

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER** G-164-09

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IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Stargas Utilities Ltd.  
2009 Application to Alter Rates, Refinance and  
Acceptance of Gas Supply Contract

**BEFORE:** L.F. Kelsey, Commissioner  
D.A. Cote, Commissioner  
P.E. Vivian, Commissioner

December 17, 2009

**ORDER**

**WHEREAS:**

- A. The British Columbia Utilities Commission (the "Commission") by Order C-4-00, approved a Certificate of Public Convenience and Necessity for Stargas Utilities Ltd. ("Stargas") to operate a natural gas distribution system at the resort community of Silver Star; and
- B. On July 29, 2009, Stargas filed an application to Alter Rates, Refinance and Acceptance of Gas Supply Contract with the Commission (the "Application"). The Application also requested approval to amortize various deferral accounts, increase the rates paid to Okanagan Funding Ltd. ("OKF") and change the method for recovering plant amortization; and
- C. On September 23, 2009, Stargas requested that the Commission fast track the refinancing portion of the Application due to the October 1, 2009 closing date with its bank ("Refinancing Application"). Commission Order G-116-09 dated September 29, 2009 approved the Refinancing Application; and
- D. Stargas also requested that the Commission approve the gas supply contract portion of the Application ("New Gas Supply Contract") prior to November 1, 2009. On October 22, 2009, Order E-13-09 approved the New Gas Supply Contract; and
- E. On October 1, 2009 Stargas amended the Application and requested Commission approval to decrease residential and commercial delivery rates by \$0.90 per Gigajoule ("GJ"), residential commodity rates by \$4.05 per GJ and commercial commodity rates by \$4.26 per GJ effective November 1, 2009 (the "Amended Application"); and
- F. On October 8, 2009, Commission Order G-121-09 established a written public hearing process for the review of the Amended Application and directed that a Regulatory Timetable be established following the deadline for registration of Intervenor. The Order also approved, on an interim and refundable basis, a \$0.90 GJ decrease in residential and commercial delivery rates, a \$4.05 per GJ decrease in residential commodity rates and a \$4.26 per GJ decrease in commercial commodity rates, effective November 1, 2009; and

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- G. No Intervenor or Interested Parties registered by the October 23, 2009 deadline set by Order G-121-09; and
- H. The Commission issued Information Request No. 1 on November 4, 2009 and Stargas responded on November 9, 2009; and
- I. Commission Order G-135-09 established a Regulatory Timetable for the review of the Amended Application; and
- J. The Commission has reviewed the Application by Stargas to Alter Rates, Refinance and Acceptance of Gas Supply Contract and the evidence adduced thereon, all as set forth in the Reasons for Decision attached as Appendix A.

**NOW THEREFORE** pursuant to sections 60 and 61 of the *Utilities Commission Act*, the Commission orders as follows:

- 1. The Commission approves the Stargas request to draw down the Gas Cost Variance Account credit balance in F2010 and directs the Company to revise Schedule XVIII, Commodity Cost Recovery, to reflect a drawdown of \$69,689 in F2010.
- 2. The Commission approves the Stargas requests to end the deferral of plant amortization and to amortize the balance of the previously deferred plant amortization and the interest accumulated on the deferred amortization over ten years effective June 1, 2009.
- 3. The hourly rates for OKF services are limited to the following:

	2009
<b>Accounting services:</b>	\$42.40
<b>Administrative services:</b>	\$63.60
<b>Executive services:</b>	\$132.50

- 4. In accordance with Commission Order G-163-06, Stargas is directed to pay the full F2010 dividend on its preferred shares.
- 5. The request to amortize \$135,887 of accumulated unpaid dividends on Stargas' preferred shares into its revenue requirement over ten years is not approved. As stated in Commission Order G-118-05, the accumulated unpaid dividends will become a cost to Stargas when it has the financial resources to be able to pay dividends.
- 6. The Commission approves a \$0.90 per GJ decrease in residential and commercial delivery rates, a \$4.43 per GJ decrease in residential commodity rates and the \$4.64 per GJ decrease in commercial commodity rates, effective November 1, 2009.
- 7. Stargas is to provide, subject to timely filing, amended Gas Tariff Rate Schedules in accordance with this Order.

**DATED** at the City of Vancouver, In the Province of British Columbia, this 17<sup>th</sup> day of December 2009.

BY ORDER

*Original signed by:*  
D.A. Cote  
Commissioner

Attachment

**STARGAS UTILITIES LTD.  
2009 AMENDED APPLICATION TO ALTER RATES, REFINANCE AND ACCEPTANCE OF GAS SUPPLY CONTRACT**

**REASONS FOR DECISION**

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**1.0 INTRODUCTION**

**1.1 The Application**

On July 29, 2009, Stargas Utilities Ltd. ("Stargas" the "Company") filed an application to Alter Rates, Refinance and Acceptance of Gas Supply Contract with the British Columbia Utilities Commission (the "Commission") (the "Application"). The Application also requested approval to amortize various deferral accounts, increase the rates paid to Okanagan Funding Ltd. ("OKF") and change the method for recovering plant amortization.

Stargas requested expedited reviews of the refinancing and gas supply contract portions of the Application. On September 23, 2009, Stargas requested that the Commission fast track the refinancing portion of the Application due to the October 1, 2009 closing date with its bank. The refinancing portion of the Application was approved by Order G-116-09. Stargas also requested that the Commission approve the gas supply contract portion of the Application ("New Gas Supply Contract") prior to November 1, 2009. On October 22, 2009, Order E-13-09 approved the New Gas Supply Contract.

On October 1, 2009, Stargas amended the Application and requested Commission approval to decrease residential and commercial delivery rates by \$0.90 per Gigajoule("GJ"), decrease residential commodity rates by \$4.05 per GJ and decrease commercial commodity rates by \$4.26 per GJ effective November 1, 2009 (the "Amended Application").

**1.2 Background**

Silver Star Mountain Resorts Ltd. (the "Resort") is the primary developer and ski hill operator in the resort community located north-east of Vernon. The Resort created a subsidiary, now known as Stargas, which acquired the existing propane grid from its parent. By Order C-4-00, the Commission approved a Certificate of Public Convenience and Necessity for Stargas to operate a natural gas distribution system at the Resort. Stargas is a small utility with a rate base of less than \$1 million and approximately 239 customers as at May 31, 2009 (2009 Stargas Annual Report, p. 3).

Stargas' rates are based on the price of alternative energy sources (propane and electricity). In the past, propane and electricity rates were lower than the equivalent natural gas rate and this limited the Company's ability to recover its costs and provide shareholders with a return on investment. Currently, both residential and commercial natural gas rates are lower than the equivalent propane and electricity rates (Amended Application, p. 9).

**2.0 THE WRITTEN HEARING PROCESS**

In determining the appropriate process to review the Amended Application, the Commission considered the complexity of the Amended Application, the need for public participation and the cost associated with the process selected. The Amended Application is routine in nature and no Intervenor or Interested Parties registered to participate in the proceeding. Stargas is a small utility with limited resources and a protracted regulatory process would be onerous. Given the cost of an oral hearing and the absence of Intervenor, Order G-116-09 established a written public hearing process and Order G-135-09 established the regulatory timetable for the review of the Amended Application.

### 3.0 GAS COST

#### 3.1 Gas Cost

Stargas forecasts gas purchases to increase from 34,535 GJ in F2009 to 38,762 GJ in F2010 (Amended Application, p. 7). The cost of gas before Gas Cost Variance Account ("GCVA") commodity costs will increase from \$286,612 in F2009 to \$297,148 in F2010.

	F2009	F2010	% Change
<b>Commodity Purchases</b>	\$219,587	\$224,725	2.3%
<b>Terasen Gas</b>	67,025	72,423	8.1%
<b>Commodity Cost</b>	\$286,612	\$297,148	3.7%
<b>Volume (GJ)</b>	34,535	38,762	12.2%
<b>Average Cost (\$/GJ)</b>	\$8.30	\$7.67	-7.6%

(2009 Stargas Annual Report, p. 6 and Amended Application, p. 8).

Commission Order G-1-09 denied Stargas' August 31, 2008 request to increase its gas commodity charges and Stargas was directed, when in future it files a Fixed Price or a Direct Energy Marketing Limited Pool Price agreement for gas purchases, to explicitly state whether the price entirely and only represents market prices, to identify any fees or charges that are included in the price and to fully justify all components of the price.

Commission Letter L-52-09, issued on July 23, 2009, approved Stargas' request for a Price Mitigation Strategy locking in gas commodity prices. The Amended Application states that Stargas' gas supply contract with its current supplier will terminate, effective October 31, 2009. On July 29, 2009, in accordance with Commission Letter L-52-09, Stargas filed a new Gas Supply Contract with the Commission. Commission Order E-13-09 accepted the new Gas Supply Contract. On November 5, 2009, Commission Order E-15-09 accepted the Gas Purchase Transaction Confirmation (Schedule A.001 dated October 26, 2009).

**The Commission accepts the Stargas F2010 gas cost forecast.**

#### 3.2 Gas Cost Variance Account

The GCVA accumulates the difference between the gas cost recovered in rates and the actual cost incurred in purchasing the commodity. As a result of gas cost recovered in rates exceeding the actual cost incurred in purchasing the commodity, Attachment B-2, p. 4 shows a \$57,170 GCVA credit balance at May 31, 2009. The Company states that it has accumulated a significant credit balance in its GCVA and proposes to drawdown the GCVA by \$57,114 in F2010, effective November 1, 2009 (Schedule XVIII, Commodity Cost Recovery, Amended Application, pp. 7-8).

Commission Staff's review of Attachment B-2, page 4 determined that the GCVA drawdown in F2010 should be \$69,689 and Schedule XVIII, Commodity Cost Recovery has been revised to reflect this change.

#### XVIII. Commodity Cost Recovery - Revised

	F2010	% of Total Gas Cost
Commodity Purchases	\$224,725	
Terasen Gas	72,423	
Total Gas Cost	297,148	
GCVA Drawdown	69,689	23%
Cost to be Recovered	<u>\$227,459</u>	77%
Volumes Delivered	38,762	
Average Commodity Rate per (\$/GJ)	5.87	

  

	GJ	\$/GJ	Amount
Forecast Recovery to October 31	5,975.4	\$9.72	\$58,070
Forecast Recovery to May31	<u>32,786.2</u>	<u>\$5.17</u>	<u>169,389</u>
Total Commodity Cost Recovered	<u>38,761.6</u>		<u>\$227,459</u>

Given that the credit balance in the GCVA represents 23 percent of Stargas' F2010 gas costs, the Commission considers the request to drawdown the GCVA credit balance appropriate. **The Commission approves the Stargas request to draw down the GCVA credit balance in F2010 and directs the Company to revise Schedule XVIII, Commodity Cost Recovery, to reflect a drawdown of \$69,689 in F2010.**

#### 4.0 OPERATING AND ADMINISTRATIVE EXPENSES

##### 4.1 Management Fees

Administration and management of the Company is the responsibility of Okanagan Funding Ltd. ("OKF"), a company owned and operated by M.A. (Moe) and Carol Blumes. C.I.M. Holdings (1998) Inc., an investment holding company controlled by Mr. Blumes, owns 50 percent of Stargas' common shares. Commission Order G-163-06 capped the rate for management services provided by Mr. Blumes at \$125/hour. Schedule IX, Management Fees requests the following rate increases for services from OKF:

##### Requested OKF Hourly Rates

	Approved 2006	Proposed 2009	Increase	% Increase
<b>Accounting services:</b>	\$40.00	\$45.00	\$5.00	13%
<b>Administrative services:</b>	\$60.00	\$70.00	\$10.00	17%
<b>Executive services:</b>	\$125.00	\$135.00	\$10.00	8%

(Amended Application, pp. 4 and 5)

The requested increase in rates for services from OKF is higher than the 6 percent increase in the British Columbia Consumer Price Index from 2006-2009 [British Columbia Consumer Price Index, Annual Averages 1998-2008 ([http://www.bcstats.gov.bc.ca/DATA/dd/handout/cpi\\_spec.pdf](http://www.bcstats.gov.bc.ca/DATA/dd/handout/cpi_spec.pdf)) and British Columbia Consumer Price Index, October 2009 (<http://www.bcstats.gov.bc.ca/pubs/cpi/cpi0910.pdf>)]. The Commission is of the view that increases in rates for services

from OKF should not exceed the increases in the British Columbia Consumer Price Index ("BC CPI"). **Accordingly, the rates for OKF services are limited to the following:**

Approved OKF Hourly Rates				
OKF Rates	Approved 2006	6% Inflation	Approved 2009	% Increase
Accounting services:	\$40.00	\$2.40	\$42.40	6%
Administrative services:	\$60.00	\$3.60	\$63.60	6%
Executive services:	\$125.00	\$7.50	\$132.50	6%

## 4.2 Amortization

The Amended Application proposes to include plant amortization in its revenue requirement as a cost of service rather than continue its deferral, effective June 1, 2009. Furthermore, Stargas proposes to amortize the balance of the previously deferred plant amortization and the interest accumulated on the deferred amortization over ten years, effective June 1, 2009 (Amended Application, p. 5).

On November 27, 2000 Stargas filed an application stating that prevailing market conditions constrained Stargas' ability to fully recover its costs. Commission Order G-116-00 approved Stargas' request to create and maintain an interest-bearing deferral account to accumulate the amortization related to its capital assets. Due to declining gas commodity prices in the fall of 2008, Stargas' competitive position with respect to alternative energy sources (propane and electricity) has improved significantly and the Company's ability to recover its costs is no longer constrained (Amended Application, p. 7).

**The Commission approves Stargas' requests to end the deferral of plant amortization and to amortize the balance of the previously deferred plant amortization and the interest accumulated on the deferred amortization over ten years effective June 1, 2009.**

## 5.0 FINANCING

### 5.1 Recovery-preferred

In Schedule XVI, Recovery-preferred dividend, Stargas requested approval to amortize \$135,887 of accumulated unpaid dividends on its preferred shares into its revenue requirement over ten years and include in its revenue requirement the calculated return on its shareholders' equity of \$27,335 rather than include the full current dividend on its preferred shares of \$36,513 (Amended Application, p. 6, BCUC 1.3.2 and BCUC 1.5.4).

On August 15, 2002 Stargas applied to the Commission for approval to issue cumulative preferred shares in order to absorb cumulative losses in excess of \$615,000 and recognize the "time value" of the shareholders' investment. Commission Order G-80-02 approved the issuance of \$400,000 of cumulative preferred shares with a dividend rate equal to the Commission's annual benchmark return on equity plus 75 basis points. In order to provide a return to Stargas' shareholders, Commission Order G-163-06 directed the Company to pay a dividend on its outstanding cumulative preferred shares beginning in F2007. The Company paid dividends in each of its fiscal years to May 31, 2009 and the dividends were funded by shareholders' loans at an annual interest rate of 6 percent.

**In accordance with Commission Order G-163-06, Stargas is directed to pay the full F2010 dividend on its preferred shares. The request to amortize \$135,887 of accumulated unpaid dividends on Stargas' preferred shares into its revenue requirement over ten years is not approved.** As stated in Commission Order G-118-05, the accumulated unpaid dividends will become a cost to Stargas when it has the financial resources to be able to pay dividends.

In Schedule III, Financing, Stargas includes Deferred Financing Costs ("DFC") of (\$18,524) in its F2010 mid-year capital structure. Commission Order G-107-05 approved Stargas' request to replace its Canadian Imperial Bank of Commerce debt with TD Canada Trust debt, increase its total debt by approximately \$80,000 and defer and amortize the transaction costs and any possible debt retirement penalties over a period of 10 years. Commission Order G-116-09 approved the Company's request for a New Term Loan in the amount of \$302,139 and the deferral and amortization of transaction costs over a period of 10 years. In response to BCUC 1.2.2, Stargas removed the DFC from its F2010 mid-year capital structure.

**Stargas is directed to update Schedule X, Amortization, to include the Deferred Financing Costs.**

## **6.0 INTERIM AND PERMANENT RATES**

Commission Order G-121-09 approved for Stargas on an interim and refundable basis a \$0.90 GJ decrease in residential and commercial delivery rates, a \$4.05 per GJ decrease in residential commodity rates and a \$4.26 per GJ decrease in commercial commodity rates, effective November 1, 2009. The order also directed Stargas to refund the difference between the interim rates and permanent rates that were lower than interim rates.

At the proposed rates in the Amended Application, residential and commercial customers are expected to receive annual savings compared to the cost of competitive fuels - propane and electricity. These Reasons for Decision contain adjustments to the Stargas cost of service for fiscal 2010. However, even with these adjustments, the Company has a negative equity balance and accumulated unpaid dividends of \$135,887 on its preferred shares during the fiscal 2010 period; therefore no adjustment to the proposed rates is required.

**The Commission approves a \$0.90 GJ decrease in residential and commercial delivery rates, a \$4.43 per GJ decrease in residential commodity rates and a \$4.64 per GJ decrease in commercial commodity rates on a permanent basis, effective November 1, 2009.**