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ORDER NUMBER
G-83-22

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Stargas Utilities Ltd.
Natural Gas purchase Plan and Commodity Rate Application
Effective November 1, 2021

BEFORE:
T. A. Loski, Panel Chair
A. C. Denier, Commissioner
A. Pape-Salmon, Commissioner

on March 18, 2022

ORDER

WHEREAS:

A. On September 15, 2021, Stargas Utilities Ltd. (Stargas) filed an application under Section 71 and Section 61(4) of the *Utilities Commission Act* (UCA) to the British Columbia Utilities Commission (BCUC) seeking approval of its Natural Gas Purchase Plan for the contract year from November 1, 2021, to October 31, 2022 (2021-22 Contract Year), and approval to increase the commodity rate from $5.82 per gigajoule (GJ) to $8.17 per GJ, or approximately 40 percent, effective November 1, 2021 (Application);

B. By Order G-133-21 dated May 3, 2021, the BCUC accepted Stargas' previous Natural Gas Purchase Plan, denied Stargas' request to amortize the Gas Cost Variance Account (GCVA) balance over a 12-month period (November 1, 2020 – October 31, 2021) by including $1.24 per GJ in the proposed commodity rate and approved an increase in the gas commodity rate charged to Stargas customers from $3.98 per GJ to $5.82 per GJ, effective November 1, 2020;

C. By letter dated October 6, 2021, Stargas filed, on a confidential basis, an update to the Application requesting acceptance of a gas supply contract with Shell Energy North America Inc. (Shell);

D. By Order G-290-21 dated October 8, 2021, the BCUC approved Stargas' request to increase its commodity rate from $5.82/GJ to $8.17/GJ, effective November 1, 2021, on an interim, refundable or collectable basis and established a regulatory timetable for review of the Application, which included a letter of comment submission period and one round of BCUC Information Requests (IRs);

E. By letter dated October 29, 2021, the BCUC issued public and confidential IR No. 1 to Stargas. By November 24, 2021, Stargas submitted its public and confidential responses to BCUC IR No. 1, as well as its responses to customer letters of comment;

F. By December 1, 2021, the BCUC received two letters of comment;

G. On January 10, 2022, Stargas submitted its final argument;

H. By Order C-1-22 dated January 22, 2022, the BCUC approved, among other things, the disposal and transfer of Stargas' natural gas distribution utility assets to FortisBC Energy Inc. pursuant to section 52 of the UCA; and

I. The BCUC has completed its review of the Application and the evidence and submissions by all parties in this proceeding and finds that the following determinations are warranted.

NOW THEREFORE pursuant to sections 59 to 61, 71 and 89 of the UCA and the reasons attached as Appendix A to this order, the BCUC orders as follows:

1. Stargas' Natural Gas Purchase Plan for the 2021-22 contract year is accepted as filed.
2. The BCUC accepts for filing the gas supply contract between Stargas and Shell.
3. Stargas' request to accrue interest on the GCVA deficit balance at Stargas' weighted average cost of capital rate from November 1, 2021, to the date of sale to FortisBC Energy Inc. is approved.
4. The BCUC approves Stargas' methodology in the calculation of the GCVA balance.
5. Stargas' request to refund or recover any portion of discrepancies in the GCVA deficit balance of $106,148 as of October 31, 2021, is denied.
6. The BCUC approves the increase of commodity rate charged to Stargas customers from $5.82 per GJ to $8.17 per GJ effective, November 1, 2021, based on the forecast gas commodity cost of $8.17 per GJ.
7. Stargas is directed to include an explanation of the commodity rate change to customers in its next monthly billing.
8. Stargas is directed to file with the BCUC an updated report of its GCVA within 30 days of completion of sale to FEI.
9. Stargas is directed to file with the BCUC, within 10 business days of the issuance of this order, updated tariff pages in accordance with the terms of this order.
10. The BCUC approves Stargas' request to hold Exhibits B-1, B-3, B-3-1, B-3-2, B-4 and B-5 of the Application confidential since they contain commercially sensitive materials.

DATED at the City of Vancouver, in the Province of British Columbia, this 18th day of March 2022.

BY ORDER

Original signed by:

Tom Loski
Commissioner

Attachment

Stargas Utilities Ltd.
Natural Gas purchase Plan and Commodity Rate Application
Effective November 1, 2021

REASONS FOR DECISION

Page no.

1.0 Application & Approvals Sought

On September 15, 2021, Stargas Utilities Ltd. (Stargas) filed an application with the British Columbia Utilities Commission (BCUC) seeking approval of its Natural Gas Purchase Plan for the contract year from November 1, 2021, to October 31, 2022 (2021-22 Contract Year) and approval to increase the natural gas commodity component of rates (commodity rate), effective November 1, 2021 (Application).

In the Application, Stargas seeks BCUC approval to increase the commodity rate, effective November 1, 2021, from the existing rate of $5.82 per gigajoule (GJ) to $8.17 per GJ, based on updated forecast gas costs as on January 4, 2022.[1] Additionally, Stargas requests to accrue interest on the Gas Cost Variance Account (GCVA) deficit balance at its weighted average cost of capital from November 1 ,2021 forward, to the date of the sale to FortisBC Energy Inc. (FEI).[2] Stargas' proposed commodity rate of $8.17 per GJ consists of forecast gas and transportation costs for the 2021-22 Contract Year.[3]

As commodity rates are set based on price and delivery volume forecasts for the contract year, variances between projected and actual commodity costs and commodity rate revenues can occur and lead to a difference between the actual commodity costs and the amount recovered in rates. The Gas Cost Variance Account (GCVA) captures the variance between the commodity costs that Stargas actually incurs and the amount it recovers through its commodity rates. Balances in the GCVA are typically recovered or refunded to ratepayers through amortization in rates over a 12-month period. This mechanism ensures that ratepayers only pay the cost the utility incurs to purchase the commodity.

The BCUC approved Stargas' request to increase the commodity rate from $5.82 per GJ to $8.17 per GJ on an interim and refundable basis, effective November 1, 2021.[4]

The issues before the Panel are:

- Whether to accept Stargas' Natural Gas Purchase Plan for the year ending October 31, 2022 as filed, or determine whether it is not in the public interest;
- Whether to accept Stargas' gas supply contract with Shell Energy North America Inc. (Shell) as filed;
- Whether to approve Stargas' requested commodity rate of $8.17 per GJ;
- Whether to approve Stargas' request to refund or recover any portion of discrepancies in the GCVA from November 1, 2021 to the closing date of sale to FEI; and
- Whether to approve Stargas request to accrue interest on the GCVA deficit balance at Stargas' weighted average cost of capital rate from November 1, 2021 to the date of sale to FEI.

1.1 Background

Silver Star Mountain (Silver Star) is a year-round resort community located approximately 22 kilometers northeast of Vernon, BC. Silver Star Mountain Resort Ltd. (Resort) is the primary developer of the resort community and operates the ski hill and a number of other commercial operations within Silver Star. In 1999, Stargas was formed by the Resort to own and operate the natural gas distribution system at Silver Star. Stargas

[1] Stargas Final Argument p. 2.
[2] Stargas Final Argument, p. 2.
[3] Exhibit B-1, Attachment "Exhibit B-2".
[4] Stargas Application to Vary Commodity Rates, Order G-290-21.

acquired the existing propane distribution grid from the Resort and converted it to natural gas. In addition, Stargas expanded the natural gas distribution grid to provide mains to substantially all of the Resort property owners that had been developed at that time.[5] In 2000, the BCUC approved a Certificate of Public Convenience and Necessity (CPCN) for Stargas to operate a natural gas distribution system. As of October 31, 2020, the natural gas distribution system is approximately 10 kilometres in length and serves 348 residential and commercial customers.

On September 15, 2020, Stargas filed its previous commodity rate application with the BCUC seeking approval to increase the total commodity rate from $3.98 per GJ to $7.06 per GJ for the contract year from November 1, 2020 to October 31, 2021.[6] By Order G-133-21 dated May 3, 2021, the BCUC approved, among other things, an increase in the commodity rate charged to Stargas customers from $3.98 per GJ to $5.82 per GJ, effective November 1, 2020, and accepted Stargas' Natural Gas Purchase Plan for the year ending October 31, 2021.

On February 19, 2021, FEI and Stargas filed a joint application with the BCUC for approval of an asset disposition and a CPCN to facilitate the transfer of natural gas utility assets from Stargas to FEI (Asset Purchase Agreement). Further to the approval of the 2021 FortisBC Energy Inc. (FEI) and Stargas Asset Disposition and a CPCN the Transfer of Natural Gas Utility Assets from Stargas to FEI proceeding, Stargas' proposed commodity rate of $8.17 per GJ does not include a rate rider to recover a portion of Stargas' current GCVA deficit balance of $106,148. In accordance with the underlying FEI-Stargas Asset Purchase Agreement, any additional Stargas' regulatory accounts approved by the BCUC before the closing date would be included in the final purchase price. By Order C-1-22 dated January 27, 2022, the BCUC approved the transfer of Stargas' remaining GCVA balance, at the closing date of sale, to FEI's Midstream Cost Reconciliation Account.[7]

1.2 Legislative Authority

Sections 59 to 61 of the *Utilities Commission Act* (UCA) relate to the approval of commodity rates and section 71 relates to the acceptance of energy supply contracts.

The BCUC developed its Rules for Natural Gas Energy Supply Contracts (Rules) to facilitate the review of section 71 natural gas energy supply contracts. The Rules are set out in Appendix A to Order G-130-06. Rule 2.0 states:

> Under Sections 71(1)(a) and 71(1.1), all energy supply contracts for the sale of natural gas to a public utility, other than those for purchases from another public utility, and all subsequent amendments, must be filed with the Commission. Commission acceptance of the filings required by the Act and these Rules should be obtained before delivery of natural gas occurs. The public utility purchasing the natural gas has the primary responsibility for filing contracts under Section 71.1.

Rule 14.0 requires natural gas utilities to submit and obtain BCUC acceptance of annual contracting plans prior to entering into significant energy supply contract arrangements for the year. Rule 14.0 further elaborates that:

> […] the annual contracting plan… shall set out a gas supply portfolio that will reliably meet customer needs at reasonable cost, and shall provide for:

[5] An Application by Stargas for Approval of Permanent Rates dated November 27, 2000, p. 4.
[6] 2020 Stargas Natural Gas Purchase Plan and Commodity Rate Application, Exhibit B-1-1-3, Attachment "Exhibit B-2".
[7] 2021 FEI and Stargas Asset Disposition and a Certificate of Public Convenience and Necessity to Facilitate the Transfer of Natural Gas Utility Assets from Stargas to FEI, Order C-1-22 dated January 27, 2022, Section 5.1.3, p. 16.

> 14.1 sufficient supply to meet the utility's total firm requirements at the level of the current year, and a mix of one year and longer term contracts that is appropriate for the security needs of its customers, considering current market conditions;
>
> 14.2 diversity of supply, including where possible a range of suppliers positioned behind alternative processing facilities, or backstopping arrangements; and
>
> 14.3 diversity of pricing arrangements and other price risk management measures.

A natural gas utility's price risk management strategy and the natural gas purchase contracts it executes directly influence the utility's cost of gas which in turn is recovered on a flow-through basis through the commodity rate charged to utility customers. The BCUC reviews these costs to ensure that the utility does not earn a return or profit from these costs. Commodity rates are approved pursuant to section 61(4) of the UCA which states:

> A public utility may file with the commission a new schedule of rates that the utility considers to be made necessary by a change in the price, over which the utility has no effective control, required to be paid by the public utility for its gas supplies, other energy supplied to it, or expenses and taxes, and the new schedule may be put into effect by the public utility on receiving the approval of the commission. [emphasis added]

1.3 Regulatory Process

On October 8, 2021, the BCUC established a written public hearing process for review of the Application. The regulatory timetable consisted of one round of BCUC information requests (IRs) and a letter of comment submission period.

By Order G-290-21 dated October 8, 2021, the BCUC approved Stargas' requested commodity rate increase from $5.82 per GJ to $8.17 per GJ on an interim and refundable basis, effective November 1, 2021. Further, the BCUC directed that any variance between approved interim rates and permanent rates as determined at the time the BCUC renders its final decision on the Application will be refunded to or collected from ratepayers, with interest at the average prime rate of Stargas' principal bank for the most recent year.

By Order G-372-21 dated December 15, 2021, the BCUC established a further regulatory timetable for submission of Stargas' final argument.[8]

The BCUC received two letters of comment expressing opposition to Stargas' proposed rate increase.[9]

On January 10, 2022, Stargas filled its Final Argument.[10]

[8] Exhibit A-6, G-372-21.
[9] Exhibit A2-1; Exhibit E-1.
[10] Final Arguments – Second Final Argument on Commodity Rate Effective November 1, 2021.

2.0 Commodity Rate Increase

In the Application, Stargas seeks BCUC approval to increase its commodity rate from $5.82 per GJ to $8.17 per GJ, effective November 1, 2021. Stargas' proposed commodity rate is based on recovery of forecast natural gas commodity costs, transportation under FEI Rate Schedule (RS) 25, and to maintain Stargas' existing GCVA balance over the 2021-22 test period, as shown in Table 1 below.

Table 1: Breakdown of Proposed Commodity Rate (November 1, 2021 to October 31, 2022)

Rate Component	Forecast Amount to be recovered (a)	Forecast Volume** (GJ) (b)	Rate Calculation [11](a/b)
Shell Commodity Cost (c)	$256,434	48,395	$5.299/GJ
FEI Transportation Charges (d)	$138,760		$2.867/GJ
Commodity Subtotal (e) = (c+d)	$395,194		$8.17/GJ
GCVA Balance (f)	$106,148		N/A
TOTAL PROPOSED RATE* (e+f)			**$8.17/GJ**

** GCVA balance excluded from calculation due to transfer of balance to FEI's Midstream Cost Reconciliation Account.*
*** Includes allowance for unaccounted for gas.*

2.1 Forecast Commodity Costs

Stargas' proposed commodity rate of $8.17 per GJ includes recovery of Stargas' forecasts commodity and transportation costs, which consist of Shell commodity costs of $5.299 per GJ[12], and transportation charges of $2. 867 per GJ under FEI RS 25.[13] Based on these two components, Stargas forecasts total costs related to natural gas and delivery to be $8.17 per GJ.[14]

Letters of Comment

Two Stargas customers provided letters of comment, expressing opposition to the large commodity rate increase.

[11] Based on 48,395 GJ delivery volume.
[12] Exhibit B-1, Attachment "Exhibit B-2".
[13] Ibid.
[14] Based on a forecast delivery volume of 48,395 for the year ending October 31, 2022.

Panel Determination

The Panel finds the forecast natural gas and transportation costs used to calculate Stargas' forecast commodity costs of $8.17 per GJ reasonable. The Panel considers that the commodity cost forecast provided by Stargas to be supported by appropriate third-party estimates,[15] and notes that the forecast transportation costs under FEI RS 25 are based on BCUC-approved rates.

While two Stargas customers expressed concern about the commodity rate increase, the Panel considers that Stargas' actual commodity costs are based on appropriately supported commodity forecasts. Further, commodity costs are recovered from ratepayers on a flow-through basis with no additional mark-up. While the Panel acknowledges the significant increase in commodity rates, the alternative of a lesser rate increase would invariably result in Stargas' GCVA to increase accordingly. In addition, the utility would incur further incremental carrying costs of maintaining a deficit GCVA balance, which would likewise need to be recovered from customers in due course. The Panel considers this scenario to be unfavourable.

2.2 Recovery of Gas Cost Variance Account (GCVA) Balance

The GCVA accumulates the variance between the actual costs that Stargas incurred in purchasing the commodity and the amount recovered from ratepayers through its commodity rates. Historically, Stargas has reviewed its forecast gas cost and GCVA balance annually, with the intention to set commodity rates that would reduce the GCVA balance to zero by the end of the year.

In its decision with respect to Stargas' previous commodity rate application, the BCUC accepted Stargas' calculation of its GCVA and considered that the GCVA balance of $59,641 represented the actual amount of recoverable commodity related costs incurred by Stargas which have not been recovered from ratepayers through commodity rates.[16] However, due to the large incremental rate increase proposed in the previous commodity rate application, the BCUC denied Stargas' request to amortize the GCVA balance over a 12-month period by including a $1.24 per GJ rate rider in the proposed commodity rate.[17]

In this current application Stargas submits that, as of October 31, 2021, a deficit of $106,148 had accumulated in its GCVA.[18] Stargas did not propose a mechanism to recover the GCVA deficit balance. When asked about alternative GCVA recovery mechanisms, Stargas stated it would present alternative mechanisms in an application to the BCUC if the sale of its operations to FEI were to collapse.[19]

In its Final Argument, Stargas states that FEI agreed to absorb Stargas' deficit GCVA balance in the final purchase price which will be included within FEI's commodity cost deferral account.[20] Stargas states that commodity costs recoverable or refundable under the approved interim rate of $8.17 will be only for the period from November 1, 2021 to the closing date of the asset transfer to FEI.

[15] Indicative natural gas price estimates provided by Shell Energy North America.
[16] Order G-133-21.
[17] Ibid.
[18] Exhibit B-1, Attached "B-2".
[19] Exhibit B-2, Response to BCUC IR No1, p. 2.
[20] Final Argument, p. 2.

Panel Determination

The Panel approves Stargas' methodology used for the calculation of the GCVA balance deficit of $106,148 as of October 31, 2021.[21] The Panel considers that the GCVA balance represents the actual amount of recoverable commodity-related costs incurred by Stargas, which have not been recovered from ratepayers through commodity rates. The Panel notes that Stargas has not applied to recover any portion of the current GCVA deficit which accumulated prior to October 31,2021 in its commodity rate application. The Panel acknowledges FEI has agreed to absorb the GCVA deficit balance in its purchase of Stargas' assets at the closing date of sale. [22] However, the asset purchase agreement as approved by the BCUC indicates that FEI will absorb any regulatory accounts which have been approved by the BCUC at the time of the closing date.

The Panel denies Stargas' request to refund to or collect from customers any variances that would result from the actual versus forecasted commodity costs in the period from November 1, 2021 to the date of sale. While Stargas has provided updated evidence in its Final Argument related to the amount of this variance, this evidence has not yet been subject to information requests from BCUC. The Panel has found that the current GCVA balance represent prudently incurred costs and has approved the forecast commodity costs. Therefore, in the ordinary course, any variances between forecasted and actual commodity costs incurred are captured in the GCVA for recovery from or refund to customers. The Panel finds Stargas has not provided sufficient justification for why the approval of Stargas' assets transfer to FEI warrants a change to the mechanism. If the transfer of assets from Stargas to FEI is not completed, Stargas customers would otherwise be required to reduce the deferral account through the Stargas commodity rate charge. Therefore, any over or under recoveries for the period November 1, 2021 to the closing date of the asset transfer should be added to the GCVA deficit balance instead of being returned to or collected from Stargas customers.

Additionally, this approach is expected to reduce the administrative burden required to collect from or refund to customers any variances that may arise before the asset transfer concludes as a result of Stargas' GCVA being wholly transferred to FEI's Midstream Cost Reconciliation Account. Further, this would reduce the regulatory burden associated with additional reporting to the BCUC as result of these activities.

[21] Ibid.

[22] Final Argument, p. 2.