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BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-157-12

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

and

An Application by Stargas Utilities Ltd.
to Alter Rates

BEFORE: L.F. Kelsey, Commissioner
B.A. Magnan, Commissioner
R.D. Revel, Commissioner

October 25, 2012

O R D E R

WHEREAS:

A. By Order C-4-00 dated March 30, 2000, the British Columbia Utilities Commission (the Commission or BCUC) approved a Certificate of Public Convenience and Necessity (CPCN) for Stargas Utilities Ltd. (Stargas) to operate a natural gas distribution system at the resort community of Silver Star;

B. On August 17, 2012, Stargas applied for Commission approval to decrease the residential and both classes of commercial commodity rates by $1.51 per gigajoule (GJ) and increase the residential and both classes of commercial delivery rates by $0.53 per GJ, for an aggregate decrease to residential and both classes of commercial rates of $0.98 per GJ, effective November 1, 2012 (the Application);

C. The Application requests approval to include the amortization of the accumulated unpaid dividends on Stargas' preferred shares and the forecast interest on the Company's operating credit facility in the revenue requirement, which both contribute to the requested delivery rate increase of $0.53 per GJ;

D. Commission Order G-119-12 dated September 6, 2012 established a written hearing process for review of the Application and directed that a Regulatory Timetable be established following the deadline for registration of Interveners. No Interveners or Interested Parties registered by the September 24, 2012 deadline set by Order G-119-12;

E. Commission Order G-136-12 dated September 27, 2012, established a Regulatory Timetable;

F. By way of letter dated October 22, 2012, Stargas filed an amendment to the Application requesting approval to decrease the residential and both classes of commercial commodity rates by $0.57 per GJ, as opposed to the $1.51 per GJ decrease requested in the Application (the Application Amendment);

G. The Commission reviewed the Application and the related submissions, which are discussed in the Reasons for Decision attached as Appendix A to this Order.

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

1. The request to refund the May 31, 2012 GCVA credit balance of $36,958 to customers by way of a reduction in the commodity component of rates, effective November 1, 2012 is approved.

2. The hourly rates for management services provided by Okanagan Funding Ltd. are limited to the following:

Accounting Services	$44.02
Administrative Services	$66.03
Executive Services	$137.56

3. The request to amortize the accumulated unpaid dividends in the revenue requirement over a period of twenty years is approved. Stargas is directed to declare and pay $6,794 in cumulative preferred share dividends in each fiscal year, commencing in fiscal 2013.

4. In accordance with Commission Order G-163-06, Stargas is directed to declare and pay the full fiscal 2013 dividend on its preferred shares.

5. The request to include the forecast interest of $3,386 on Stargas' operating credit facility in the fiscal 2013 revenue requirement is approved.

6. The requested $0.57 decrease in the residential and both classes of commercial commodity rates and a $0.53 increase in the residential and both classes of commercial delivery rates, effective November 1, 2012, are approved.

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 29th of October 2012.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

Stargas Utilities Ltd.
Application for Approval to Alter Rates

REASONS FOR DECISION

1.0 BACKGROUND

Silver Star Mountain Resort 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 Utilities Ltd. (Stargas or the Company), which acquired the existing propane grid from its parent. By Order C-4-00 dated March 30, 2000, the British Columbia Utilities Commission (the Commission or BCUC) approved a Certificate of Public Convenience and Necessity (CPCN) 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 264 customers as at May 31, 2012.[1]

2.0 THE APPLICATION

On August 17, 2012, Stargas applied for Commission approval to decrease the residential and both classes of commercial commodity rates by $1.51 per gigajoule (GJ) to $4.32 per GJ and increase the residential and both classes of commercial delivery rates by $0.53 per GJ to $7.38 per GJ, for an aggregate decrease to residential and both classes of commercial rates of $0.98 per GJ, effective November 1, 2012 (the Application).

The Application requests approval to refund the credit balance of $36,958 in the Gas Cost Variance Account (GCVA) at May 31, 2012 to customers by means of a commodity rate reduction, effective November 1, 2012.

The Application also requests approval to include the amortization of accumulated unpaid dividends on Stargas' preferred shares and the forecast interest on the Company's operating credit facility in the fiscal 2013 Revenue Requirement.

3.0 THE WRITTEN HEARING PROCESS

Commission Order G-119-12 dated September 6, 2012 established a written hearing process for review of the Application and provided the following directives:

- The Application and supporting material will be made available for inspection at various Silver Star Resort centers and at the British Columbia Utilities Commission, Sixth Floor, 900 Howe Street, Vancouver, BC, V6Z 2N3.
- Stargas will provide a copy of customer notice to all customers no later than September 17, 2012. Stargas will also post a copy of Order G-119-12 at various Silver Star Resort centers.
- Interveners and Interested Parties should inform the Commission Secretary in writing, or on-line via the Commission's website at http://www.bcuc.com, by Monday, September 24, 2012 of their intention to actively intervene in the proceeding, or become Interested Parties.

Commission Order G-119-12 directed that a regulatory timetable be established following the deadline for the registration of Interveners on September 24, 2012.

No Interveners or Interested Parties registered with the Commission by the September 24, 2012 deadline set by Order G-119-12. Subsequently, Commission Order G-136-12 dated September 27, 2012 established the Regulatory Timetable.

[1] Fiscal 2012 Stargas Annual Report, p. 3

On October 4, 2012, Commission staff filed Information Requests to Stargas (Commission IRs). Stargas filed their response to the Commission IRs on October 11, 2012 (the Stargas IR Response).

On October 22, 2012, Stargas filed an amendment to the Application, requesting approval to decrease the residential and both classes of commercial commodity rates by $0.57 per GJ to $5.26 per GJ, as opposed to the $1.51 per GJ decrease requested in the Application (the Application Amendment).

4.0 COMMODITY COMPONENT OF RATES

4.1 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 at May 31, 2012, Stargas reported a credit balance of $36,958 in the GCVA.[2] Stargas has requested approval to refund the full GCVA balance to customers by way of a reduction in the commodity component of rates, effective November 1, 2012.

The Commission approves the request to refund the May 31, 2012 GCVA balance of $36,958 to customers by way of a reduction in the commodity component of rates, effective November 1, 2012.

4.2 Gas Cost

The commodity rate of $5.26 per GJ requested in the Application Amendment is based on forecast delivery volumes and the forecast commodity cost paid to Stargas' gas marketer, Cascadia Energy Ltd. (Cascadia), in addition to demand, transportation and administrative charges paid to FortisBC Energy Inc. for transportation services. Stargas purchases natural gas at index from Cascadia and forecasts the fiscal 2013 commodity cost based on forecast purchase volumes and forecast AECO spot prices.

The increase in the requested commodity rate from $4.32 per GJ in the Application to $5.26 per GJ in the Application Amendment is due to an increase in the forecast fiscal 2013 natural gas prices from the date of the Application on August 17, 2012 to the date of the Application Amendment on October 22, 2012. The requested commodity rate of $5.26 per GJ represents a $0.57 or 9.8 percent decrease from the current commodity rate of $5.83 per GJ. This is consistent with the forecast increase in natural gas prices in fiscal 2013 as compared to the prior year, offset by the refund of the GCVA credit balance to customers.

The Commission approves the request to decrease the residential and both classes of commercial commodity component of rates by $0.57 per GJ to $5.26 per GJ, effective November 1, 2012.

5.0 DELIVERY COMPONENT OF RATES

5.1 Financing

On August 15, 2002, Stargas applied to the Commission for approval to issue cumulative preferred shares in order to absorb 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. From fiscal 2002 through fiscal 2006, accumulated unpaid dividends amounted to $135,887 and no return on equity was included in the revenue requirement. In order to provide a return to Stargas' shareholders, Commission Order G-163-06 directed the Company to pay a dividend on its outstanding preferred

[2] The Application, Cover Page

shares. Stargas has declared and paid dividends annually in accordance with Order G-163-06 between fiscal 2007 and fiscal 2012.[3]

5.1.1 Current Preferred Share Dividends

The Application includes $41,000 for forecast preferred share dividends in the fiscal 2013 revenue requirement, based on the principal preferred share balance of $400,000 multiplied by the Commission's annual benchmark return of 9.5 percent[4] plus 75 basis points. Stargas has not included any additional return on equity, nor have they included a long-term debt return, in the fiscal 2013 revenue requirement.

With respect to setting rates, Section 60 (1) (b.1) of the *Utilities Commission Act* (the Act) notes the following:

> (b.1) the commission may use any mechanism, formula or other method of setting the rate that it considers advisable, and may order that the rate derived from such a mechanism, formula or other method is to remain in effect for a specified period, and

The Commission has considered the points outlined below in order to determine the appropriateness of including the forecast preferred share dividends in the fiscal 2013 revenue requirement, as opposed to the more conventional mechanism of including an equity and debt return on rate base.

1. Stargas submits that they intend to continue this rate-setting mechanism in future applications to the Commission. The Stargas IR Response notes the following on pages 11 and 12, respectively:

   > "Including the annual amount of our preferred share dividend… has and would continue to provide a reasonable surrogate for returns that would have been generated in the conventional model."
   >
   > and
   >
   > "While [other] estimates would result in a higher delivery charge/and increased returns to equity, we believe continuing the current program reasonable and consistent with our financial goals."

2. By way of Order G-80-02, the Commission 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 and Order G-163-06 noted that "Stargas' shareholders are not allowed to earn a return on "notional equity", but they are allowed to earn a return on preferred shares."

3. Including the forecast preferred share dividends of $41,000 in the fiscal 2013 revenue requirement as compared to an equity and debt return on Stargas' rate base does not result in a higher delivery component of rates.

The Commission considers it appropriate to include the forecast preferred share dividends of $41,000 in Stargas' fiscal 2013 revenue requirement.

5.1.2 Accumulated Unpaid Dividends

As noted above, from fiscal 2002 through fiscal 2006 inclusive, accumulated unpaid dividends on Stargas' preferred shares amounted to $135,887 and no return on equity was included in the revenue requirement.

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[3] Stargas IR Response, p. 2
[4] Commission Order G-158-09

On July 13, 2005, Stargas filed an application with the Commission for approval to alter rates (the "2005 Application"). The 2005 Application contained a request for approval to include the accumulated unpaid dividends in rate base (the "2005 Application"). The Commission denied this request and stated the following in the Reasons for Decision accompanying Order G-118-05:

> "The Commission does not consider that unpaid dividends are appropriate for inclusion in rate base and should be removed. These cumulative dividends will become a cost to Stargas when it has the financial resources to be able to pay the dividends. Accordingly, the preferred shares are to be shown as a no-cost item in the capital structure, until such time as the dividends are declared and paid."

On July 29, 2009, Stargas filed an application with the Commission for approval to alter rates (the "2009 Application"). The 2009 Application contained a request to amortize the accumulated unpaid dividends of $135,887 into the revenue requirement over ten years (the "2009 Application"). The Commission denied this request and stated the following in the Reasons for Decision accompanying Order G-164-09:

> "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 the dividends."

The current Application requests approval to amortize the $135,887 of accumulated unpaid dividends into the revenue requirement over twenty years, commencing in fiscal 2013, which translates to $6,794 per fiscal year.[5]

The Commission considered the points outlined below in order to determine the appropriateness of amortizing the accumulated unpaid dividends into the revenue requirement over a period of twenty years.

1. The Stargas revenue requirement did not include any return on equity during the period from fiscal 2002 through fiscal 2006 inclusive when the unpaid dividends accumulated.[6] Therefore, any future recovery of the accumulated unpaid dividends would not represent a doubling up of return on equity.

2. Stargas' preferred shares are cumulative, meaning that the unpaid dividends of $135,887 are in arrears and have accumulated for future payment. The cumulative preferred shares cannot be redeemed until such time as the cumulative preferred share dividends in arrears are declared and paid.

3. Stargas submits on p. 3 of 10 of the Application that the issue is 'circular' and if they are unable to include the accumulated unpaid dividends in the revenue requirement, they will not be in a position to declare and pay the dividends in arrears.

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.**

The Commission maintains its position that it is not appropriate to include the $135,887 in rate base, as the total balance has not been declared and paid and therefore does not represent a cost to Stargas.

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[5] The Application, p. 3 of 10
[6] The Stargas IR Response, p. 1

5.2 Cost of Short-term Borrowing

The Application requests approval to include the forecast interest on the Company's operating credit facility of $3,386 in the fiscal 2013 revenue requirement. Stargas submits on p. 7 of 10 of the Application that "In financing our operations, we incur interest on an operating line of credit; we have not had that cost, or its surrogate, included in the determination of our revenue requirement. In other circumstances, the working capital allowance included in the utilities rate base would generate a corresponding increase in the return allowed."

Stargas has not included any return on the Company's rate base in the revenue requirement, and consequently there is no earned return on any cash working capital allowance. In addition, Stargas has not included any debt return, other than the $3,386 interest on the operating credit facility, in the revenue requirement. Therefore, the Commission considers it appropriate to include the cost of short-term borrowing in the revenue requirement.

The request to include the forecast interest on Stargas' operating credit facility in the revenue requirement is approved.

5.3 Management Fees

Administration and management of Stargas is the responsibility of Okanagan Funding Ltd. (OKF), a company wholly owned and operated by M.A. (Moe) Blumes and Carol Blumes. C.I.M Holdings (1998) Inc., an investment holding company controlled by Mr. Blumes, owns 100 percent of Stargas' common shares. Commission Order G-164-09 capped the rates for management services provided by OKF, effective November 1, 2009.

The Application requests approval of the following rates for management services provided by OKF, in order to reflect the increase in the British Columbia Consumer Price Index (the BC CPI) between 2008-2009 and 2011-2012.[7]

OKF Hourly Rates				
	Approved Rates (Order G-164-09)	**Proposed Rates (The Application, p. 6 of 10)**	**Dollar per Hour Increase in Rates**	**Percentage Increase in Rates**
Accounting Services	$42.40	$44.02	$1.62	3.8%
Administrative Services	$63.60	$66.03	$2.43	3.8%
Executive Services	$132.50	$137.56	$5.06	3.8%

The proposed 3.8 percent increase in rates for management services provided by OKF is consistent with the 3.8 percent increase in the BC CPI from 112.7 in 2008-2009 to 117.0 in 2011-2012.[8]

The Commission approves Stargas' request to increase rates for management services provided by OKF by 3.8 percent. The hourly rates for management services provided by OKF are limited to the following, effective November 1, 2012:

Accounting Services	**$44.02**
Administrative Services	**$66.03**
Executive Services	**$137.56**

[7] The Application, p. 6 of 10
[8] http://www.bcstats.gov.bc.ca/StatisticsBySubject/Economy/ConsumerPriceIndex.aspx

6.0 PERMANENT RATES

The Commission reviewed all submissions and has determined that the requested decrease in the residential and both classes of commercial commodity rates and the requested increase in the residential and both classes of commercial delivery rates are appropriate.

The Commission approves a $0.57 per GJ decrease in residential and commercial commodity rates and a $0.53 increase in residential and both classes of commercial delivery rates on a permanent basis, effective November 1, 2012.