers.

In response to BCUC staff question 2.2, BWGU stated:

> As this schedule shows, DCCs are calculated by first establishing the number of "Service Factors" applicable to the development that is ultimately constructed on the purchased land. Specifically, the number of Service Factors is set as the greater of a calculation based on "Discharge Weights" and a calculation based on the number of rooms capable of overnight accommodation. Discharge Weights are based on the number and type of installed fixtures, with each type of fixture assigned a specific Discharge Weight.
>
> Once the number of Service Factors is determined, this number is multiplied by a charge per Service Factor for each utility (gas, water, and sewer). In the case of the BWGU, this charge is $260 per Service Factor (plus GST). This figure was established based on estimates of future Service Factors (4000) arising from expected land sales, and the forecast cost of the gas plant relocation for which the DCCs will be used (please see response to Question 2.3).
>
> The terms and conditions for the payment of the calculated DCCs are also set out in the land sale contracts. Although the amounts of these payments do vary depending on, for example, property market conditions and the expected time between land sales and actual development (bearing in mind that DCCs can only be finally determined based on "as built" plans, since what is actually to be constructed on the site may not be known with certainty at the time the land is purchased), the form of the rate does not change.

In response to BCUC staff question 4.1, BWGU submitted that "[a]t the time Big White Real Estate collected the DCCs, it was collecting the funds largely in furtherance of its own commercial interests" and the reasons "did not conform to the definition of a service made by a public utility." However, "[w]ith changing circumstances, BWGU now also believes that it will become appropriate in the coming years […] to move the gas distribution plant" for reasons "of direct interest to the utility's customers."

3.8 Please confirm, or explain otherwise, that DCCs have been collected from the developers of all the properties that BWGU currently provides service to.

3.9 Please confirm, or explain otherwise, that the DCCs already collected were at the same rate and

terms that BWGU is currently proposing (i.e. $260 per service factor).

3.10 Please explain how the service factors are related to the cost of relocating the gas distribution plant or the cost of providing service to the premises.

3.11 Please discuss whether Big White Real Estate Ltd. would continue to benefit from the relocation of the gas distribution plant irrespective that the relocation would also benefit BWGU.

3.12 Please clarify whether the DCCs collected outside of BWGU's tariff were collected by BWGU or by Big White Real Estate.

3.13 Given that the responsibility for developers to pay DCCs was set out in the land purchase contract between Big White Real Estate Ltd. and each developer purchasing land at the Resort, please discuss whether the DCCs collected outside of BWGU's tariff could be considered a contribution (e.g. cash injection) from Big White Real Estate Ltd. (a non-regulated entity) into BWGU (a BCUC regulated entity) towards the gas distribution plant relocation project. Why or why not?

3.14 Please discuss whether the DCCs collected outside of BWGU's tariff were required to be paid prior to the commencement of service from BWGU to the associated premises.

3.14.1 If yes, please explain how this requirement conforms with a public utility's obligation to provide service to premises in its service area under the UCA.

On page 2 of the Application, BWGU states that Big White Ski Resort wholly owns BWGU.

3.15 Please confirm, or explain otherwise, that Big White Real Estate Ltd. and Big White Ski Resort are the same company.

3.15.1 If not confirmed, please explain the corporate and legal relationship between Big White Real Estate Ltd. and BWGU.

Further on page 3 of the Application, BWGU states:

> Once sufficient funds are collected to move the gas plant, the Utility does not, at this time, anticipate a further need to collect DCCs. As such, the Utility is not currently proposing to collect DCCs from customers beyond those customers that are building within the subdivisions in Appendix A.
>
> […]
>
> Should it become apparent that further DCC collection is required in the future, likely because development recovers in a manner not currently expected, the Utility may apply to the Commission to add further developments to Appendix A.

3.16 Please discuss whether BWGU plans to account for the DCCs that have been collected outside of its tariff and the DCCs it proposes to collect under its tariff in a regulatory account. Why or why not?

3.17 Under a scenario where the BCUC does not approve the inclusion of DCCs on BWGU's tariff, please discuss how BWGU will access the funds necessary to move the gas plant.

3.18 Once sufficient DCCs have been collected to fund the gas distribution plant project, in the event that there are future developments beyond those that are in the subdivisions in Appendix A, please discuss whether BWGU plans to continue collecting DCCs.

3.18.1 If yes, please confirm, or explain otherwise, that BWGU will apply to the BCUC for approval to collect future DCCs. If not confirmed, please explain why not.

In response to BCUC staff question 6.1.1, BWGU stated:

Big White does not expect to undertake the gas plant relocation for at least five years. The timing of the move is dependent on, among other things, the rate of development at the Resort. This development was curtailed considerably following the 2008 recession, and has been placed further in doubt by the current COVID-19 pandemic. Big White expects that it will apply for a CPCN roughly a year ahead of the planned start of construction.

3.19 Please discuss why it is reasonable to recover amounts to offset potential costs of a project where uncertainty exists.

3.20 In the event that the gas distribution plant relocation project is cancelled or if the funds collected exceeds the actual costs, please discuss whether BWGU plans to retain or return the excess funds that have been collected.

3.20.1 Under this scenario, please discuss whether the BCUC can direct the treatment of the DCCs collected. Why or why not?

3.20.2 Under this scenario, please discuss whether the BCUC's authority over the treatment of the DCCs collected outside of BWGU's tariff is different from its authority over the DCCs collected under the tariff.

3.21 Please confirm, or explain otherwise, that all of BWGU's current and future customers would benefit equally from the relocation of the gas distribution plant.

3.22 Please discuss whether the advanced collection of funds to be used for future capital expenditures, such as the gas distribution plant project, could result in intergenerational equity issues given that the customers paying the DCCs may not be the same customers who would receive service from the new gas distribution plant. Why or why not?

3.23 Please provide a schedule showing a breakdown of the estimated $1.3 million cost for the gas distribution plant relocation project.

The Government of B.C.'s website discusses DCCs that are levied by municipalities and regional districts on new development to pay for new or expanded infrastructure.[2]

3.24 Please explain whether the DCCs that have been collected outside of BWGU's tariff and the DCCs it proposes to collect under its tariff are related to the DCCs that are levied by municipalities and regional districts.

3.24.1 If these DCCs are related, please explain whether these DCCs are under the jurisdiction of the BCUC given that they are established through bylaw under the approval of the Inspector of Municipalities.

4.0 Reference: Proposed Charges
Exhibit B-1, pp. 5–10, Tables 2.1, 2.2; Exhibit B-2, Attachment 1
Revenue requirement

Reproduced below are the actual, forecast and proposed costs provided in Table 2.1 of the Application for freight, insurance, management fees, parts and materials, passenger vehicles, professional/consulting fees, and equipment repairs and maintenance.

[2] https://www2.gov.bc.ca/gov/content/governments/local-governments/finance/local-government-development-financing/development-cost-charges

	Actuals				Forecast	Proposed				
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Freight	$ 319	$ 204	$ 329	$ 344	$ 3,600	$ 3,672	$ 3,745	$ 3,820	$ 3,897	$ 3,975
Insurance	$ 3,927	$ 5,419	$ 6,235	$ 6,282	$ 7,538	$ 8,292	$ 9,121	$ 10,034	$ 11,037	$ 12,141
Management fees	$ 18,000	$ 18,000	$ 18,000	$ 18,000	$ 30,000	$ 30,000	$ 30,600	$ 31,212	$ 31,836	$ 32,473
Parts & materials	$ 343	$ 12,370	$ 1,569	$ 6,461	$ 9,121	$ 9,303	$ 9,490	$ 9,679	$ 9,873	$ 10,070
Passenger vehicles	$ 883	$ 1,618	$ 3,731	$ 2,706	$ 2,760	$ 14,860	$ 15,157	$ 15,460	$ 15,770	$ 16,085
Professional/consulting fees	$ 400	$ 8,037	$ 6,398	$ 11,810	$ 20,000	$ 11,000	$ 11,220	$ 11,444	$ 11,673	$ 11,907
R&M - equipment	$ 8,080	$ 1,474	$ 652	$ 623	$ 12,451	$ 12,700	$ 12,954	$ 13,213	$ 13,477	$ 13,747

On page 5 of the Application, BWGU states:

> The Utility is proposing inflation factors applied to the expense items as follows:
>
> - For insurance expenses, 10 percent per year, based on recent premium experience;
> - For all other costs, 2 percent per year, consistent with recent experience and public forecasts.

4.1 Please provide the external source or reference used to estimate the 2 percent per year inflation factor.

4.2 Considering that fiscal 2021 costs were likely impacted by the COVID-19 pandemic, please discuss whether it would be reasonable to use an alternative method to forecast the revenue requirement for the fiscal 2022 to fiscal 2026 test years, such as escalating an average of the actual costs for fiscal 2017 to fiscal 2020 by an inflation factor, instead of escalating the fiscal 2021 forecast.

On page 8 of the Application, BWGU states:

> Insurance is procured on a Resort-wide basis, and allocated based on two values. Liability insurance is allocated across the Resort based on a ration [sic] of earned revenue. Property Insurance is allocated as a percentage of fixed asset values.

4.3 Please provide a schedule that shows the breakdown of insurance expense by liability insurance and property insurance allocated to BWGU for fiscal 2017 to fiscal 2026. As part of the response, please provide (confidentially, if necessary) the supporting calculations and identify any assumptions used.

On page 7 of the Application, BWGU states:

> [Freight] expense relates substantially to shipping gas meters to Barchard Engineering Ltd. in Edmonton for required maintenance and re-certification.

On page 9 of the Application, BWGU states:

> [Repair and Maintenance – Equipment] expense relates almost entirely to meter re-certification at Barchard Engineering.

4.4 Please explain why the meters need to be re-certified, the frequency of re-certification, the number of meters that needs to be re-certified and when BWGU expects to finish re-certifying its meters.

On page 8 of the Application, BWGU states:

> [Parts and materials] expense includes customer meters installed from inventory, replaced meter bases, and general shop stores, including valves, seals, and other parts and supplies.

4.5 Please explain why parts and materials expense is forecast to increase by $2,660 (or 141 percent) and $7,552 (or 581 percent) in fiscal 2021 compared to fiscal 2020 and fiscal 2019, respectively.

4.6 Please explain why parts and materials expense is expected to continue at fiscal 2021 levels (plus annual escalation of 2 percent) during the fiscal 2022 to fiscal 2026 test period when these costs have historically fluctuated.

On page 8 of the Application, BWGU states:

> [Management fee] pertains to allocated overhead, including executive and financial management and costs. In addition, it includes allocated costs for shared office and shop space. It is set as a fixed charge.

4.7 Please clarify to whom the management fee is paid to.

4.8 Please explain why management fees have increased from $18,000 to $30,000 beginning in fiscal 2021.

4.9 Please provide a schedule showing the breakdown of the management fee, including executive and financial management and costs, and costs for shared office and shop space, allocated to BWGU for fiscal 2017 to fiscal 2026. As part of the response, please provide (confidentially, if necessary) the supporting calculations and identify any assumptions used.

4.10 Please clarify how the executive and financial management costs included in the management fee differs from the management salary paid to the Vice President of Utility Operations and the accounting and operating wages that are included in BWGU's revenue requirement.

On pages 8 and 9 of the Application, BWGU states that BWGU uses a total of three trucks. One of which (i.e. 2017 GMC), the cost is allocated between BWGU and the Vice President of Utility Operations' personal use, who is assessed a taxable benefit. The remaining two trucks are allocated based on an estimate of actual use: 20 percent to BWGU, with the remainder allocated between the sewage and water utilities.

Further on page 9 of the Application, BWGU states:

> The Utility expects to lease a new, light duty truck beginning next year. These costs, again allocated 20 per cent to the Utility with the remaining costs allocated to the sewage and water utilities, are included in Table 2.1.

On page 6 of Application, BWGU states:

> [Management salary] expense represents a 20 per cent allocation of the salary of the Vice President, Utility Operations, who is responsible for the management of Big White's three utilities. The allocation represents an estimate of how this employee's time is spent.

4.11 Please confirm, or explain otherwise, that the cost of the 2017 GMC is allocated 20 percent to BWGU, with the remainder allocated between the sewage and water utilities, similar to the allocation of management salary given that the Vice President of Utility Operations is responsible for the management of Big White's three utilities.

4.11.1 If not confirmed, please provide the amount and percentage that is allocated to BWGU and the other two utilities from fiscal 2017 to fiscal 2026, as well as the rationale for the allocation.

4.12 Please confirm, or explain otherwise, that the primary reason passenger vehicles expense increased from $2,760 to $14,860 in fiscal 2022 is the new lease for the light duty truck.

4.12.1 If confirmed, please explain why vehicle leases are subject to an annual inflation factor.

4.13 Please provide the amount of the passenger vehicles expense proposed for fiscal 2022 to fiscal 2026 that are related to the new light duty truck that BWGU plans to lease beginning next year.

On page 9 of the Application, BWGU states that professional and consulting fees "fall into two general areas: accounting and specialist consulting." BWGU further states:

> Specialist consulting, which accounts for the increase to this line item, pertains primarily to regulatory and financial management support from Keppel Gate Consulting Ltd. Specifically, the costs relate to preparing this Application and to ongoing financial and regulatory support of the Utility in subsequent years through the Test Period.

4.14 Please provide a breakdown of the professional and consulting fees of $11,810 for fiscal 2020.

4.15 Please explain why BWGU expects regulatory and financial management support to continue in the test years at the same level as incurred in fiscal 2020.

In Table 2.2. of the Application, BWGU shows actual total revenue of $168,543 for fiscal 2018, which is the lowest amount of annual revenue for the ten year period from fiscal 2017 to fiscal 2026 shown in the table.

In response to the Panel's request for supplementary information, the actual load or quantity of gas sold in fiscal 2018 is greater than the actual load in fiscal 2017.

4.16 Please explain why the total revenue in fiscal 2018 was lower compared to fiscal 2017 when the fiscal 2018 load was higher.

5.0 Reference: Proposed Charges

Exhibit B-1, p. 4; Stargas Utilities Ltd., Natural Gas Tariff, p. 27, Fourth Revision, Standard Fees and Charges Schedule; Resort Gas Ltd., Gas Tariff, Effective Date February 28, 2018, p. 7, Standard Fees and Charges Schedule
Markup costs

On page 4 of the Application, BWGU states that it is seeking to amend its tariff to include "[a]ll mark-ups over cost in the Special Rate Schedule standardised to 15 per cent."

In the attachment, Stargas Utilities Ltd.'s (Stargas) tariff shows a 10 percent mark-up over costs, while on page 7 of Resort Gas Ltd.'s (RGL) tariff,[3] it shows "At RGL's Costs."

5.1 Please explain why BWGU is seeking to standardize its mark-ups over cost to 15 percent when other small utilities, such as Stargas and RGL, charges mark-ups of 10 percent and "at cost," respectively.

5.2 Please explain what costs the 15 percent mark-up is intended to recover and how BWGU quantifies these costs. As part of the response, please indicate where these costs are included in Table 2.2. of the Application and quantify the costs included in each year of the table.

5.3 Please clarify whether the revenue in Table 2.2. of the Application includes the mark-up over costs. If so, please quantify the mark-up that is included in each year's revenue.

5.4 Please provide BWGU's revenue for each test year under the scenario that the Panel disallows BWGU's request to standardize its mark-ups over cost to 15 percent and instead requires BWGU to maintain its existing mark-up over costs. As part of the response, please discuss whether this

[3] http://www.sunpeaksutilities.com/pdf/BCUC-decisions/2020%20Jan%201%20Commodity%20Rate/2020-06-01%20-%20Resort-Gas%20Tariff.pdf

would impact the proposed consumption charge and if so, quantify the impact.

B. ANNUAL RETURN

6.0 Reference: Annual Return
Exhibit B-1, p. 6; Exhibit B-2, p. 2; Exhibit A2-2, pp. 70, 76, 80; Generic Cost of Capital Stage 2, Decision dated March 25, 2014 and Order G-47-14
Rate of return

On page 6 of the Application, BWGU states that "the Utility's profits have become highly volatile and frequently lower than required, and the Utility has experienced several years of losses." BWGU provides Table 2.2 as follows:

Table 2.2

	Actual	Actual	Actual	Actual	Forecast	PROPOSED				
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue Requirement	181,087	176,417	208,847	213,230	238,287	267,810	270,098	272,627	278,467	284,479
Fixed Charge Revenue	-	-	-	-	-	65,580	66,180	66,780	67,380	67,980
Variable Charge Revenue	250,715	168,543	283,012	297,658	265,693	293,349	299,216	305,201	311,305	317,531
Total Revenue	$ 250,715	$ 168,543	$ 283,012	$ 297,658	$ 265,693	$ 358,929	$ 365,396	$ 371,981	$ 378,685	$ 385,511
Net	$ 69,628	$ (7,874)	$ 74,165	$ 84,429	$ 27,406	$ 91,119	$ 95,298	$ 99,354	$ 100,218	$ 101,032

In Exhibit B-2 of its supplementary information filing, on page 2, BWGU states:

> BWGU is seeking with this Application to stabilize its returns at an amount consistent with the business risk it faces, and the level of management effort associated with the operation of the Utility.
>
> Because the Utility has such a small net asset value (Exhibit B-1, page 10), a conventionally derived allowed-return would not provide this level of compensation.
>
> Instead, BWGU is seeking rates that allow it to recover a return to its shareholder of approximately $100,000 per year. The increase from $0.12 to $0.13 per litre was derived to provide that return.

6.1 Table 2.2 shows that BGWU's annual net income ranged from $69,628 to $84,429 since fiscal 2017, except for a $7,874 loss in fiscal 2018. Please reconcile BGWU's statement that it has "experienced several years of losses" by expanding Table 2.2 to show actual results for the past 15 years.

6.2 BWGU provides a line item in Table 2.1 for Management Fees of $30,000 in 2022 and it escalates throughout the test period. Please clarify how "Management Fees" are different than or similar to the "level of management effort associated with operating the Utility." Please explain how the potential issue of double counting is mitigated.

On page 80 of the BWGU 2019-2020 Annual Report, BWGU provides the following:

BIG WHITE GAS UTILITY
2020 BCUC ANNUAL REPORT
UTILITY RATE BASE CAPITALIZATION

Line No.	Actual Particulars	Reference	Capitalization 2020	%	Annual Rate 2020	Cost Component %	Earned Return	Annual Debt Cost
1	Short Term Debt		727,558.25	65%	0%	0%	-	-
2	Common Equity		391,762	35%	22%	22%	84,429	
3	Mid Year Rate Base		1,119,320	100%		22%	84,429	

6.3 Please confirm, or explain otherwise, that the 35 percent common equity and 65 percent short term debt represents BWGU's actual capital structure in fiscal 2020.

6.3.1 Please confirm, or explain otherwise, that the BWGU actual return on equity (ROE) was 22 percent in fiscal 2020.

6.3.2 In a similar format including BWGU's capital structure, please provide the actual ROE for the past 15 years.

Certain regulated utilities' allowed ROE and common equity were established in the BCUC Generic Cost of Capital Stage 2 proceeding by Order G-47-14 and Decision dated March 25, 2014. They were measured in reference to the FortisBC Energy Inc. (FEI) benchmark. The common equity component for small Thermal Energy Services (TES) utilities is a minimum default capital structure consisting of 57.5 percent debt and 42.5 percent common equity. The minimum default risk premium over the benchmark is 75 basis points.[4]

The BCUC's Generic Cost of Capital Stage 2 proceeding spanned over 12 months, involving various regulated utilities, and stakeholders, many of whom provided expert testimony before the BCUC panel.

6.4 As a matter of regulatory efficiency, please discuss whether the minimum default capital structure and risk premium for small TES utilities would be a fair and reasonable return for the BWGU. Why or why not?

6.4.1 If no, please provide (along with supporting evidence) a deemed capital structure and risk premium that BWGU views would yield a fair return

6.5 As an alternative to setting an allowed percentage ROE and deemed capital structure for BWGU, please discuss the pros and cons of allowing a fixed return (e.g. $100,000 per year) to provide a fair compensation to the utility. Is BWGU aware of any regulated public utilities in Canada that are compensated under this approach? Please provide examples.

On page 76 of the BWGU 2019-2020 Annual Report, BWGU shows the fiscal 2020 actual earned return to be $84,429, which calculates to be 7.54% of the utility's rate base of $1,119,320.

6.6 As an alternative to setting an allowed percentage ROE and deemed capital structure for BWGU, please discuss the pros and cons of setting an allowed return on rate base to provide a fair compensation to the utility. Please explain whether this approach is appropriate for BWGU.

6.7 As an alternative to setting an allowed percentage ROE and deemed capital structure for BWGU, please discuss the pros and cons of setting an allowed return on other factors, such as a using a proxy of X percentage over the revenue requirement or operating costs, to represent a fair

[4] BCUC Generic Cost of Capital Proceeding (Stage 2), Decision dated March 25, 2014, p. 124, https://www.bcuc.com/Documents/Proceedings/2014/DOC_41123_03-25-2014-BCUC-GCOC-Stage-2-Decision-WEB.pdf

compensation to the utility.

Using BWGU's fiscal 2020 actual earned return of $84,429, this represents approximately 39.6 percent of its revenue requirement. Extrapolating this figure to 2021 and onwards equates to earned returns of approximately $94,350 to $112,640 for fiscal 2021 to fiscal 2026, as shown in the table below.

	Forecast 2021	Proposed 2022	Proposed 2023	Proposed 2024	Proposed 2025	Proposed 2026
Net return	94,350	106,040	106,946	107,947	110,260	112,640
Revenue requirement	238,287	267,810	270,098	272,627	278,467	284,479
Net return as a % of the revenue requirement	39.6%	39.6%	39.6%	39.6%	39.6%	39.6%

6.8 Please discuss whether the simplified calculation above represents a reasonable method to calculate the return for BGWU for fiscal years 2021 to 2026. Please explain why or why not?

On page 70 of the BWGU 2019-2020 Annual Report, BWGU provides notes to its financial statements, that discusses financial instrument risk, credit risk, default credit risk, concentration of credit risk, and liquidity risk.

6.9 Please clarify whether BWGU considers the risks noted on page 70 of its 2019-2020 Annual Report as part of the "business risk it faces" that are mentioned in Exhibit B-2. If there are any other business risks that the BCUC should consider, please elaborate.

6.9.1 Please compare BWGU's business risks against (i) the FEI benchmark and (ii) other small utilities in BC.

C. OTHER TARIFF AMENDMENTS

7.0 Reference: Other Tariff Amendments
Exhibit B-1, Appendix B, Section 1.2, 2.9, pp. 15, 17, 28; Exhibit B-2, Attachment 3, p. 2
Terms and conditions

In the tariff, BWGU defines "Service Agreement" as:

> The agreement setting out the rights and responsibilities of BWGU and a Customer for Service, including the application for Service accepted by BWGU (if any), and all applicable provisions of the Terms and Conditions and applicable Rate Schedule(s), Special Rate Schedules, and DCC Schedules.

7.1 Please confirm, or explain otherwise, that the Service Agreement is the tariff along with any application for Service that has been accepted by BWGU.

7.1.1 If not confirmed, please provide a copy of the Service Agreement.

In section 2.9 of the tariff, "Responsibility for Unpaid Balances", it states:

> If a new Customer makes an application for Service at Premises that have an unpaid balance owing to the Company from a previous Customer, the new Customer assumes this previous balance as part of its Service Agreement, at which time the previous Customer is relieved of its obligations to the Company.

7.2 Please explain why it is fair and reasonable for a new customer to assume the unpaid balance of the previous customer given that the new customer did not receive the service associated with those charges.

On the Rate Schedule attached as Appendix B to the Application, BWGU is proposing to set the Consumption Charge "by adding $0.13 to the bulk market price per litre…charged to the Company by Superior Propane Inc., determined on a first-in-first-out basis."

In the black-lined version of the Rate Schedule, the current rate is calculated "by adding $0.12 to the weighted monthly average of the Canadian Propane Wholesale Market Rate charged to the Company…"

7.3 Please explain why BWGU is proposing to change how the rate is calculated from a weighted monthly average to a first-in-first-out basis.

7.4 Please explain whether the "the bulk market price" differs from the "Canadian Propane Wholesale Market Rate charged to the Company". If so, please elaborate.