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March 18, 2021

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FEI-STARGAS - ASSET DISPOSITION AND CPCN TRANSFER OF ASSETS EXHIBIT A-3

Ms. Diane Roy
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FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8
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Mr. M.A. (Moe) Blumes
President
Stargas Utilities Ltd.
1960 KLO Road, Unit 17
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info@stargas.ca

Re: FortisBC Energy Inc. (FEI) and Stargas Utilities Ltd. (Stargas) – Application for Approval of an Asset Disposition and a Certificate of Public Convenience and Necessity to Facilitate the Transfer of Natural Gas Utility Assets from Stargas to FEI – Project No. 1599186 – Information Request No. 1

Dear Ms. Roy and Mr. Blumes:

Further to your February 19, 2021 filing of the above-noted application, enclosed please find British Columbia Utilities Commission Information Request No. 1 to FEI and Stargas. In accordance with the regulatory timetable, please file your response no later than **Thursday, April 8, 2021.**

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/ae



FortisBC Energy Inc. (FEI) and Stargas Utilities Ltd. (Stargas)
Application for Approval of an Asset Disposition and a Certificate of Public Convenience and Necessity
to Facilitate the Transfer of Natural Gas Utility Assets from Stargas to FEI

INFORMATION REQUEST NO. 1 TO FORTISBC ENERGY INC. AND STARGAS UTILITIES LTD.

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A. INTRODUCTION

1.0 Reference: INTRODUCTION
Exhibit B-1, Application, pp. 1, 6; Utilities Commission Act, Sections 46 and 53
Legislative authority

On page 1 of FortisBC Energy Inc. (FEI) and Stargas Utilities Ltd.’s (Stargas) Application for Approval of an Asset Disposition and a Certificate of Public Convenience and Necessity (CPCN) to Facilitate the Transfer of Natural Gas Utility Assets from Stargas to FEI (Application), it states:

Pursuant to Sections 45 and 46 of the [*Utilities Commission Act*] UCA, FEI hereby applies to the [British Columbia Utilities Commission] BCUC for a Certificate of Public Convenience and Necessity (CPCN) to operate the extension to its system resulting from its acquisition of the Assets (Stargas Assets Acquisition).

Table 3-1 provides a breakdown of the indicative purchase price by the following categories:

- Capital Assets;
- Stargas Regulatory Assets;
- Uncollected Amounts; and
- Stargas Working Capital Allowance.

Section 46(3.1)(b) of the UCA states:

(3.1) In deciding whether to issue a certificate under subsection (3) applied for by a public utility other than the authority, the commission must consider

...

(b) the most recent long-term resource plan filed by the public utility under section 44.1,

if any...

Section 53 of the UCA addresses consolidations, amalgamations and mergers.

- 1.1 Please explain why FEI is applying to the BCUC for approval under sections 45 and 46 of the UCA rather than section 53 of the UCA.
 - 1.1.1 Please discuss the extent to which each of the categories comprising “the Assets” constitutes an extension to FEI’s system.
- 1.2 Please confirm, or explain otherwise, that the proposed acquisition of Stargas’ assets was not contemplated in the FEI 2017 Long-Term Gas Resource Plan (LTGRP).
 - 1.2.1 Please discuss whether the proposed acquisition of Stargas’ assets has any impact upon the objectives of the 2017 LTGRP.
- 1.3 Please discuss whether FEI/Stargas is aware of any circumstances where the criteria as outlined in Section 4 of the Application have been used to determine public interest with respect to an application made to the BCUC under sections 45 and 46 of the UCA.
 - 1.3.1 If yes, please provide a summary of the application(s), approvals sought and how these criteria were considered.
 - 1.3.2 If not, please explain why the criteria as outlined in Section 4 of the Application is applicable in this instance.

B. ACQUISITION COST

2.0 Reference: ACQUISITION COST Exhibit B-1, pp. 1, 6, 10 Adjustments to acquisition cost

On page 1 of the Application FEI “estimates the purchase price of the Assets from Stargas to be \$714,6621, based on a forecast Closing Date of April 1, 2021.”

On page 6 of the Application, FEI/Stargas state that:

...In accordance with the terms of the executed FEI-Stargas [Asset Purchase Agreement] APA, the final purchase price will be based on the Assets (as defined in the agreement) that are approved by the BCUC for inclusion in FEI’s rate base, and will be based on the actual value of the Assets at the Closing Date. For the purpose of this Application, the total purchase price for the Assets is estimated to be \$714,662, based on a forecast Closing Date of April 1, 2021 as shown in Stargas’ Delivery Rate and Regulatory Account Application for November 1, 2020 to October 31, 2021.

On page 10 of the Application, FEI/Stargas state that:

The final purchase price of the Stargas Assets Acquisition is dependent on the BCUC’s decisions on Stargas’ 2020 Delivery Rate Application [Stargas Delivery Rate and Regulatory Account Application - Test Year November 1, 2020 to October 31, 2021], Stargas’ 2020 Commodity Rate Application [Natural Gas Purchase Plan and Updated Application to Vary Commodity Rate], and this Application related to the Assets approved for inclusion in FEI’s rate base.

- 2.1 Please discuss how FEI proposes to account for any adjustments to the purchase price estimate in the Application of \$714,662 due to a change in the forecast Closing Date or any other relevant

determinations, once the BCUC issues its final decisions in the matters of the Stargas Delivery Rate Application or Stargas Commodity Rate Application. With respect to any potential adjustments, please discuss the impact that this may have on the regulatory process and FEI’s proposals to allow for this as part of the regulatory process.

**3.0 Reference: ACQUISITION COST
Exhibit B-1, p. 7; Stargas Delivery Rate and Regulatory Account Application , BCUC Information Request 1.9.1, 29.1
Capital assets**

Table 3-2 of the Application includes the forecast book value of Stargas’ capital assets at April 1, 2021:

Table 3-2: Breakdown of Stargas’ Capital Assets (to be included in Purchase Price by FEI)

Stargas Capital Asset	Forecast at	
	April 1, 2021 (\$)	Cross Reference to Stargas' 2020 Delivery Rate Application (Appendix C)
Distribution Grid	\$ 439,311	Stargas' Delivery Rate Application, pg. 16
Safety Initiative	25,759	Stargas' Delivery Rate Application, pg. 16
Remediation Costs for Crown Tenue Rights	8,710	Stargas' Delivery Rate Application, pg. 16
Billing/Read Software	6,758	Stargas' Delivery Rate Application, pg. 16
Total	\$ 480,538	

In response to BCUC information request (IR) 1.9.1 in the Stargas Delivery Rate and Regulatory Account Application proceeding (Delivery Rate Proceeding), Stargas provides a detailed continuity schedule of the capital assets until October 31, 2021.¹

In response to BCUC IR 29.1 in the Stargas Delivery Rate Proceeding, Stargas states, “its four November 2020 additions (past the utility’s October 31st, 2020 fiscal year end) added at a cost of \$5,170 ought to have been included in the total of those forecast in the fiscal year ended October 31st, 2021.”²

3.1 Please provide an updated table in the same format as that provided in response to BCUC IR 1.9.1 in the Stargas Delivery Rate Proceeding, which includes the forecast capital asset balances at April 30, 2021. Please provide an explanation for any changes to the figures provided in the original table, reconcile any differences between the April 30, 2021 balances and the data provided in Table 3-2 of the Application, and incorporate any revisions identified in response to IRs in the Stargas Delivery Rate Proceeding in the response.

**4.0 Reference: ACQUISITION COST
Exhibit B-1, p. 7; BCUC Order G-164-17 dated November 9, 2017; Stargas Delivery Rate Proceeding, Exhibit B-1, p. 25Regulatory assets**

Table 3-3 of the Application includes the forecast balance of Stargas’ regulatory assets at April 1, 2021:

¹ https://www.bcuc.com/Documents/Proceedings/2020/DOC_60177_B-6-Stargas-Response-to-BCUC-IR1.pdf

² https://www.bcuc.com/Documents/Proceedings/2021/DOC_61007_B-10-Stargas-responses-to-BCUC-IR2.pdf

Table 3-3: Breakdown of Stargas' Regulatory Assets (to be included in Purchase Price by FEI)

Stargas Regulatory Assets	BCUC Order	Forecast at		Cross Reference to Stargas' 2020 Delivery Rate Application (Appendix C)
		April 1, 2021	(\$)	
2017 Installation Application	G-164-17	\$	1,951	Stargas' Delivery Rate Application, pg. 24 to 25
2018 Incident Shortfall	G-159-18		16,687	Stargas' Delivery Rate Application, pg. 26 to 29
2020 Delivery Rate Application	n/a		38,458	Stargas' Delivery Rate Application, pg. 29 to 33
Interest Deficit (Jun 1, 2017 to Oct 31, 2020)	n/a		18,005	Stargas' Delivery Rate Application, pg. 33 to 35
Total		\$	75,101	

- 4.1 Please confirm the interest rate that is applicable to each of Stargas' deferral accounts included in Table 3-3 of the Application.
 - 4.1.1 Please discuss the ratepayer impact of any differences in interest rates applicable to FEI's deferral accounts as compared to Stargas' deferral accounts upon acquisition of Stargas' assets by FEI.
- 4.2 For each deferral account provided in Table 3-3, please clarify the method of recovery from ratepayers (e.g., rate rider, included in delivery rates, etc.), either approved by the BCUC or proposed by Stargas in the Delivery Rate Proceeding.
- 4.3 For each deferral account provided in Table 3-3, please provide a continuity schedule showing the actual balance at November 1, 2021, proposed amortization, additions and interest accrued for the period November 1, 2020 to April 1, 2021, and the forecast ending balance at April 1, 2021. For any deferral accounts that do not have any amortization between November 1, 2020 and April 1, 2021, please explain why.

On page 25 of the Stargas Delivery Rates Application, Stargas provides a continuity schedule of the 2017 Installation Application deferral account.

- 4.4 Please provide a continuity schedule of the 2017 Installation Application deferral account between 2017 and April 1, 2021 that reconciles the ending balance to the \$1,951 included in Table 3-3.

Directive 3 of BCUC Order G-164-17, reads as follows:

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

- 4.5 Please explain how a balance owed to ratepayers in the regulatory account to capture incremental revenues and costs associated with new service installations would affect the proposed purchase price, or otherwise affect the proposed Asset Purchase Agreement.

Table 3-2 in the Application includes an amount of \$16,687 related to the 2018 Incident Shortfall deferral account and includes a reference to BCUC Order G-159-18, dated August 27, 2018.

- 4.6 Please confirm, or explain otherwise, that the amounts included in the 2018 Incident Shortfall deferral account to be recovered in Stargas' rates are subject to BCUC approval as part of the Stargas Delivery Rate Proceeding.

Table 3-2 includes an amount of \$18,005 related to the Interest Deficit deferral account.

- 4.7 Please discuss whether there are any specific considerations with respect to retroactive ratemaking related to including the balance of the Interest Deficit deferral account in the acquisition cost.

5.0 PROPOSED TRANSACTION

**Exhibit B-1, Section 3.1.5, pp. 1, 9, 15; Exhibit B-1-1, Appendix C, p. 20
Gas Cost Variance Account**

On page 1 of the Application, FEI/Stargas state that:

FEI is requesting approval to capture the remaining balance of Stargas' GCVA [Gas Cost Variance Account], as approved by the BCUC, in FEI's existing Commodity Cost Reconciliation Account (CCRA).

On page 9 of the Application, FEI/Stargas state:

...any additional Stargas' regulatory accounts approved by the BCUC before the Closing Date will be included in the final purchase price, subject to BCUC approval for inclusion. This would include the remaining balance of Stargas' GCVA at Closing as approved by the BCUC, which would normally be recovered from Stargas' existing ratepayers through their rates. The purchase price as shown in Table 3-1 of this Application does not include a forecast of the remaining balance of Stargas' GCVA at Closing as Stargas is currently seeking approval from the BCUC to vary its commodity rate from \$3.98 per GJ to \$7.87 per GJ effective for November 1, 2020 to October 31, 2021

On page 15 of the Application, FEI/Stargas state that:

For commodity, the impact is a one-time increase of 0.035 percent in 2022 for transferring Stargas' GCVA, assumed to be \$130,969 on April 1, 2021 as discussed in Section 3.1.5 of the Application, to FEI's existing CCRA which has an amortization period of one year.

- 5.1 Please quantify the impacts of the approved Stargas commodity rate effective November 1, 2020, being i) \$7.87 per GJ; or ii) 3.98 per GJ on the expected GCVA balance at the closing date.
- 5.2 Please explain why FEI considers a one year amortization period is appropriate for the GCVA.
- 5.2.1 Please discuss the impact of a longer amortization period (e.g., two or three years).
- 5.3 Please confirm the interest rate applicable to the CCRA.

6.0 Reference: **ACQUISITION COST** **Exhibit B-1, p. 8; Stargas Delivery Rate Proceeding, Exhibit B-1, p. 25** **Uncollected amounts**

Table 3-4 of the Application includes the forecast balance of Stargas' uncollected amounts at April 1, 2021 to be included in the purchase price:

Table 3-4: Breakdown of Stargas' Uncollected Amounts (to be included in Purchase Price by FEI)

Stargas Uncollected Amounts	Forecast at	
	April 1, 2021 (\$)	Cross Reference to Stargas' 2020 Delivery Rate Application (Appendix C)
2002-2006 Deferred Dividends (G-157-12)	\$ 59,678	Stargas' Delivery Rate Application, pg. 25
Undistributed Returns on Equity (Jun 1, 2017 to Oct 31, 2020)	45,120	Stargas' Delivery Rate Application, pg. 35 to 37
Total	\$ 104,798	

The acquisition cost includes the remaining balance of the deferred recovery of Stargas cumulative dividends of \$135,887 from fiscal year 2002 to 2006 as approved by BCUC Order G-157-12, dated October 18, 2012. FEI/Stargas submit that:

Based on a forecast closing date of April 1, 2021, the remaining balance is \$75,872. Since the recovery of the deferred dividend, as approved under BCUC Order G-157-12, does not include the accumulation of interest, the final amount included in the purchase costs by FEI is discounted to \$59,678 at Stargas' weighted average cost of debt (WACD) of 4.16 percent.

On page 4 of the reasons accompanying Order G-157-12, it stated:

Considering that no return on equity was included in the revenue requirement from fiscal 2002 through fiscal 2006, the Commission considers it appropriate that the accumulated unpaid dividends are declared and paid to the shareholder; however, the Commission does not consider it appropriate to include a portion of preferred share dividends in the revenue requirement unless they are declared and paid in the same fiscal year. **Therefore, the Commission approves Stargas' request to amortize the accumulated unpaid dividends in the revenue requirement over a period of twenty years and directs Stargas to declare and pay \$6,794 in cumulative preferred share dividends in each fiscal year.**

Page 25 of the Stargas Delivery Rate Application includes details on the 2002-2006 deferred dividends.

- 6.1 Please provide a continuity schedule to reconcile the cumulative dividends of \$135,887 on page 25 of the 2021 Delivery Rate Application to the closing balance of \$75,872, including the following: amortization per year recovered in rates between 2012 and 2020, and any amortization included in Stargas' 2021 revenue requirements.
 - 6.1.1 Please clarify if Stargas has declared and paid \$6,794 in cumulative preferred share dividends in each fiscal year between 2012 and 2021. For any years where Stargas did not declare and pay dividends, please discuss whether an amount for the 2002-2006 deferred dividends was recovered in rates, and if so please specify the amount.
- 6.2 Please elaborate on the reasons why FEI/Stargas consider it appropriate to include amounts for 2002-2006 deferred dividends in the acquisition cost and if there are any public interest considerations with respect to this component of the purchase price.
- 6.3 Please elaborate on why Stargas/FEI consider it appropriate to discount the balance of the 2002-2006 deferred dividends and the undistributed returns on equity from June 1, 2017 to October 31, 2020 by Stargas' WACD, in arriving at the balances to be included in the acquisition cost.

The acquisition cost includes an amount of \$45,120 for undistributed returns on equity between June 1, 2017 and October 31, 2020.

- 6.4 Please elaborate on the reasons why FEI/Stargas consider it appropriate to include amounts for undistributed returns on equity between June 1, 2017 and October 31, 2021 in the acquisition cost and if there are any public interest considerations with respect to this component of the purchase price.
- 6.5 Please discuss whether there are any specific considerations with respect to retroactive ratemaking related to including the undistributed returns on equity between June 1, 2017 and October 31, 2020 in the acquisition cost.

**7.0 Reference: ACQUISITION COST
Exhibit B-1, pp. 8–10
Working capital**

On page 8 of the Application, FEI/Stargas submit that the working capital allowance currently in Stargas' ratebase of \$54,225 is included in the acquisition cost.

In the FEI Annual Review for 2020-2021 Delivery Rates proceeding, working capital is described as follows³:

Cash working capital is defined as the average amount of capital provided by investors in the Company to bridge the gap between the time expenditures are required to provide service (expense lag) and the time collections are received for that service (revenue lag). The cash working capital requirements that have been included reflect the most recent Lead Lag Study results, as approved through Order G-165-20.

Other working capital includes gas in storage, transmission line pack gas, inventory of materials and supplies, employee loans and withholdings and refundable contributions.

On pages 9 and 10 of the Application, FEI proposes to record the working capital allowance in the Stargas Assets Acquisition Deferral attracting Weighted Average Cost of Capital (WACC), until a transfer to rate base on January 1, 2022 and amortization of the full balance over a period of one year commencing on January 1, 2022.

- 7.1 Please confirm, or explain otherwise, that for rate setting purposes a working capital allowance is included in rate base to compensate investors with a rate base return (i.e., WACC) for timing differences between expenditures and revenue collection, rather than full recovery of the working capital allowance in rates.
- 7.2 With reference to the purpose of a working capital allowance for rate setting, please discuss the rationale for including the Stargas working capital allowance in the purchase price and recovering the full amount from ratepayers over a period of one year via amortization of the Stargas Assets Acquisition deferral account.

C. PROPOSED ACCOUNTING TREATMENT

**8.0 Reference: PROPOSED ACCOUNTING TREATMENT
Exhibit B-1, p. 1, 9; Appendix C, p. 20
Capital assets**

On page 9 of the Application, FEI proposes the following accounting treatment for Stargas' capital assets included in the acquisition cost:

Transfer the net book value of the Stargas' existing capital assets (Section 3.1.1 of the Application) to FEI's distribution class of assets in plant for inclusion in FEI's rate base. Consistent with FEI's treatment of capital assets in CPCNs, the Stargas assets acquired by FEI will enter rate base on January 1 the year following BCUC approval. Assuming the transaction will complete in 2021, the capital assets will be transferred to FEI's rate base on January 1, 2022 and depreciation of the capital assets will begin on January 1, 2022.

Table 3-2 of the Application includes a breakdown of Stargas' capital assets to be included in the

³ https://www.bcuc.com/Documents/Proceedings/2020/DOC_58939_B-2-FEI-Annual-Review-for-2020-2021-Delivery-Rates-Materials.pdf, p. 73.

purchase price by category:

Table 3-2: Breakdown of Stargas' Capital Assets (to be included in Purchase Price by FEI)

Stargas Capital Asset	Forecast at	Cross Reference to Stargas' 2020 Delivery Rate Application (Appendix C)
	April 1, 2021 (\$)	
Distribution Grid	\$ 439,311	Stargas' Delivery Rate Application, pg. 16
Safety Initiative	25,759	Stargas' Delivery Rate Application, pg. 16
Remediation Costs for Crown Tenue Rights	8,710	Stargas' Delivery Rate Application, pg. 16
Billing/Read Software	6,758	Stargas' Delivery Rate Application, pg. 16
Total	\$ 480,538	

- 8.1 For each capital asset category included in Table 3-2 of the Application, please describe why it is appropriate for the assets to be included in FEI's distribution class, as opposed to another asset class.
 - 8.1.1 For each capital asset category included in Table 3-2, please identify any other existing FEI capital asset categories that are applicable and ultimately why FEI has not selected to record the assets in those alternative categories.
- 8.2 Please describe the depreciation method that will be applicable to the Stargas capital assets included in FEI's ratebase and why this method is appropriate to apply to the Stargas capital assets based on their specific characteristics (e.g., remaining useful life, condition etc.).
- 8.3 For each capital asset category included in Table 3-2 of the Application, please discuss how these assets will be used and useful for FEI in providing utility service to its customers.
 - 8.3.1 With respect to any capital asset categories that may not be used of and useful for FEI in providing utility service to its customers, please describe any alternative regulatory accounting treatments proposed for these assets and the impact that this will have on the rate impact analysis for existing Stargas and FEI customers in 2022 and 2023.

On page 20 of Appendix C to the Application, Stargas and FEI provides the details of changes to Stargas' Safety Initiative capital account as follows:

Details of Changes in Capital Accounts: Safety Initiative:

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

- 8.4 Please confirm, or explain otherwise, that the results of the "[FortisBC Alternative Energy Service] FAES meter survey" and "FAES mapping update" will be used and useful to FEI and its ratepayers following the proposed transfer of assets.

On page 1 of the Application, FEI requests approval for the Stargas Acquisition Deferral Account to record the costs of preparing the Application, legal expense related to the executed FEI-Stargas APA, and the total of Stargas' Regulatory Assets, Working Capital Allowance and the

Uncollected Amounts. With respect to this deferral account, FEI requests approval to:

- ...record the costs to the non-rate base deferral account on a net-of-tax basis, attracting FEI's weighted average cost of capital (WACC) until transfer to rate base. FEI is also requesting to transfer the balance in the deferral account to rate base on January 1, 2022 and commence amortization over a one-year period.
- 8.5 Please clarify why FEI is proposing to transfer the balance of the deferral account to rate base effective January 1, 2022, rather than leaving the balance in the deferral account attracting WACC and amortizing the balance over one year.
- 8.6 Please explain whether it is FEI's standard practice to record similar amounts on a net-of-tax basis and why.
- 8.7 Please provide the rate impact from both a two year and a three year amortization of the Stargas Acquisition Deferral Account and discuss the pros and cons of each alternative as compared to the proposed one year amortization.

D. RISKS ASSOCIATED WITH STARGAS ASSET ACQUISITION

- 9.0 Reference: RISKS ASSOCIATED WITH STARGAS ASSET ACQUISITION
Exhibit B-1, p. 10
Impact of Stargas Delivery and Commodity Rate Proceedings**

On page 10 of the Application, FEI/Stargas identify several risks associated with the acquisition, including:

- The final purchase price of the Stargas Assets Acquisition is dependent on the BCUC's decisions on Stargas' 2020 Delivery Rate Application, Stargas' 2020 Commodity Rate Application, and this Application related to the Assets approved for inclusion in FEI's rate base. In accordance with the terms of the executed FEI-Stargas APA, Stargas will have to find the final purchase price as approved by BCUC to be satisfactory.
- 9.1 Please clarify the impact of the BCUC decisions in the Stargas Delivery Rate Proceeding and Commodity Rate proceeding for each element of the purchase price.

- 10.0 Reference: RISKS ASSOCIATED WITH STARGAS ASSET ACQUISITION
Exhibit B-1, Section 3.3, p. 10
Condition of Distribution System**

On page 10 of the Application, FEI/Stargas state that:

- The actual condition of the existing distribution system currently owned by Stargas could be a risk; however, FEI considers the risk of this is small... As part of its due diligence, FEI undertook an evaluation of the Stargas' distribution assets in August 2020 and determined the current assets are overall in good condition.
- 10.1 Please provide the results of FEI's evaluation of the Stargas distribution system assets.
- 10.2 Please explain what FEI considers the expected remaining life of the main assets of the Stargas distribution system to be.
- 10.3 Please identify any capital expenditures which may be required by FEI over the next 20 years for end-of life replacement or upgrades to significant portions of the Stargas distribution system or other Stargas assets.

E. PUBLIC INTEREST CRITERIA

**11.0 Reference: PUBLIC INTEREST CRITERIA
Exhibit B-1, pp. 12–15
Public interest criteria**

On page 12 of the Application, FEI/Stargas state that:

FAES has been contracted by Stargas to maintain the natural gas distribution systems in Silver Star since 2009, with FEI taking over these responsibilities since 2019. Given the familiarity that FEI already has with the natural gas distribution systems in Silver Star, FEI believes service to Stargas' current customers will be maintained or enhanced by the transfer of the Assets from Stargas to FEI.

- 11.1 Please provide examples of how service to Stargas' current customers may be enhanced by FEI operating the system, as opposed to FEI maintaining the system under contract.

In Table 4-1 in the Application, FEI/Stargas show the average bill reduction to Silver Star Customers.

On page 13 of the Application, FEI/Stargas state that:

For the purpose of this analysis, FEI has assumed existing Stargas' residential customers will become FEI's RS 1 Residential customers, existing Stargas' small commercial customers will become FEI's RS 2 Small Commercial customers, and existing Stargas' large commercial customers will become FEI's RS 3 Large Commercial customers.

Further on page 14, FEI/Stargas state that:

For FEI's existing customers, the delivery rate and commodity rate impact resulting from the transfer of asset is negligible. For delivery rates, the impact is an increase of 0.045 percent in 2022 subsequently offset by a decrease of 0.036 percent in 2023 when compared to the 2021 approved delivery rates (BCUC Order G-319-20).

Table 4-2 shows the financial analysis and rate impact of the Stargas assets acquisition to FEI.

- 11.2 Please confirm, or explain otherwise, that the GJ/year threshold for Stargas' Large Commercial Customers is the same as customers of FEI's Rate Schedule 3 (i.e., above 2000GJ/year)

11.2.1 Please discuss if there will be any current Stargas customers that would change to a different rate classification other than as outlined on page 13 of the Application as a result of the proposed acquisition (e.g., a Stargas small commercial customer becoming an FEI RS 3 customer). If so, please explain the rate impact of the transition to FEI service for such customers.

- 11.3 Beyond 2023, please discuss whether FEI would expect delivery rates to increase or decrease relative to (1) the 2021 approved delivery rates; and (2) the estimated 2023 delivery rates outlined in Table 4-2, as a result of the acquisition.

- 11.4 Based on recent years, please provide a comparison of Stargas and FEI commodity and delivery rates and briefly discuss the comparative volatility in Stargas' rates compared to the applicable FEI rates.

F. CONSULTATION

12.0 Reference: CONSULTATION Exhibit B-1, pp. 18, 20–21 Consultation

On page 18 of the Application, FEI/Stargas state that “[f]urther detail about the Stargas Assets Acquisition will be communicated with affected stakeholders following application submission and throughout the transaction process.”

On page 20, FEI/Stargas state that:

A total of 30 participants joined the Virtual Town Hall events and expressed interest and concerns that echoed the feedback received from the survey. Questions received primarily focussed on what the difference will be once customers transition to FEI rates, when customers can access FEI Conservation Energy & Management incentive programs, costs for new service connections, process and timelines to transition to FEI billing, and how customers can access online billing information and monitor consumption. FEI addressed these questions in accordance with information included in this application.

- 12.1 Please outline the further communications with stakeholders FEI/Stargas plan to take subsequent to the filing of the Application.
 - 12.1.1 Please summarize any additional communications and feedback received to date.
- 12.2 Please summarize the participant interests/concerns regarding the costs for new service connections and the response provided by FEI.
 - 12.2.1 Please discuss if FEI considers there are any outstanding participant concerns with respect to new service connections. If yes, in your response, please discuss how FEI plans to address these concerns.
 - 12.2.2 Please compare the costs and process for new services connections under Stargas’ existing service and FEI’s service following the proposed transaction.
- 12.3 Please discuss whether FEI/Stargas considers the seasonal nature of Stargas’ customer base to present any challenges with respect to consultation, and the transition of customers for FEI post-transaction. If so, please discuss how FEI/Stargas is addressing such challenges.

On page 21 of the Application, FEI/Stargas state that:

FEI notified Indigenous communities identified above by letter on February 5, 2021 to provide information about the Project, contact information and opportunity to request a follow-up meeting, if requested. A sample letter can be found at Appendix G As of this Application filing, FEI has not received any requests for meetings and no further information has been requested. Upon CPCN approval, FEI will send a follow up notification advising of the CPCN status and extending another offer to discuss the acquisition.

- 12.4 Please discuss if FEI/Stargas have identified any possible areas of concern with respect to the proposed acquisition that might affect the interests of Indigenous communities.
 - 12.4.1 Please summarize any additional communications or feedback with Indigenous communities to date not otherwise addressed in the Application.

G. PRE- AND POST-TRANSACTION ACTIVITIES

**13.0 Reference: PRE- AND POST-TRANSACTION ACTIVITIES
Exhibit B-1, p. 22
Customers in Arrears**

On page 22 of the Application, FEI/Stargas state that:

If there are any customers in arrears prior to close, Stargas will work with customers, as is the current process, to address the arrears. This clear delineation of both the provision of service, and billing and collections will help facilitate a smooth transfer of customers from Stargas to FEI.

13.1 Please briefly describe the current Stargas process to address customers in arrears.

13.1.1 Please discuss if there is any risk of arrears not being addressed prior to the Closing Date, and if so, how such risks will be addressed by Stargas or FEI.

**14.0 Reference: PRE- AND POST-TRANSACTION ACTIVITIES
Exhibit B-1, pp. 10, 24–25
Post-transaction capital and operation and maintenance (O&M) expenditures**

On page 10 of the Application, FEI/Stargas states that “[a]s part of its due diligence, FEI undertook an evaluation of the Stargas’ distribution assets in August 2020 and determined the current assets are overall in good condition.”

On page 24 of the Application, FEI/Stargas state that:

FEI proposes to fund the required capital and O&M expenditures within 1 to 5 years post-transaction through FEI’s current capital and O&M framework under FEI’s 2020-2024 Multi-Year Rate Plan (MRP) as approved with BCUC Order G-165-20.

On page 25 of the Application, FEI/Stargas provide Table 6-1 as shown below:

Table 6-1: Breakdown of Capital and O&M Expenditures Required by FEI Post-transaction

Activities Required	Cost Estimate	Cost Estimate	Capital/O&M
	(Within 1 year of Transaction)	(Within 1-5 years of Transaction)	
Leak Survey	\$ 2,000	\$ -	O&M
Services – as-built / record documentation creation	6,500	-	O&M
Services – Installation record incorporate into GIS/SAP	30,000	-	O&M
Locate tracer wire and install fink post or install marker balls	5,000	-	O&M
Remove Transfer Meter	10,000	-	Capital
Install segmentation valves and tie main ends together	-	50,000	Capital 60%; 40% O&M
Remediate Residential Hazard Meters	5,000	40,000	Capital
Replace/upgrade Commercial Meters	6,000	25,000	Capital
Total	\$ 64,500	\$ 115,000	
Total Capital	\$ 21,000	\$ 95,000	
Total O&M	\$ 43,500	\$ 20,000	

14.1 Please clarify whether the estimates outlined in Table 6-1 are as a result of the evaluation undertaken by FEI August 2020. If not, please explain on what basis the cost estimates were developed.

14.2 Please explain why, in the view of FEI/Stargas, it is just and reasonable for anticipated capital

and O&M expenditures required for the Stargas system to be included in FEI's current capital and O&M framework, and collected in rates from all FEI customers.

14.2.1 Please explain whether FEI/Stargas considered whether such costs could have factored into the purchase price.

On page 25 of the Application, FEI/Stargas state that:

FEI also notes that there are potentially issues of trespass of existing distribution pipeline in private property. FEI has undertaken preliminary mapping that shows the potential areas of trespass. At this time, FEI cannot confirm the extent of the trespasses, its approach to resolve the trespasses, or the associated remediation costs. Once the transaction as per the executed FEI-Stargas APA is completed and FEI incorporates the Assets into FEI's GIS system as identified as one of the post-transaction activities required in Table 6-1 above, FEI will undertake a more detailed review of the potential trespass and determine the appropriate remediation alternatives. FEI's practice is to remediate the trespass in a timely manner once identified.

14.3 Please provide further details of all potential trespass issues of the existing distribution pipeline in private property which have been identified, including potential mitigation actions required.

14.4 To the extent it is possible, please provide an estimate of FEI's maximum anticipated remediation costs for trespass issues, should all potential trespass issues identified require remediation.

14.4.1 Please discuss the mechanism and timing by which FEI anticipates such costs would be recovered from ratepayers.

14.4.2 Please explain why such remediation costs should not be deducted from the purchase price of the Assets to the account of Stargas, in light of the fact that that these liabilities arose during Stargas' ownership and operation of these assets.

14.5 Please explain whether FEI considers it feasible to take additional steps to confirm the extent of the trespass issues prior to the transfer of assets.

14.5.1 Please explain whether FEI considers there are any risks that trespass issues cannot be resolved in a timely manner. If so, please discuss what actions would be required for FEI to address unresolved trespass issues.

On page 25 of the Application, FEI/Stargas state that:

FEI is applying to the Province for the assignment of an existing license of occupation currently held by Stargas. FEI has identified six Crown parcels where the existing distribution system is located, which lands are leased to Silver Star Resort, and intends to work with Silver Star Resort and the Crown to acquire satisfactory land tenure rights over these parcels.

14.6 Please discuss whether FEI/Stargas have identified any potential risks which may prevent FEI from obtaining land tenure rights for any part of the entire Stargas system, aside from the trespass issues identified in the Application.

14.6.1 If any other risks were identified, please discuss the potential impacts to FEI and potential costs of remediation.

**15.0 Reference: PRE- AND POST-TRANSACTION ACTIVITIES
Exhibit B-1, p. 26
Termination date**

On page 26 of the Application, FEI/Stargas highlight that FEI may unilaterally terminate the APA without penalty if certain subject conditions, including BCUC approval, have not been met, anytime on or after May 15, 2021.

15.1 Please discuss whether the termination date means that FEI requires a BCUC decision on the Application to be rendered before May 15, 2021 for the acquisition to be completed.

15.1.1 Please discuss the implications, if any, of a BCUC decision rendered on or after May 15, 2021 with respect to the completion of the acquisition.