



**ORDER NUMBER
G-172-16**

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

and

Superior Propane Rate Application
for Seascapes Grid System

BEFORE:
H. G. Harowitz, Panel Chair/Commissioner

on November 28, 2016

ORDER

WHEREAS:

- A. On February 17, 2016, Superior Propane filed with the British Columbia Utilities Commission (Commission) a rate application for the Seascapes grid system seeking approval of its tariff and changes to its rate schedule (Application);
- B. On August 7, 2015, by way of Order G-133-15, the Commission determined that Superior Propane meet the definition of a public utility under section 1 of the *Utilities Commission Act* (UCA) for its operations at the Seascapes Development. Its current rates were approved as interim effective August 7, 2015, with the difference between the interim rate and permanent rate subject to adjustment with short-term interest;
- C. By way of Order G-133-15, Superior Propane was also directed to file an application for approval of rates or a rate methodology for its utility service;
- D. In the Application, Superior Propane requests, among other things, approval to change its basic charge, facility charge, and approval for its gas tariff;
- E. By Order G-21-16, the Commission established a regulatory timetable for review of the Application, which included one round of information requests;
- F. On March 9, 2016, Seascapes Strata Council applied for intervener status in this proceeding;
- G. Commission Order G-56-16 established further process including a second round of information requests;
- H. Superior Propane and the Seascapes Strata Council submitted their final arguments on August 2, 2016 and August 12, 2016, respectively;
- I. Seascapes Strata Council filed an additional submission on August 31, 2016 seeking Commission approval to make the existing interim rates permanent, until such time as the Commission issues its decision on this proceeding;
- J. Superior Propane filed its reply argument on September 20, 2016;

- K. The Commission has considered the Application, evidence and submissions of the parties and determines that approval is necessary.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act*, and for the reasons set out in the Reasons for Decision (Reasons), attached as Appendix A to this order, the British Columbia Utilities Commission orders as follows:

1. Superior Propane's revenue requirement for 2016 is established at \$75,293.
2. Superior Propane's rate structure is approved:
 - a. the Basic Charge shall be \$18.00 per month; plus
 - b. the Facilities Charge calculated as 25.71440 cents per litre.
3. The cost of propane shall be calculated, without markup on any of the components immediately following, as the sum of:
 - a. the commodity price based on the 15th of the month posted at Superior Gas Liquids; plus
 - b. the Secondary Freight charge of 2.09285 cents per litre; plus
 - c. a Propane Variance charge of 2.02389 cents per litre.
4. Superior Propane's future rates beyond 2016 will be established using the Vancouver, BC Consumer Price Index (CPI) and subject to the specific mechanism outlined in the Reasons for Decision.
5. Superior Propane's gas tariff representing the Terms and Conditions of service for its operation at the Seascapes Development is approved, with the proviso that Superior Propane shall not place a markup on parts and labour.
6. The Commission accepts the supply agreement with Superior Gas Liquids filed in this Application, to be in accordance with section 71 of the UCA.
7. Superior Propane is required to submit a filing within 45 days of this order, outlining:
 - The final calculations in respect of revenues variance from customers, by virtue of the differences between the interim and permanent rates for 2016;
 - Superior's proposed timing and method for billing and/or refunding the above under or over-recovery of revenues; and
 - A report pursuant to Section 5.2 of the Reasons, outlining the proposed rates for 2017.
8. Superior Propane must comply with the annual reporting requirements as set out in Section 7.3 of the Reasons for Decision.

9. Superior Propane is directed to comply with all other directives identified in the attached Reasons for Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 28th day of November 2016.

BY ORDER

Original signed by:

H. G. Harowitz
Panel Chair/Commissioner

Attachments



British Columbia
Utilities Commission

IN THE MATTER OF

**Superior Propane
Rate Application for Seascapes Grid System**

REASONS FOR DECISION

November 28, 2016

Before:

H. G. Harowitz, Panel Chair/Commissioner

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ATTACHMENT A - L-45-15_BCUC-PUBLIC-UTILITIES-ANNUAL-REPORT-REQUIREMENTS

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1.0 INTRODUCTION

This Superior Propane Rate Application for Seascapes Grid System (Application) pertains to setting rates for provision of service by Superior Propane (Superior) at Seascapes, a 100 townhome development in North Vancouver, where propane is provided for furnaces, hot water tanks, ranges, fireplaces, and barbeque outlets. On September 9, 2004, Superior and Seascapes Development Ltd. entered into an agreement whereby Superior would install a propane grid distribution system and storage tank for liquefied propane and supply propane to the development for a period of 15 years.¹

Superior is a Canadian company with headquarters in Mississauga, Ontario and is part of the Energy Services division of Superior Plus LP, and provides distribution, wholesale procurement and related services in relation to propane, heating oil and other refined fuels throughout Canada and the north eastern United States. In the pacific region, Superior provides retail propane and technical service to over 20 thousand customers in various business sectors throughout BC, the Yukon and the Northwest Territories. Superior's operation related to the Seascapes propane distribution system is conducted through its pacific region office in Delta, BC and through the National Operations Center in Guelph, Ontario.

Superior's pacific region is reported to include 150 employees, 60 delivery trucks and 30 service trucks operating in its 8 markets. In addition to the Seascapes propane grid, Superior's pacific region owns and manages thousands of propane storage tanks and cylinders located on customer sites throughout the region.²

1.1 Background

On February 26, 2014 and March 25, 2014, the British Columbia Utilities Commission (Commission received complaints from the Property Manager and a resident of Seascapes regarding propane services supplied by Superior.

On August 7, 2015, following a hearing process, the Commission issued Order G-133-15, and determined that Superior is a public utility as defined in section 1 of the *Utilities Commission Act* and is therefore providing a regulated service of delivering and selling gaseous propane to the strata development property at Seascapes. Order G-133-15 also established interim rates and stipulated that Superior was to apply to the Commission for approval of permanent rates within 30 days of the order, and provide a tariff binder including terms and conditions of service and schedules of fees within 45 days of the order (i.e. both filings due by no later than September 30, 2015).

1.2 The Application and Regulatory Process

Pursuant to Order G-133-15, Superior filed its rates application to the Commission for its operations at Seascapes on February 17, 2016.

On March 9, 2016, Seascapes Strata Council (Seascapes Strata) applied for, and received subsequent Panel approval for intervener status in this proceeding.

February 23, 2016, the Commission issued Order G-21-16 establishing a Regulatory Timetable for review of the application which included one round of information requests (IRs) from both the Commission and Seascapes Strata.

¹ Exhibit B-1, p. 1.

² Ibid.

On March 30, 2016, Superior sought an extension for filing its IR1 responses, which was granted by the Commission in its letter dated March 31, 2016. On April 29, 2016, the Commission issued Order G-56-16 which established a further review process, including a second round of IRs and then submissions from all parties on further process. On May 26, 2016, Superior sought an additional extension for its response to IR2. This second extension was granted by the Commission in its letter dated June 2, 2016, along with an extension to the submission process.

By Order G-115-16, the Commission established the timing for final and reply arguments for the proceeding. A third extension was sought by, and granted to Superior with respect to its reply argument which was subsequently received by the Commission on September 2, 2016.

1.3 Approvals sought and Issues Arising

Superior's Application consists of a review of its operations to service the Seascapes grid system including commodity, administrative, and overhead support costs for the system. Superior submits that its proposed rate structure is fair to the residents of Seascapes, is a true reflection of Superior's operating costs, and provides an equitable rate of return for the utility.³

Superior states that it has completed an analysis on its Seascapes operations and is proposing an updated rate structure because the current rate structure does not accurately reflect the cost associated with operating the Seascapes grid.⁴

The Application seeks, among other things, approval for:

- the base level costs of service and resulting rates and rate structure for 2016;⁵
- a deemed capital structure and a weighted average debt and equity rate of 9.5 percent;⁶
- a 2016 capital rate base of \$266,195;⁷
- cost of propane based on the formula as outlined on page 3 of the Application, including secondary freight charges for propane distribution and a markup for margin;⁸
- amortization of legal expenses (\$184,748 amortized over 10 years) incurred as a result of moving from contract arrangement to a rate regulated model;⁹ and
- Superior's gas tariff and general terms and conditions of service.¹⁰

A review of the application, evidence and arguments on the record gives rise to the following issues:

- Establishing the mechanism for setting rates.
- Setting the initial delivery rate;

³ Exhibit B-1, p. 1.

⁴ Exhibit B-1, p. 4.

⁵ Exhibit B-1, pp. 4, 5.

⁶ Exhibit B-1, p. 14.

⁷ Ibid.

⁸ Exhibit B-1, pp. 3, 4 and 16.

⁹ Exhibit B-1, p. 11.

¹⁰ Attachment to Superior Reply Argument.

- revenue requirements,
- rate structure (use of Basic Charge and Facility Fee).
- Setting the initial Cost of Energy rate.
- Establishing rate adjustment mechanisms;
 - interim versus permanent rates for 2016,
 - adjustments for future years.
- Approving the gas tariff and general terms.
- Reporting requirements.

These issues will be addressed sequentially in the following sections.

2.0 RATE SETTING MECHANISM

In its Application, Superior proposes a rate setting mechanism based on its estimated cost of providing service. When asked about the considerations of any other rate setting mechanisms, Superior responded that it considered cost of service was the most appropriate method to calculate its allowed return.¹¹

Superior presents a breakdown of costs in section 4.2 of its Application, in support of a total revenue requirement of \$133.7 thousand,¹² set out in the first column of Table 1 below.¹³ Over the course of the proceeding, up to and including their reply argument, Superior provided a number of revisions to the original cost schedule including: response to Commission and/or intervener IRs, response to intervener argument, Superior's own further reflection/analysis. In as much as Superior did not supply a revised schedule that outlined its final position, the Panel compiled its best understanding of Superior's final cost schedule (set out in column two of Table 1, below).

¹¹ Exhibit B-4, BCUC IR 1.20.1.

¹² Exhibit B-1 p. 5.

¹³ The line item numbers in Table 1 and subsequent Tables correspond to the line item numbers in Superior's initial submission. The Table begins at line item #5 because the prior line items contain revenue values and not cost items.

<u>Table 1 - Revenue Requirements</u> <u>A comparison of various submissions</u>			
<u>Line Item # and Description</u>	<u>Superior's Original</u>	<u>Panel compilations</u>	
		<u>Superior's Final Estimates</u>	<u>Seascapes Strata's proposal</u>
5 Meter testing and change out	2,700	1,200	-
6 Grid / tank maintenance	1,150	1,150	1,150
7 Vaporizer rebuild	2,700	-	-
8 Leak detection	1,877	1,100	-
9 BC One Call	455	455	-
10 BC Safety Authority	50	-	-
11 Insurance	22,500	22,500	-
12 Propane variances	4,226	4,226	-
13 Operating costs - other	151	151	151
14 Annual meter reading	4,500	4,500	2,250
15 Billing/Pricing administration	6,250	6,250	"less"
16 Office overhead	8,352	8,352	"less"
17 Interest: rate base and working capital	9,371	4,791	8,827
18 Local office utilities	209	209	209
19 Local office telephone, fax	538	538	538
20 Postage and courier	3,600	3,600	1,200
21 Accounting/business services	6,000	15,000	3,000
Carrying costs on deferral of line 21	-	-	600
22 Legal/consulting fees	5,100	5,000	2,500
23 Bank charges	120	120	120
24 Credit card charges	1,091	1,104	-
25 Amortization of legal	18,475	21,134	-
26 Bad debt expense	100	100	100
27 BCUC Fees	-	3,100	3,100
Total operating costs	99,520	104,580	23,745
28 Depreciation expense	8,873	8,873	8,603
29 Taxes other than income tax	-	-	-
Total cost of service	108,393	113,453	32,348
30 Income Taxes	-	18,355	-
31 Allowed return on investment	25,289	11,760	10,754
Total revenue requirement	133,682	143,568	43,102

Seascapes Strata argues that Superior's cost estimates are deficient in numerous areas, providing specific comments in Sections 2.2 and 3.0 of its final argument. In the absence of Seascapes Strata having consolidated the net result of their concerns into a summary table, the Panel compiled its best understanding of Seascapes Strata's final position on each line items set out in column three of Table 1.

Seascapes Strata further submits that, given the nature and magnitude of the significant shortcomings in Superior's estimates, the cost of service model as filed by Superior should not be relied upon by the Commission as a reliable method for establishing rates, and should be utilized for guidance only¹⁴.

Seascapes Strata puts forward an alternative model for setting rates, based on the actual historical rates levied by Superior with a set of adjustments thereto. Seascapes Strata asserts that since Superior was free to set its own rates over the 2011 to 2015 period, it is reasonable to infer that the rates charged accurately reflected Superior's true costs. Seascapes Strata then argues for using the average of 2014 and 2015 actual charges as the base, and then sets out a number of proposed adjustments (some increases and some decreases) to budget line items contained in Superior's initial submission, including: capitalization and depreciation of new meters; leak detection; accounting services; postage and courier; and credit card fees.¹⁵

In reply to the Seascapes Strata method, Superior comments that it had not previously captured the true cost of providing service in its prior rates and hence the average of the past two years is not an appropriate benchmark. Superior further argues that the Seascapes Strata proposal is unsubstantiated by analysis and is not a proper method for establishing rates.¹⁶

Commission determination

The Panel accepts Superior's request to establish rates on the basis of its estimated cost of providing service.

The Panel is also not persuaded that the alternative model put forward by Seascapes Strata provides a solid foundation upon which to establish rates. By way of general comment, the framework is without precedent, and while lack of precedent does not in and of itself preclude the Panel from adopting the model, it does provide a strong cautionary note. Furthermore, the Seascapes Strata proposal has shortcomings of its own. First, the Panel agrees with Superior that prior historical customer billings are not a de facto reflection of actual costs incurred, and therefore do not constitute a solid footing upon which to set the base level. Second, the Panel is troubled by the fact that, while Seascapes Strata starts its position by referencing the historical rates charged over the 2011-2015 period, it then suggests that 2011-2013 data should be left out of the base (producing a much lower average than if the 2011–2013 data were included). Finally, the Seascapes Strata model is internally inconsistent in that it argues for rejection of a cost of service approach and then proceeds to make cost of service adjustments to its base level.

More to the point, the Panel considers the method of setting rates based upon best estimates of the cost of providing service to be an established and robust framework. As more fully elaborated upon in the next section the Panel is troubled by both the lack of detailed justification for the cost estimates, and the large disparity of opinion as to what costs and magnitudes are reasonable for inclusion in the base costs. That said, while these problems make it more challenging to arrive at final cost numbers, they do not establish a case for rejecting the framework itself.

¹⁴ Seascapes Final Argument, p. 29.

¹⁵ Seascapes Argument, pp. 31-32.

¹⁶ Superior Reply Argument, p. 2.

3.0 DELIVERY RATES

Having established that a method based upon the estimated cost of providing service is the framework for establishing rates, attention can be turned to two aspects of rate setting: determining what costs are included, and what rate mechanism will be used to recover these costs.

3.1 Revenue Requirements

This section addresses each line item in the cost schedule provided by Superior. Preceding that treatment however, the Panel chooses to provide some general overarching observations that have also factored into the determination of allowed costs.

As noted in the prior section, Superior made a number of adjustments and corrections to its cost estimates in its IR responses, its final argument, and even in its reply argument. This practice has significantly reduced the Panel's confidence that Superior has a firm and accurate grasp of all aspects of its actual cost information, and ultimately the accuracy of the estimates provided. Further to that point, while the Panel rejects Seascapes Strata's argument that the last two years' actual billings are determinative of actual costs, the significant disparity between Superior's actual historical charges and their submitted cost estimates, do in some measure undermine the Panel's confidence in those estimates.

The Panel is also frustrated by Superior's failure in a number of instances to provide reasonable responses to requests for information that facilitate examination of various cost items. Notable examples include:

In pursuit of information to substantiate the estimate for Office overhead (line 16), BCUC IR11.1 and IR11.2

"11.1 What are the cost drivers (i.e. headcount, sales volume, number of customers etc.) for the cost pools included in office overhead? Please discuss.

Superior Propane's Response: The cost drivers for the office overhead include employee headcount, customer count and sales volume."¹⁷

"11.2 Please explain how the volumetric rate per liter for office overhead on a national basis was determined and why it is an appropriate allocator to use for Superior Propane's Seascapes Grid System."¹⁸

No reply was provided to this IR.

In pursuit of information to substantiate meter reading costs, Seascapes Strata IR9.4

"Please confirm that Seascapes meters are grouped by building with duplexes having 2 meters in one place and quad units having either 2 or 4 meters in one place. Please confirm there are 10 quad units and 30 duplex units and the number of stops to read meters is approximately 45.

Superior Propane's Response: Superior Propane confirms that there is one meter per unit at the Seascapes site."¹⁹

¹⁷ Exhibit B-4, p. 14.

¹⁸ Exhibit B-4, p. 14.

¹⁹ Exhibit B-6, p. 9.

In pursuit of information on markup over cost on parts and materials, BCUC IR42.3

“In BCUC IR 27.2, Superior Propane was requested to confirm whether materials (referenced in other service charges as “plus materials”) would be charged at cost to Seascapes customers, and to provide a rationale if it is not charged at cost. In response, Superior Propane stated there will be a “nominal markup of 15% on parts and materials,” however no rationale was provided. Please explain why the parts and materials are not being charged at cost to Seascapes Customers.

Superior Propane’s Response:

Superior Propane’s minimum standard markup on parts and materials is 15% on cost.”²⁰

The Panel also takes note of Superior’s repeated failures to meet deadlines, both for the initial filing of this Application and on numerous occasions during this proceeding. While these delays do not speak directly to accuracy, they do call into question Superior’s performance within the regulatory framework, which tempers the Panel’s willingness to give Superior the benefit of the doubt where the data estimates have little or no substantive backup.

All of which frames the Panel’s difficult task in arriving at a determination of the just and reasonable quantum of costs that should be fairly recovered in rates (fair to the ratepayers and also fair to the utility).

Turning to the specific line items in the cost estimates, the Panel notes that there are a number of line items where Superior’s estimates have not been challenged/disputed by Seascapes Strata. The Panel has reviewed these line items, and considers the following values acceptable for inclusion in the base costs, per the table immediately below.

<u>Table 2 - Agreed Cost Items</u>		
<u>Line Item # and Description</u>		<u>Cost</u>
6	Grid / tank maintenance	1,150
7	Leak detection	-
10	BC Safety Authority -	-
13	Operating costs - other	151
18	Local office utilities	209
19	Local office telephone, fax	538
23	Bank charges	120
26	Bad debt expense	100
29	Taxes other than income tax	-

The remainder of this section deals with those line items in Table 1 where there is disagreement, and/or where the Panel has determined a final value different from Superior’s requested amount.

As more fully set out in Section 5.2 of these Reasons for Decision, the Panel has established a light handed approach for setting rates in future years that relies on an inflation adjustment as opposed to successive rate filings to recalibrate cost estimates on a line by line basis. Thus, there are cases where a specific line item discussion (below) is tempered by looking at averaged costs and/or spreading costs over a period of years.

²⁰ Exhibit B-11, p 17.

5 – Meter testing

Superior suggests a program to swap out meters over the course of time, based on an expected ten year life for meters. In final argument, Superior revises its estimate for annual costs of this program from \$2,700 per year to \$1,200 per year, since the costs of the meters moved to capital rate base, leaving only \$1,200 in line item #5 for installation.²¹ Seascapes Strata argues that all costs associated with meter replacement should be capitalized into rate base and recovered through rate of return on rate base.²²

The Panel agrees with Seascapes Strata that all costs associated with meter replacement should be treated as capital. The Panel also considers the labour costs to complete the physical installation are part of the capital costs, and therefore the allowed value in line 5 is adjusted to zero. The necessary adjustments to capture these costs in rate base and depreciation are addressed in the relevant subsections below.

8 – Grid mapping and leak detection

Superior has modified its estimate for this line item by removing an allowance for grid mapping, leaving only leak detection costs at \$1,100.²³

Seascapes Strata argues that, while it is certainly in support of leak detection if/as needed to maintain a safe system, it questions the appropriateness of this cost item on the basis that: Superior has provided no justification for the requested budget amount; and that leak detection activities could easily be accomplished in conjunction with other on-site activities at minimal cost.

Superior states that leak detection is scheduled annually and conducted by a third party. Costs for the last (2015) inspection were \$1,100.²⁴

The Panel accepts Superior's plan for annual inspection as a reasonable operating decision, and accepts the \$1,100 as a fair reflection of expected costs.

9 – BC One Call

Superior submits a budget of \$455 to cover anticipated BC One Call charges.

In response to questions on historical frequency for calls to Seascapes in particular and Superior's operations in general, Superior replied that it is not aware of any callouts to Seascapes over the past five years, and does not keep any historical records for such calls (either at Seascapes or system-wide).²⁵

The Panel considers the absence of any backup justification for this budget item to be a material failing, and therefore excludes this amount from the 2016 revenue requirements.

²¹ Superior Argument, p. 3.

²² Seascapes Argument, p. 17.

²³ Superior Final Argument, Table B.

²⁴ Exhibit B-6, Seascapes IR 1 reply, p. 6; Superior Reply Argument, p. 9.

²⁵ Exhibit B-4, p. 10.

11 – Insurance costs

Superior submits that it has otherwise self-insured, but now that Seascapes is a regulated entity and must be treated as if it exists on a stand-alone basis, a cost of insurance is appropriately included in its cost estimate. Superior further submits that it has obtained a quote from a third party (Zurich) for \$22,500.²⁶

Seascapes Strata's position is that this cost should be excluded, arguing that "for reasons of its own, Superior has decided that it will try to move away from this efficient practice [of self insurance] in the case of Seascapes and attempt to require Seascapes to pay for this coverage... If Superior has deemed it appropriate to self-insure for an amount for its customers this should also apply to Seascapes residents."²⁷

The Panel accepts Superior's position. As an unregulated entity, it was solely up to Superior to assume whatever risks it so chose, and to determine if/how it would try to recover insured premiums and/or uninsured losses from customers. However, as a regulated utility, the 'rules of the game' change significantly: Superior is entitled to put in place insurance that protects ratepayers against major losses, and recover those insurance premiums from ratepayers. The Panel understands Superior's position to be that it intends to continue to self-insure up to \$250,000 per incident, and presented the Zurich quote as a proxy for the value of that self-insurance. The Panel is satisfied that the quote from Zurich is a reasonable basis upon which to establish the imputed value of the insurance coverage, and therefore approves the \$22,500 amount for this line item.

For added clarity, the Panel's determination that insurance premiums are recoverable from ratepayers is predicated upon the Panel's view that in the event there are any future losses that would be covered by this insurance (regardless of whether Superior uses a third-party insurer or relies on self-insurance) those losses would be borne entirely by Superior shareholders and not recoverable from Seascapes ratepayers.

12 – Propane variances

Seascapes Strata argues that propane variances are more appropriately recovered as a component of cost of gas, and should be reclassified accordingly.²⁸

The Panel agrees, and has reclassified this item, from a component of operating costs to a component of the cost of gas. Panel discussion of the appropriateness of the volume and dollar estimates can be found in the section 11 of these Reasons for Decision dealing with cost of gas.

14 – Annual meter reading

Superior submits that meters are read monthly, requiring five hours per month. Superior states that the technician "reads the meters, inspects the meters, checks the propane tank and checks the valves on a monthly basis. The technician also conducts a walk-through of the entire Seascapes site."²⁹

²⁶ Exhibit B-1, p. 8.

²⁷ Seascapes Argument, p. 21.

²⁸ Seascapes Argument, p. 22.

²⁹ Exhibit B-1, p. 9.

Seascapes Strata argue that the cost estimates are inflated, and should be adjusted downwards by 50 percent. Their key points are: meters could/should be read every second month instead of monthly; five hours seems excessive to perform the function based on travel times and expectations to walk the entire site; and some of the time may be double counted (e.g. Superior acknowledges that propane delivery staff may be conducting some of the readings).³⁰

The Panel provides the following comments on this budget item.

- With regard to monthly readings, while Seascapes Strata may prefer bimonthly readings, the Panel considers Superior's practice of monthly readings to be entirely within limits of reasonable business practices.
- As to the estimate of hours per visit, the Panel does not accept Superior's allowance of five hours per visit. While not the singular determining factor in reaching this position, the Panel takes note of Superior's non-responsive reply to Seascapes Strata's IR on meter clustering (cited above), as it relates to required time to read the meters once on site. The Panel agrees with Seascapes Strata that one hour on site is ample. The Panel does not, however, agree with Seascapes Strata's position that a trip dedicated singularly to visiting Seascapes is a "worst case" scenario, but rather a reflection of what would be the business practice that treats Seascapes as a stand-alone utility. An allowance of one hour for travel in each direction is reasonable, and thus the Panel therefore considers an allowance of three hours per visit as acceptable, resulting in an annual allowance of 36 hours.
- As to the possibility of double-counting hours (i.e. time on site spent by a meter reader and propane delivery worker), the Panel provides its comments on this issue in the section that examines cost of gas.
- As to the dollar value attached to that allowance, the Panel notes that the implicit labour rate attached to Superior's submission is \$75/hour (\$4,500/60 hours). In contrast, Appendix A of Superior's Application relating to propane delivery costs indicates a labour cost of \$39.90 per hour for delivery personnel (annual delivery labour costs of \$2,873 divided by 72 annual delivery hours).³¹ Given Superior's acknowledgement that meter readings are, on occasion, conducted by someone delivering propane³² the Panel considers the \$39.90 rate for delivery personnel, to be an appropriate rate for meter reading personnel. Applying this rate to the annual allowance for meter reading of 36 hours produces a labour cost of \$1,436. Superior, in the same Appendix A, also provides a round trip distance (from base to Seascapes and return) of 120Km. Applying this distance, grossed up by 12 trips, suggests a reasonable allowance for travel costs of \$868 per year (\$792 for mileage at a standard rate of \$0.55 per km; and \$76 for Port Mann bridge tolls based on small vehicle toll rates). Combining travel costs with labour costs, the Panel finds that the acceptable budget estimate for annual meter reading is \$2,304 (\$1,436 + \$868).

15 – Annual billing/pricing administration

Superior notes that a unionized administrator is responsible for Seascapes customer billing as well as a range of ancillary services, and submits a budget of \$6,250 for this work.³³

³⁰ Seascapes Argument, p. 23.

³¹ Exhibit B-1, p. 16.

³² Exhibit B-6, IR 1.9.3, p. 9.

³³ Exhibit B-1, p. 9.

Seascapes Strata argues that it cannot meaningfully assess/critique this estimate, as Superior has provided no detail on actual time spent by this individual on Seascapes activities. Seascapes Strata also asserts that some of the functions noted by Superior in justifying their cost estimate are directly recoverable under the proposed Terms and Conditions. While not proposing its own alternative value for this line item, Seascapes Strata argues that Superior's number "is inflated and should not be accepted."³⁴

In line with Seascapes Strata's critique on the lack of backup justification, the Panel considers Superior's submitted budget as a general estimate rather than precise accounting of its cost structure. The Panel is therefore concerned that this general estimate may be inflated (intentionally or otherwise) for the reasons put forward by Seascapes Strata. The Panel also notes that, based upon the \$24.46 hourly rate for a Clerk 1 (set out in Appendix C of the Application),³⁵ Superior's budget implies just over 20 hours per month dedicated to this function (\$6,250 divided by the rate, divided by 12 months). Left to rely only on the limited information provided, the Panel considers this time allocation to handle billing administration for only 100 customers to be higher than required, and that somewhere in the range of two working days per month is reasonable. Based on the limited information in evidence, the Panel's best judgment of an acceptable amount for this budget item is therefore 75 percent of Superior's estimate, equalling \$4,690.

16 – Office overhead - computer systems, web portal, office facilities

Superior characterizes this cost line as an allocation of office overhead for computers, web portal and national office facilities. It has applied a volumetric (consumption) allocation approach to arrive at a cost of \$8,352.

Seascapes Strata argues that "this is another example of Superior allocating a cost to Seascapes residents with no evidence to support it."³⁶ In making its case, Seascapes Strata cites Superior's non-response to IR 11.2 asking for a rationale for the volumetric approach, and Superior's response to BCUC IR 11.3, which indicates that this volumetric approach is not used by Superior with other customers in British Columbia.

The Panel agrees with Seascapes Strata that Superior has failed to provide a reasonable justification for the dollar value for this line item. That said, as agreed by Seascapes Strata in their argument, Superior is entitled to recover some overhead costs. In the absence of Superior having provided any useful detail that could be used to reasonably establish an overhead charge, the Panel has relied on its best judgement that allowable costs for this line item shall be adjusted to 80 percent of the applied for amount, resulting in a figure of \$6,682.

17 – Rate base interest and working capital interest

Returns on debt and equity are inextricably interrelated. Thus, the Panel's treatment of allowed rate base, allowed debt/equity ratios, allowed rates of return on both debt and equity, and determination of allowed values is presented in its entirety in this section.

³⁴ Seascapes Argument, p. 24.

³⁵ Exhibit B-1, p. 20.

³⁶ Seascapes Argument, p. 24.

Rate base

Superior, in reply argument, corrected its initial statement of rate base to adjust for accumulated depreciation, thus restating rate base from \$266,195 to \$174,223.³⁷ Superior further sets out non-cash working capital requirements of \$21,648, that would also attract a weighted cost of capital return.³⁸

Seascapes Strata argues that the rate base should be reduced by a further \$13,500 to account for the developer contribution.³⁹ On a separate point, Seascapes Strata argues that since Superior has stated that the basic charge is meant to recover a portion of the fixed cost of the grid, Basic Charge payments to date are a valid indicator of accumulated depreciation, and hence the rate base should be adjusted (downwards) accordingly.⁴⁰

The Panel agrees with Seascapes Strata that the rate base should be adjusted to account for the contribution of \$13,500, as this goes to offset Superior's initial capital outlay. The adjustment to the rate base must make an allowance for the accumulated depreciation to date on that contribution. The Panel estimates the allowance for depreciation at \$5,060, and thus the net reduction to rate base at \$8,440.

The Panel does not agree with Seascapes Strata's argument in respect of the Basic Charge being a proxy for depreciation: that argument hangs on a choice of wording relating to the Basic Charge and not on an accounting treatment of book depreciation.

Turning to the issue of meter replacement, given the Panel's determination that these costs are appropriately treated as capital, further adjustments to the rate base are required. The Panel notes that while Superior has, in argument, revised downwards its allowance on meter reading (line 5) by \$1,500, and "moved them to the Capital Rate Base",⁴¹ the Panel can find no indication that Superior then actually adjusted its rate base estimates to account for this move (i.e. the undepreciated value for capital has not changed from the amount presented in the initial application). The required adjustment to rate base must therefore take account of the full \$2,500 per year (i.e. as opposed to only adjusting for the \$1,200 disallowed in the section on meter costs). Over five years, the cumulative capital additions are projected at \$12,500. Adjusting for the depreciation on these additions to rate base (more fully explained below in the section on depreciation), the average change to the capitalized rate base is reduced to \$5,188.

Therefore, the Panel determines that the correct rate base is \$170,971 (\$174,223 - \$8,440 + \$5,188).

³⁷ Superior Reply Argument, p. 1.

³⁸ Exhibit B-1, p. 14.

³⁹ Exhibit B-6, IR 11.7, p. 12; Seascapes Argument, p. 7.

⁴⁰ Seascapes Argument, p. 28.

⁴¹ Superior Argument, p. 3.

Capital structure and financing

Superior applied for a capital structure consisting of 55 percent debt and 45 percent equity, attracting annual rates of return of 5 percent for debt and 15 percent return on equity (ROE). Superior explains that the proposed debt/equity ratio is consistent with dialogue between the Commission and Superior in 2008.⁴² BCUC IRs asked Superior to provide further justification for the 15 percent ROE, as follows.

- 20.3.1 Please discuss why each of the proposed cost of debt and return on equity rates are appropriate for the Seascapes grid system.

Superior Propane's response: *These rates are a good representation of Superior Propane's cost of debt and cost of equity, therefore they are appropriate for the Seascapes Grid system which is owned and operated by Superior Propane.*

Superior Propane's current return on equity for new projects is 15 percent.

- 20.4 Is the Seascapes site considered a new project? Please explain.

Superior Propane's response: *The Seascapes site is not considered a new project as it was initiated in 2004.*⁴³

Seascapes Strata argues that the appropriate capital structure for Superior should align with the most recent Commission decision on Generic Cost of Capital (Order G-47-14, issued on March 25, 2014). Seascapes Strata argue that, based on similar size and purpose, thermal energy utilities are the most appropriate comparable as described in Order G-47-14. Thus, an appropriate capital structure is 57.5 percent debt and 42.5 percent equity, with rates of return of 5 percent for debt and 9.5 percent for equity.

Superior did not provide a response to Seascapes Strata's position with regard to debt/equity ratios and rates.

The Panel is not persuaded by Superior's justification of the proposed debt/equity structure or proposed ROE. With regard to the capital structure ratios, Superior provides a rationale that this ratio is consistent with prior dialogue with the Commission, but provides no evidence or documentation that anchors this assertion to any decision or opinion forthcoming from the Commission. As to the proposed rate of return, the Panel notes the significant disconnect between Superior's own comments that: 15 percent is used for new projects; and that Seascapes is not a new project.

The Panel agrees with Seascapes Strata's position. First and foremost, the Panel finds the references to Order G-47-14 to be both relevant and persuasive. Second, the Panel notes that Superior chose to remain silent on Seascapes Strata's position in final argument. Hence, the Panel sets the following framework for Seascapes: a capital structure of 57.5 percent debt and 42.5 percent equity, with rates of return of 5 percent for debt and 9.5 percent for equity.

⁴² Exhibit B-4, IR 20.2, p. 22.

⁴³ Exhibit B-4, p. 23.

Allowance for Interest and Equity return on rate base

In reply argument, Superior revised its calculations for annual returns on rate base to \$4,791 for interest and \$11,760 for equity.⁴⁴ This adjustment from the original values of \$9,377 (for interest) and \$25,289 (for equity)⁴⁵ is to correct for initially double counting the debt portion of the return,⁴⁶ as well as to reflect the correction to rate base to account for depreciation.

For the reasons outlined in the preceding comments on rate base and capital structure, the Panel does not accept Superior's estimates for returns on capital employed. Rather, by applying the determined capital ratios (57.5 percent debt/42.5 percent equity), and rates of return (5 percent debt and 9.5 percent equity) to the corrected total value for capital base (\$170,971) and working capital (\$21,648) yields \$5,538 for interest $((170,971 + 21,648) \times 0.575 \times 0.05)$ and \$7,777 for equity return $((170,971 + 21,648) \times 0.425 \times 0.095)$.

20 – Postage and courier

Superior uses a rate of \$1 per piece for mail, applied against three documents per customer per month to arrive at a cost estimate of \$3,600.

Seascapes Strata suggests that one consolidated bill per month makes more sense. Superior noted that it will look into the matter and pass on any savings in further rate applications, but cautioned that any savings generated may be offset by increased administration costs.

The Panel encourages Superior to investigate options for rationalizing costs in this area, but accepts the \$3,600 budgeted item as presented.

21 – Accounting/business services

Superior indicates that the principal driver of this cost estimate is the cost of Commission filings.⁴⁷ Superior has revised its estimate for this item from an initial value of \$6,000 to an updated estimate of \$15,000, based on 150 hours at \$100 per hour. It explains that hours spent by a team of individuals on this proceeding had already reached 100 hours at the time of filing IR1 responses, thus justifying an expectation of 150 hours total to reach completion of the proceeding.⁴⁸ Superior also estimates that expected costs for future years will be in the range of 20 hours per year, which equates to \$2,000 (at the \$100/hour charge-out rate).

Seascapes Strata argues that: the estimate of time to deal with this proceeding are excessive, particularly in light of the deficiencies in the Application and IR responses; that any amounts approved by the Commission for this year's regulatory filing should be spread over five years; and that \$1,000 is a more reasonable number for future years' costs.

⁴⁴ Superior Reply Argument, p. 1.

⁴⁵ Exhibit B-1, p. 5.

⁴⁶ Superior Argument, p. 3.

⁴⁷ Exhibit B-1, p. 11.

⁴⁸ Exhibit B-4, IR 15, p. 17.

The Panel agrees that the \$15,000 claim for this year is excessive. To begin with, the Panel considers \$100 per hour to be an excessive rate for all internal staff (an annualized value in excess of \$190,000 per year). Further, the Panel has also taken into account the general comments provided at the beginning of this section of the document regarding the manner in which Superior handled this application. Said another way, the sub-standard quality of the evidentiary record cannot justify a charge of \$15,000 for its preparation. The Panel allows \$11,250 for this exercise, which is appropriately spread over five years.

The Panel finds Superior's estimate of 20 hours per year in future years to be a reasonable guesstimate of future efforts, but will allow those hours at a more reasonable charge-out rate of \$75 per hour.

Combining these expected costs over five years produces a total cost of \$18,000 (\$11,250 in year one and \$1,500 per year in years two through five), which translates into an averaged charge of \$3,450 per year.

22 – Legal/consulting fees

Superior has estimated costs for 2016 at \$5,000, comprised of both legal and consulting resources, at \$2,500 each.⁴⁹ Historical values provided by Superior show costs of \$250 per year from 2011 through 2013, \$7,820 in 2014, and \$1,980 in 2015.⁵⁰ Superior notes that it expects costs will be lower in subsequent years, but in the absence of unknown future filing requirements cannot provide an estimate.⁵¹ Superior also indicates that it would be amenable to recouping legal costs over five years.⁵²

Seascapes Strata argues that costs incurred in pre-regulation periods should not be recoverable, for the same reasons put forward as a basis for excluding legal costs in line 25 (Amortization of Legal). Seascapes Strata concedes that some allowance for costs to support this Application is reasonable, but should be pared back from Superior's estimate: legal hours should only be required to review terms and conditions, and value received for consulting is called into question on the basis of the numerous errors uncovered in the course of this Application.⁵³

The Panel accepts Superior's estimates for professional service costs associated with preparing this Application and bringing the proceeding to a conclusion. As to Seascapes Strata's claim that value received for the consultant portion is called into question based on the quality of the submission, the Panel agrees that there is indeed a problem in this area. That said, any performance issues associated with the consultant's prior work may argue for Superior perhaps retaining a different consultant going forward, but does not argue for disqualifying costs already incurred in good faith. Thus, the \$5,000 value is accepted for inclusion in the base cost, to be amortized over five years.

Looking to subsequent years, in the absence of Superior providing any estimate, the Panel sets an allowance of \$1,000 per year as reasonable. Thus, cumulative costs over five years equal \$9,000 (one year at \$5,000 plus four years at \$1,000) averaging out to \$1,800 per year.

⁴⁹ Exhibit B-1, p. 11; Superior Argument, Table B, p. 3.

⁵⁰ Exhibit B-1, p. 5.

⁵¹ Exhibit B-4, IR 16.3, p. 18.

⁵² Exhibit B-4, IR 16.7, p. 19.

⁵³ Seascapes Argument, p. 27.

24 – Credit card charges

Superior submits in its Application that approximately 30 percent of its residential customers pay by credit card, at average transaction fees between 2 percent and 3.5 percent.⁵⁴ Superior explains that it has applied a 2 percent rate to 30 percent of revenue to arrive at its estimate of \$1,104.

Seascapes Strata argue that Superior should not spread the recovery of credit card charges across all costumers and/or should eliminate the use of credit cards altogether, which in either case removes this amount in its entirety from the revenue requirements.⁵⁵ Seascapes Strata further states that both BC Hydro and FortisBC Energy utilize third party payment systems for credit card payments, through which the payee bears the credit card fee directly.⁵⁶

Superior states that implementing a change to its payment systems specifically for its Seascapes customers is possible, but would entail significant costs.⁵⁷

The Panel agrees in principle with Seascapes Strata that credit card fees should ideally be born directly by those customers who wish to use this method of payment. That said, in light of Superior's existing corporate systems, the Panel is not convinced that the benefits of implementing such a change are not more than offset by the costs of doing so. Hence, the Panel accepts this line item value at \$1,104.

25 – Amortization of legal

Superior notes that its legal costs related to the move from a contract arrangement to a utility arrangement was \$184,748, which it requests to amortize over ten years at \$18,475 per year. Superior revised those figures in BCUC IR 16.0, to \$211,339 in total and \$21,134 per year.⁵⁸ When asked in IR 16 to specify which costs were incurred in which specific year(s) and for which specific proceeding(s), Superior provided no detail.

Seascapes Strata argues that Superior's legal costs should not be recoverable from ratepayers, since they related to a jurisdictional matter between Superior and the Commission and do not relate to providing service to the ratepayers. Seascapes Strata references a number of other proceedings that it believes the Panel should take into account in justifying its contention.⁵⁹

Superior replies that its costs were prudently incurred, and cites a set of precedents (different precedents than those cited by Seascapes Strata) that support its contention that these legal costs are recoverable from ratepayers.

With regard to the precedents put forward by both parties, the Panel considers the cited precedents to all be somewhat related to the matter at hand, but none of them to be directly on point. More specifically, they all deal with situations in which the legal costs have been incurred regarding an entity that is already regulated, whereas the matter before this Panel pertains to costs incurred by an entity prior to becoming regulated.

⁵⁴ Exhibit B-1, p. 11.

⁵⁵ Seascapes Argument, p. 32.

⁵⁶ Exhibit B-11, IR 10.

⁵⁷ Exhibit B-11, IR 10.1.

⁵⁸ Exhibit B-4, BCUC IR 16.4.

⁵⁹ Seascapes Argument p. 10.

In considering the eligibility of these costs, the Panel has identified two key issues. First, the review of the cost items is for the purpose of establishing rates to be charged to ratepayers on a prospective basis (i.e. from the date of the order setting the existing rates as interim rates), and is therefore concerned only with costs necessary to provide service to ratepayers from the date of the interim order. The disputed legal costs were incurred prior to the date of the interim order and are not related to the provision of service after the date of the interim order, and hence to allow for their recovery would be a violation of the principle against retroactive ratemaking. Second, these legal costs were not incurred for the purpose of pursuing a regulated activity, but rather for the explicit purpose of avoiding regulatory oversight in the first place, and there is no reasonable basis to allow costs incurred for that purpose to be passed on to ratepayers. Thus, the Panel finds that the legal costs are not eligible for recovery from ratepayer, and therefore the allowed amount for this line item is zero.

27 – BCUC fees

Superior has applied for \$3,100 in respect of BCUC fees, noting that this corresponds to actual invoices received (at time of filing its final argument) for 2016.⁶⁰

Seascapes Strata does not comment on this line item.

The Panel accepts the \$3,100 as an appropriate amount for recovery in respect of the current year, as these costs relate to the current application. That said, as more fully set out in Section 5.2 (below), Superior will not be filing similar applications in the years to follow, and will thus incur Commission costs in future years in line with the current levy system. More specifically, in accordance with Order G-82-16, the current year levy is “\$0.0152668 per GJ [gigajoule] equivalent of energy sold for the calendar year 2015.” Superior has sold 184,574 litres of propane in 2015, which converts to 4,723 GJ. This equates to an annual levy estimate of \$72 for the current fiscal period or approximately \$82 if the current levy was based on next year’s sales. Without knowledge of what the Commission levy will be next year, the Panel considers an allowance of \$100 to be a reasonable guesstimate for 2017. Thus, aggregate Commission levies over five years will be \$3,500 (year one at \$3,100 plus four years at \$100 per year). This works out to an average cost of \$700 per year for this line item.

28 – Depreciation expense

Superior has applied for depreciation expenses of \$8,873.⁶¹

Seascapes argues that the depreciation expense should be reduced by \$450 per year to account for the removal of the \$13,500 contribution from rate base (\$13,500 / 30 year amortization period).⁶² With regard to the addition of meters to rate base (and therefore depreciation expense), Seascapes points out that since many meters have been in place at Seascapes for more than ten years, a longer depreciation life should be used for these additions to rate base.

The Panel agrees with Seascapes Strata that Superior should not be recovering capital that has otherwise already been recovered through contribution, and that the depreciation amount be adjusted accordingly.

⁶⁰ Superior Argument, Table B, p. 5.

⁶¹ Exhibit B-1, p. 13.

⁶² Seascapes Argument, p. 28.

With regard to the depreciation of the new meters added to rate base, the Panel does not accept Seascope's argument in favour of a longer depreciable life on the basis that there are meters on site that are older. The fact that some meters may have demonstrated a useful life of greater than ten years does not provide persuasive argument that the average life is not ten years as contended by Superior. Based on a ten year amortization and adjusting for the half-year rule for additions to capital, the Panel has estimated the cumulative depreciation for meters over a five year period at \$3,125, or an average of \$625 per year.

The allowance for depreciation is therefore set at \$9,048 ($\$8,873 - \$450 + \625).

30 – Income Taxes

Superior did not provide an estimate for income taxes in its initial application, but confirmed an estimate for the tax rate at 26 percent.⁶³ Subsequently, in argument, Superior provides its calculation for income tax at \$17,158.

The Panel does not agree with Superior's \$17,158 estimate. The targeted level of pre-tax income should be sufficient to cover income taxes and the equity return. The Panel recognizes that this statement relies upon a simplifying assumption that capital cost allowance for tax purposes (roughly) equates to depreciation, but in the absence of any detail from Superior, the Panel is left to rely on the general concept that the two bear some resemblance over the long term. Thus, if (per Superior's submission) income taxes attract 26 percent of pre-tax income, the equity return accounts for the remaining 74 percent. Since the Panel has set the equity return at \$7,777, it is possible to work backwards to an implicit pre-tax income requirement of \$10,509 ($\$7,777/74$ percent). Thus an allowance for income tax of \$2,732 is required ($\$10,509 - \$7,777$, or $\$10,509 \times 26$ percent).

31 – Allowed return on investment

As more fully set out in the subsection #17 -rate base interest and working capital interest, the allowed amount for ROE is \$7,777.

⁶³ Exhibit B-4, IR 17.

Commission determination

For the reasons set out above, the total approved revenue requirement for 2016 is \$75,293, per Table 3.

<u>Table 3 - Approved Revenue Requirements</u>	
<u>Line Item # and Description</u>	<u>Panel Determination</u>
5 Meter testing and change out	-
6 Grid / tank maintenance	1,150
7 Vaporizer rebuild	-
8 Leak detection	1,100
9 BC One Call	-
10 BC Safety Authority	-
11 Insurance	22,500
12 Propane variances	-
13 Operating costs - other	151
14 Annual meter reading	2,304
15 Billing/Pricing administration	4,690
16 Office overhead	6,682
17 Interest: rate base and working capital	5,538
18 Local office utilities	209
19 Local office telephone, fax	538
20 Postage and courier	3,600
21 Accounting/business services	3,450
22 Legal/consulting fees	1,800
23 Bank charges	120
24 Credit card charges	1,104
25 Amortization of legal	-
26 Bad debt expense	100
27 BCUC Fees	700
Total operating costs	55,736
28 Depreciation expense	9,048
29 Taxes other than income tax	-
Total cost of service	64,784
30 Income Taxes	2,732
31 Allowed return on investment	7,777
Total revenue requirement	75,293

3.2 Rate Design

In the Application, Superior proposes an updated rate structure consisting of a Basic Charge, which recovers a portion of the fixed costs of the grid infrastructure,⁶⁴ and a Facility Charge to recover the remaining cost items on a volumetric basis.

The Basic Charge for years 2011 through 2015 was \$15.78 per month. Starting in 2016, Superior proposes an increase to the Basic Charge from \$15.78 per month to \$18.00 per month, thus increasing annual Basic Charge revenue from \$18,936 to \$21,600. The proposed increase is suggested to be comparable to other propane grid systems in BC,⁶⁵ with an example provided of Sun Peaks Utilities⁶⁶.

The forecast balance of the total costs would then be recovered through the Facility Charge.

Seascapes Strata does not oppose the proposed change in the Basic Charge to \$18.00 per month, provided that the revenue generated from the Basic Charge is used to offset total costs before determining the amounts to be recovered from the Facility Charge.

Commission determination

The Panel finds the proposed rate structure to be appropriate and approves the Basic Charge of \$18.00 per month. Based on a total revenue requirement of \$75,293, and a total annual recovery from the Basic Charge of \$21,600, the remaining cost to be recovered from the Facility Charge is \$53,693. Based on the expected volume of 208,806 litres, the 2016 Facility Charge is set at 25.71440 cents per litre.

4.0 COST OF ENERGY RATE

There are a number of determinations that must be made to ultimately derive the cost of energy rate: use of the benchmark rate on the 15th of the month; secondary freight costs; propane variances; and margin on cost of energy.

4.1 Using the 15th of the month as a benchmark price

Superior states that there is no price difference between the price of propane purchased by Superior and the price Seascapes customers are charged.⁶⁷ However, Seascapes customers are billed based on the posted price at Superior Gas Liquids (SGL) Langley on the 15th of each month, whereas SGL provides Superior with posted pricing from several refineries on a daily basis.⁶⁸ Superior states that the posted price on the 15th of the month provides a consistent pricing mechanism to the Seascapes grid.⁶⁹ Superior submits that there are

⁶⁴ Exhibit B-1, p. 5.

⁶⁵ Exhibit B-1, p. 6.

⁶⁶ Exhibit B-4, BCUC IR 1.5.2.

⁶⁷ Exhibit B-4, BCUC IR 3.3.

⁶⁸ Exhibit B-6, Seascapes IR 1.1.

⁶⁹ Exhibit B-11, BCUC IR 33.1.

situations where this pricing method will benefit the Seascapes customers, and there are situations where this pricing method will favour Superior. Over the calendar year this impact is expected to be neutral. Superior further states that the administrative burden of tracking the exact propane cost to Seascapes would offset any benefit to the Seascapes customers.⁷⁰

Commission determination

The Panel approves the request to use the SGL commodity price on the 15th of the month as an acceptable basis upon which to set the basic cost of gas. The Panel agrees with Superior that this method is a practical and simple approach for reflecting the actual costs incurred by Superior in acquiring propane on behalf of Seascapes customers.

4.2 Secondary Freight

Superior puts forward a 3.5 cents per litre (cpl) operating cost for the secondary freight (i.e. the costs to deliver propane from Superior's central facility to the Seascapes grid system). A breakdown of the secondary freight cost is presented on page 16 of the Application, and is replicated below.

Secondary Freight Charges

Annual Delivered Litres per year	200,000
Number of deliveries per year	24
Average Litres delivered per load	8,333
Toll Rate One way - Port Mann Bridge	\$ 9.45

Operating Measures

KM Driven per trip	120
KM Driven per year	2,880
Hours per trip	3
Driving and Delivering Hours per Year	72

Operating Costs

Depreciation	\$ 512
Fuel Costs	\$ 2,098
Labour - Delivery and Tank Inspection	\$ 2,873
Truck Licensing & Insurance	\$ 104
Tolls	\$ 454
Truck Maintenance and Wear and Tear	\$ 952

Total - Cost Recovery Required	\$ 6,992
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Annual volume Hauled - Litres	200,000
Price Per Litre Freight Cost (per trip)	0.035

The secondary freight cost of 3.5 cpl is calculated based on an annual delivery of 200,000 litres, and 24 deliveries each averaging 8,333 litres.⁷¹

⁷⁰ Exhibit B-11, BCUC IR 33.1.

⁷¹ Exhibit B-1, p. 16.

Superior states that the local storage at Seascapes consists of a 12,000 USWG tank, which holds approximately 45,420 litres.⁷² However, usable storage is bounded by a minimum of 20 percent of capacity to ensure there is no pressure issue with the grid system due to the large propane draw,⁷³ and a maximum of 85 percent of capacity to allow for pressure and temperature changes of the product.⁷⁴ Thus, practical bounds on tank storage are 9,084 litres as the minimum inventory to be kept on hand, and 38,607 litres as the maximum the tank can practically hold.

The capacity of Superior's delivery trucks is 16,000 litres.⁷⁵ Superior states that its deliveries are scheduled on a non-static basis, and that Superior ensures a consistent supply to ensure customers do not run out of propane. Superior also states that "Superior Propane trucks may make deliveries to other customers depending on the set route for the day."⁷⁶

Seascapes Strata submits that it is inappropriate to recover costs on the basis of 24 deliveries per year with an average delivery quantity of 8,333 litres per delivery. The trucks and the tank can be managed to greater efficiency, such that the number of trips can be dramatically reduced. Conversely, if Superior wishes to argue that it is more efficient to plan deliveries that include other Superior sites, then the full costs of each trip cannot be allocated to the Seascapes grid system.⁷⁷

Commission determination

The Panel determines an annual allowance of \$4,370 for secondary freight, resulting in a secondary freight charge of 2.09285 cents per litre.

The Panel recognizes that Superior is free to schedule its actual deliveries however it chooses to optimize its entire operations over all its propane customers, and in no way is implying that Superior must actually deliver to Seascapes using the analysis presented herein. This determination and discussion is solely for the purposes of establishing a useful benchmark for pricing secondary freight to Seascapes customers by looking at Seascapes on a stand-alone basis.

The Panel observes that the choice of 200,000 litres for the analysis is inconsistent with the forecast delivery of 208,806 litres that Superior has used for its calculations. Thus, the remainder of the Panel's discussion of cost of energy will use the figure of 208,806 litres. Thus, with a forecast annual load of 208,806 litres and truck capacity of 16,000 litres per delivery, just over 13 deliveries (13.05) are required to meet the forecasted annual load requirement. The Panel recognizes, however, that planning to that level of precision has its own risks and is arguably not a prudent basis upon which to schedule deliveries. Thus, the Panel makes an allowance for fifteen deliveries as explained in the following paragraph.

Bounded by the tank maximum fill rates, just so long as the pre-delivery volume in the tank is at or below 22,607 litres, the tank can take a full delivery (i.e. adding 16,000 litres to 22,607 litres already on hand yields 38,607 litres in the tank). On the other side, delivery must take place prior to tank volume hitting the 20 percent minimum, or 9,084 litres. Thus, in deciding when to schedule a next delivery, Superior can tolerate a forecast

⁷² Exhibit B-1, p. 13; Exhibit B-11, Seascapes IR 9.2.

⁷³ Exhibit B-6, Seascapes IR 14.3.

⁷⁴ Superior Reply Argument, pp. 6-7.

⁷⁵ Exhibit B-6, Seascapes IR 14.2.

⁷⁶ Exhibit B-11, Seascapes IR 9.1.

⁷⁷ Seascapes Argument, p. 13-14.

error regarding storage tank inventory on hand of 13,523 litres (22,607 – 9,084) and still: stay above the 20 percent minimum; and still offload a full truck. Total consumption of 208,806 litres per year equates to an average draw of 572 litres per day, and therefore the 13,523 litres tolerance for estimation error equates to just over 23 days average consumption. If an allowance is made for peak month daily consumption at twice the annual average, that still provides a forecast cushion of 11 days of peak consumption. Based on the fact that Superior personnel will be on site at least once per month (for meter reading), and also at least thirteen times per year (for delivery), actual tank volumes can be read quite frequently. When these readings are augmented by all the past historical consumption data at Superior's disposal, the Panel is confident that Superior could effectively operate within these tolerance limits if it chose to schedule Seascope grid system deliveries on a stand-alone basis. That said, the Panel has allowed an additional two deliveries on top of the base requirement, to cover unforeseen events and/or allow for additional margin of error. Said another way, an allowance for fifteen deliveries equates to a delivery capacity of 240,000 liters, which is 15 percent above the projected requirement.

The Panel used the aggregate cost as submitted by Superior (\$6,992) to arrive at an average cost per delivery of \$291. As noted in the discussion on meter reading, Seascope Strata argues that there could well be double counting of time required on site between the meter reading function and the delivery function. The Panel has considered this argument, and in the absence of useful backup data to either accept or refute this claim, has accepted the notion that just over two hours per month in aggregate is reasonable to conduct readings, fill the tank, and provide general oversight and inspection of the system. Thus, Superior's time allowances per delivery, and therefore average costs per delivery, are accepted. Applying this cost to the allowed fifteen deliveries per year results in a cost of \$4,370 for the year.

Dividing this cost by the estimated 208,806 litres yields a 2.09285 cpl.

4.3 Propane variance

As noted in Section 3.1, in keeping with other regulated utilities, propane variances have been reclassified as a component of the cost of energy.

Superior has based its estimate of 8.8 percent of volume based on the average experience over the last five years.⁷⁸ This volume has been priced at \$4,226.⁷⁹

Seascope Strata argues that the 8.8 percent number is "high," but does not claim to know its causes or how to better manage the problem.⁸⁰

Commission determination

The Panel approves Superior's allowance for propane variance at \$4,226, resulting in a Propane Variance charge of 2.02389 cents per litre for 2016.

⁷⁸ Exhibit B-1, pp. 8-9.

⁷⁹ Exhibit B-1, p. 5.

⁸⁰ Seascope Argument, p. 22.

4.4 Margin on Cost of Energy

Superior has proposed a margin as a component of cost of gas.⁸¹ When asked in BCUC IR 4.2 to “please explain why Superior has included a “margin” in its “cost of gas” and why this is just and reasonable for its operations”, Superior replies that: “It is standard practice to include a margin when delivering propane to an end user. The margin is similar to other like customers of Superior Propane with similar annual volume and geographic location.”⁸²

Seascapes submit that the correct application of the cost of service model does not allow for the mark-up of the commodity, and accordingly, the margin should be reduced to zero.⁸³

Commission determination

The Panel rejects the application of a mark-up on the cost of propane.

Seascapes Strata is correct in its argument that the regulated cost model limits a utility’s earnings to a return on rate base, and does not allow for mark-ups on other services or products delivered.

The Panel determines that the cost of propane shall be calculated, without markup on any of the components immediately following, as the sum of:

- a. the commodity price based on the 15th of the month posted at Superior Gas Liquids; plus**
- b. the Secondary Freight charge of 2.09285 cents per litre; plus**
- c. a Propane Variance charge of 2.02389 cents per litre.**

5.0 RATE ADJUSTMENT MECHANISMS

5.1 Interim versus permanent rates for 2016

In a letter dated August 31, 2016, Seascapes Strata asked the Commission to make the existing interim rates permanent until such time as the Commission issues its decision on this proceeding. It argues that Superior has repeatedly missed deadlines, which have extended this proceeding well beyond the expected time period. Thus, the Commission should grant this request in order to “balance the scales”.⁸⁴

Commission determination

The Panel denies Seascapes Strata’s request to make the interim rates permanent.

The Panel notes that the delays do not have any financial impact on total dollars that will be collected from ratepayers, but merely change the timing of the payments. And while the Panel shares Seascapes Strata’s frustration with the repeated delays caused by Superior, that frustration does not provide adequate grounds for reversing the terms of Order G-133-15.

⁸¹ Exhibit B-7, Seascapes IR 1.1.

⁸² Exhibit B-4, BCUC IR 4.2.

⁸³ Seascapes Final Argument, p. 15.

⁸⁴ Seascapes Submission dated August 14, 2016

5.2 Adjustments for future years

Superior's position is that it would make sense from an administrative cost standpoint that revenue requirement applications (RRA) are only submitted if rate adjustments are required. Future rates beyond 2016 can be set using an inflationary factor to reduce the regulatory burden, and Superior would only file an updated RRA if there were cost increases beyond an inflationary factor.⁸⁵

Seascapes Strata agrees with the principle that the costs of regulation should not exceed the benefits derived, and therefore is in agreement that the Commission should take a light handed approach and establish a simple method for handling rates beyond 2016.⁸⁶

Superior concedes that a reasonable approach to future rate setting beyond 2016 should be based on the 2016 forecast of costs escalated by an inflationary factor, using the Consumer Price Index for Vancouver.⁸⁷

Commission Determination

The Panel agrees with the proposed light handed approach to determining future rates beyond 2016 and determines that the Vancouver, BC Consumer Price Index (CPI) is appropriate for adjusting rates, subject to the following specific mechanism.

- A CPI Adjustment Factor shall be calculated as equal to the current CPI divided by the CPI one year prior, relying on the most current CPI rates for Vancouver as published by Statistics Canada (CANSIM, Table 1);
- Superior shall develop an estimate for litres of propane for the coming year (Propane Volume), based on the then year-to-date actuals and the four prior years' totals;
- The Basic Charge and the annual revenue requirements for the total costs shall be equal to the current year's values for those items times the CPI Adjustment Factor;
- The Facility Charge shall be calculated based on the revised values for the Basic Charge, the annual revenue requirements, and Propane Volume;
- The annual allowance for Secondary Freight shall be equal to the current year's allowance times the CPI Adjustment Factor, and the Secondary Freight Charge cpl, shall be calculated based on the revised annual allowance divided by Propane Volume;
- Actual propane variances on a year-to-date basis will be used to arrive at a projected propane variance for the coming year that will be adjusted for expected over or under-recovery of propane variance volumes in the current year to arrive at a projected value for volume of propane losses, for the coming year;
- The Propane Variance cpl shall be calculated based on that revised value for propane variance priced at the average of the most recent twelve months of propane prices (15th of the month) used for billing purposes, divided by Propane Volume;
- If recent/current performance indicates that material adjustments to any of the updated estimates are required, Superior and Seascapes Strata are encouraged to meet together to attempt to arrive at a mutually agreeable adjustment. Any mutually agreed upon adjustments can be incorporated into the calculation of future applicable rate(s).

⁸⁵ Exhibit B-4, BCUC IR 1.0.

⁸⁶ Seascapes Final Argument, p. 11.

⁸⁷ Exhibit B-4, BCUC IR 1.1; Exhibit B-11, BCUC IR 1.30.1.1.

- All of which is to be filed with the Commission as more fully set out in Section 7.3 of these Reasons for Decision.

The *Utilities Commission Act* affords parties the ability to make an application to the Commission on a complaints basis at any time. In the event that the light handed process above (i.e. including the last bullet regarding material adjustments) reaches an impasse, before parties decide to bring an exception/complaint application to the Commission under this provision, parties are encouraged to consider whether the apparent impasse has sufficient significance/import to warrant the burden of added regulation overhead that such an application would entail.

6.0 GAS TARIFF AND GENERAL TERMS

In its final argument, Seascapes raises various questions pertaining to Superior's proposed gas tariff, however it also states the Commission would be best equipped to determine a fair assessment of the tariffs, in consideration of other BC utilities.⁸⁸

Commission determination

The Panel determines that Superior Propane's gas tariff representing the Terms and Conditions of service for its operation at the Seascapes Development is approved, with the proviso that Superior Propane shall not place a markup on parts and labour.

The Panel has reviewed the proposed Terms and Conditions and has made comparisons to other larger, smaller, and similar size utilities under the Commission's jurisdiction, and finds them to be consistent with general practice. In fact, some of the clauses in the tariff have similar, if not exact wording to many other utilities. Thus, with the exception of the clarification on materials markup, the Panel finds the tariff acceptable as presented.

The clarification regarding parts and materials cost recovery arises from the Standard Fees and Charges Schedule, Other Service Charges, which includes the following fees:

Table 1 Standard Fees and Charges Schedule – Other Service Charges⁸⁹

14. Resetting of meter and regulator (at the Customer's request) - Per occurrence	\$75.00 per hour plus materials
15. Move meter from inside to outside of premises at the Customer's request - Removing, testing & replacing Meter Set	\$75.00 per hour plus materials
16. Where other services are performed (including line hits), costs shall be:	\$75.00 per hour plus materials

In BCUC IR 1.27.2, Superior was requested to confirm or explain otherwise that materials (as referenced in Other Service Charges as "plus materials") will be charged to Seascapes customers at cost. In its response, Superior stated it "will charge a nominal markup 15% on parts and materials" and provided no rationale. When Superior was prompted again to provide a rationale in BCUC IR 2.42.3, it responded by stating that 15 percent is the standard markup on parts and materials with no further details.

⁸⁸ Seascapes Final Argument, p. 34.

⁸⁹ Exhibit B-1, p. 9; Superior Application, Gas Tariff.

Consistent with other findings of this Panel (i.e. that under the cost estimate framework, the utility's return is limited to the allowed return on rate base) the Panel finds that the markup over costs on parts and materials is not permitted.

7.0 REPORTING REQUIREMENTS

The Panel again notes its frustration with Superior's past performance in repeatedly failing to meet Commission filing deadlines. The Panel further notes that the Commission has the discretion to levy penalties for non-compliance with Commission Orders. And while this Panel has not chosen to impose a penalty in respect of Superior's failures to observe Commission filing deadlines for this proceeding, Superior should be mindful that future Panels may not be so forgiving.

7.1 Section 71 Reporting – current period

Section 71 of the *Utilities Commission Act* (UCA) states that when a utility enters into an energy supply contract, it must file a copy of the contract with the Commission, and provide to the Commission any information it considers necessary to determine whether the contract is in the public interest.

Superior states in response to BCUC IR 2.3 that: "[Superior Gas Liquids] SGL procures propane on behalf of Superior Propane... There is a supply agreement in place. A copy of the agreement has been included with the submission (Document 1)."⁹⁰

Commission determination

The Panel accepts the filed supply agreement under section 71 of the *Utilities Commission Act*.

Order G-133-15 determined that Superior is a public utility, and therefore any energy supply contract entered into by Superior to purchase propane is subject to the Commission's review under section 71 of the UCA. The panel accepts the supply agreements provided in evidence dated April 1, 2015, effective April 1, 2015 to March 31, 2016, and dated April 7, 2016, effective April 1, 2016 to March 31, 2017.

7.2 Transition to the new rates

Superior is required to submit a filing within 45 days of these Reasons for Decision, outlining:

- **The final calculations in respect of under or over-recovery of revenues from customers by virtue of the differences between the Interim and Permanent Rates for 2016;**
- **Superior's proposed timing and method for billing and/or refunding the said under or over-recovery of revenues; and**
- **A report pursuant to Section 5.2 of these Reasons for decision, outlining the proposed rates for 2017.**

⁹⁰ Exhibit B-4, BCUC IR 2.3.

7.3 Future reporting

Pursuant to Section 5.2 of these Reasons for Decision, beginning in 2017, Superior is directed to file on or before November 15th of each year, a detailed schedule showing the rate calculated for the coming calendar year using the rate adjustment mechanism set out in Section 5.2 of these Reasons for Decision. Superior must also include the associated amended tariff pages within this filing. The Commission will review and endorse the amended tariff pages, thus allowing Superior to bill customers at the new annual rates. Submitting the calculation and amended tariff pages in this manner will allow for a timely review and endorsement of the necessary documents prior to the rate change effective on January 1 of each calendar year.

Pursuant to Section 7.1 of these Reasons for Decision, Superior is directed to file a copy of the sales agreement under section 71 of the UCA for its propane purchase whenever a change or renewal to the accepted agreement occurs.

Additionally, while not a direct result of this proceeding, the Panel provides the following guidance to Superior with regard to its filing obligations arising out of Order G-133-16 that found Superior to be a public utility. As a regulated utility under the UCA, Superior is subject to reporting requirements set out in Part 3 of the UCA, unless an exception is granted. **Recognizing that Superior is a small utility (with limited likelihood for a system extension) the Panel exempts Superior from its obligation under section 44.1 of the UCA to file a Long Term Resource Plan. However, pursuant to sections 24 and 49, Superior is required to file Annual Reports to the Commission as clarified in Commission Letter L-45-15, and attached as Attachment A to these Reasons for Decision.** In the spirit of light handed regulation, and given the nature of Superior's operations at Seascapes, the Annual Report should follow the general format of the Commission's Stream A Thermal Energy Systems annual report requirements with the inclusion of the following items:

- A declaration from a senior regulatory officer, that no significant capital or system additions related to its Seascapes operation has occurred during the year, or are planned for the coming year. However, if a significant capital or system addition occurred or is planned, please provide brief details of the additions.
- A declaration from the senior regulatory officer that Superior at Seascapes is, to the best of its knowledge, compliant with all legal requirements related to taxation, safety and incorporation. If this declaration cannot be made, please provide brief details to explain.
- A declaration from the senior regulatory officer that Superior at Seascapes is, to the best of its knowledge, compliant with all Commission directives and Superior's tariff pages endorsed by the Commission Secretary. If this declaration cannot be made, please provide brief details to explain.
- A list of the tariff rates charged to Seascapes' customers during the period. If tariff rate changes occurred during the period, please provide the dates during which each tariff rate was charged.

A current version of the Stream A Thermal Energy System annual reporting requirements can be found in Attachment B of these Reasons for Decision. The annual report should be filed within four months of the end of Superior's fiscal year end.



LETTER L-45-15

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ERICA HAMILTON
COMMISSION SECRETARY
Commission.Secretary@bcuc.com
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VIA EMAIL

December 18, 2015

TO: Regulated Utilities

Re: British Columbia Utilities Commission
Annual Report Requirements

Background

On December 15, 1994, the British Columbia Utilities Commission (Commission) issued Letter L-36-94 setting out its public utility annual reporting requirements after undertaking a public consultation process. On April 10, 1995, the Commission issued Letter L-14-95, adding an additional employee compensation reporting requirement.

The annual reporting requirements were designed considering Part III of the *Utilities Commission Act* (the Act), which requires the Commission to “keep itself informed” about the utilities under its jurisdiction. Specifically, section 24 (formerly section 29) of the Act, regarding examination and inquiries, directs that:

In its supervision of public utilities, the commission must make examinations and conduct inquiries necessary to keep itself informed about

- (a) the conduct of public utility business,*
- (b) compliance by public utilities with this Act, regulations or any other law, and*
- (c) any other matter in the commission’s jurisdiction.*

The Commission is empowered to require the Annual Report filing pursuant to section 49 (formerly section 58) of the Act, which states that:

The commission may, by order, require every public utility to do one or more of the following:

- (a) keep the records and accounts of the conduct of the utility’s business that the commission may specify, and for public utilities of the same class, to adopt a uniform system of accounting specified by the commission;*
- (b) provide, at times and in the form and manner the commission specifies, a detailed report of finances and operations, verified as specified;*

Since the Commission’s issuance of L-36-94 and L-14-95, public utilities in British Columbia have reported to the Commission as set out by the letters. However, the Act has been modified on a number of occasions since those original letters were issued, resulting in changes to the numbering and of sections of the Act. The purpose of

this document is to incorporate relevant changes into the existing requirements as set out by L-36-94 and L-14-95.

Filing Requirements Updated for Changes to the Act

Consistent with past instruction, in order to keep itself informed about the utility activities, the Commission instructs the regulated public utilities under its jurisdiction to provide the following information pursuant to sections 24 and 45 of the Act:

- 1) In the years when an Long Term Resource Plan is not filed, the section 45(6) filings of capital budget statements and system plans should be made in the Annual Report to the Commission;
- 2) A detailed comparison between forecast and actual results for all completed or in progress capital projects above the utility's materiality limit. For capital projects with ongoing reporting, the explanation may refer to those reports. For capital projects below the utility's materiality limit, a summary report showing forecast and actual is required;
- 3) Copies of income tax assessment and reassessment notices pertaining to utility business;
- 4) A list of topics covered in the management letters. (The Commission may request copies of any management letters, or portions thereof, which have been prepared by the utility's external auditor in the course of the yearly audit of the utility's financial statements which address topics of concern to the Commission. The onus is on the utility to report any management letter issues to the Commission that would have a major impact on the utility);
- 5) A list of topics covered in the internal audit reports together with a brief description of each topic. (The Commission may request copies of the internal audit reports or executive summaries of the internal audit reports);
- 6) A reconciliation, prepared by the utility and attested to by a company officer, of the utility's year-end financial statements to the shareholders compared to the Annual Report to the Commission. Implicit in this is a requirement to include current year financial schedules indicating actual results for regulatory purposes. Ideally, these amounts will be presented with comparison to approved amounts for the same period and a description of variances in these two amounts. If no approved amounts are available, financial statements for the last financial period should be used;
- 7) A report, prepared by the internal auditor or equivalent and attested to by a company officer, which examines the utility's classification of certain expenditures, as specified by the Commission, according to a Uniform System of Accounting. (The Commission may request a subsequent review by the utility's external auditor); and
- 8) A report, prepared by the internal auditor or equivalent and attested to by a company officer, which confirms the utility's compliance with the Commission's financial directions contained in Decisions and Orders.

The above information should be provided on an annual basis and, where possible, this information should be contained in the Annual Report to the Commission.

In accordance with the utilities' request that a company officer attest to items 6, 7 and 8, the Commission requires that the Declaration must contain the following statement:

"That I have examined the content of this report and the information set out herein is complete and accurate, to the best of my knowledge, information and belief. I have read and understand sections 106 and 109.1 to 109.8 of the Utilities Commission Act."

Filing Deadlines

The Annual Report to the Commission is expected to be filed within four months following the end of the utility's fiscal year. If other significant filings are required, a utility may request an extension to the Annual Report filing deadline of up to six months. If the base year in a revenue requirements application has been updated for actual normalized results in sufficient detail to meet the Annual Report requirements, the utility may request the waiving of an Annual Report for that year.

Also, while this letter serves to update existing annual reporting requirements, please be advised that the Commission is currently assessing these requirements. Where appropriate, the Commission may conduct stakeholder feedback processes to discuss proposed future changes.

Yours truly,

Erica Hamilton

KB/cms

APPENDIX B STREAM A ANNUAL REPORT GUIDELINES

Stream A TES– Annual Report

Applicant Information

Company Name:	BC Business Registration No.:
Contact Name:	Contact Email:
Contact Address:	
Contact Phone:	
Name of Parent Company, if applicable:	Jurisdiction of Incorporation:

Energy Delivered

Stream A Facility Name	# of Customers	Total Energy Delivered (GJ)					Sales (\$)
		Heating	Cooling	DHW	Other	Total	

Attestations regarding Capital Reserve Provisions

- ☐ I/We have determined the Capital Reserve Requirement and I/We have sufficient Capital Reserve Provisions as required;
- ☐ I/We will continue to maintain all records in the event of a complaint and an audit by the Commission.

Demand Side Management

- ☐ I/We have taken demand-side measures during the period addressed by the report
If demand side measures have been taken during the period addressed by this report, describe *the effectiveness of those measures*:

[Signing Officer]