



ORDER NUMBER
G-164-17

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

and

Stargas Utilities Ltd.
Application to Amend Rate Schedule and Accounting for Installation Costs

BEFORE:

R. I. Mason, Commissioner

on November 9, 2017

ORDER

WHEREAS:

- A. On June 28, 2017, Stargas Utilities Ltd. (Stargas) filed an application with the British Columbia Utilities Commission (Commission) for approval to amend its tariff and regulatory accounting for new service installation costs (Application);
- B. By Order G-106-17 dated July 11, 2017, the Commission established a regulatory timetable for the review of the Application, which provided for one round of information requests (IR) and further process to be determined;
- C. On July 19, 2017, the Silver Star Property Owners Association (SSPOA) registered as an intervener in the proceeding;
- D. On August 31, 2017, SSPOA filed a letter informing the Commission of its position relating to the establishment of the remainder of the regulatory timetable;
- E. On September 7, 2017, the Commission issued a letter to Stargas requesting responses to Panel IRs and its submissions on further process;
- F. By Order G-142-17 dated September 15, 2017, the Commission considered the submissions made by the parties and established a regulatory timetable for final and reply arguments; and
- G. The Commission has reviewed the Application and evidence filed in the proceeding and makes the following determinations.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act* and for the reasons attached as Appendix A to this order, the Commission orders as follows:

1. Modifications to the Stargas tariff and the regulatory accounting treatment for new residential and small commercial service installation costs are approved as set forth in the Application and subsequent amendments. Specifically, a \$25 service line installation charge and the inclusion of service installation costs in rate base earning the Stargas' weighted average cost of capital are approved, as outlined in the reasons for decisions attached as Appendix A to this order.
2. Stargas is approved to establish a 2017 Installation Application Regulatory Account related to the cost of the Application, to a maximum of \$9,500. The regulatory account is approved to accrue interest based on Stargas' current weighted average cost of capital. Stargas' request to amortize this account over 24-months is denied. However, Stargas is approved to use a rate rider to recover the balance in the regulatory account from customers over a period of 60 months from the date of this order.
3. Stargas is directed to establish a regulatory account to capture the incremental revenues and costs associated with new service installations added prior to November 1, 2019 and to include its proposed disposition of this account as part of its next revenue requirements application, as outlined in the reasons for decisions attached as Appendix A to this order.
4. Stargas is directed to provide rate base, rate base amortization and all regulatory account continuity schedules as part of its next revenue requirement application. Stargas is also directed to provide explanations and/or reconciliations of those schedules compared to the relevant financial schedules provided in the Stargas Application to Vary Delivery Rate, Amend Cost of Service Formula and Approve Replacement Term Financing/Redemption of Preferred Shares (2016 Delivery Rate Application) proceeding.

DATED at the City of Vancouver, in the Province of British Columbia, this 9th day of November 2017.

BY ORDER

Original signed by:

R. I. Mason
Commissioner

Attachment

Stargas Utilities Ltd.
Application to Amend Rate Schedule and Accounting for Installation Costs

REASONS FOR DECISION

Table of Contents [if needed]

Page no.

1.0	Introduction	2
1.1	The applicant	2
1.2	Background.....	2
1.3	Application and approvals sought	3
1.4	Application review process	4
2.0	Determinations on approvals sought and issues arising.....	4
2.1	Modification to the existing tariff and accounting for new service installation costs	5
2.1.1	Revenue margin analyses	5
2.1.2	Meter cost	7
2.1.3	Amortization period for new installations	8
2.1.4	10 Percent Markup on new installations	9
2.2	2017 Installation Application Regulatory Account request.....	10
2.3	Incremental revenues and costs before November 1, 2019	12

1.0 Introduction

1.1 The applicant

Silver Star Mountain (Silver Star) is a year-round resort community located approximately 22 kilometers north-east of Vernon, BC. Silver Star Mountain Resort Ltd. (Resort) is the primary developer of the resort and operates the ski hill and a number of other commercial operations within Silver Star. In 1999, Stargas Utilities Ltd. (Stargas) was formed by the Resort to own and operate the natural gas distribution system at Silver Star. Stargas 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 which were developed at that time.¹ In 2000, the British Columbia Utilities Commission (Commission) approved a Certificate of Public Convenience and Necessity (CPCN) for Stargas to operate a natural gas distribution system in the resort community of Silver Star.²

CMI Holdings (1998) Inc. (CMI), a limited liability investment holding company owned by Mr. M. A. Blumes and Mrs. C. M. Iles-Blumes, is the sole owner of Stargas.³

FortisBC Alternate Energy Services Inc. (FAES), previously known as Terasen Energy Services Inc., provides services pertaining to the operation of the utility, including emergency standby and response, system maintenance, leak survey and remedial action, and meter servicing and replacement, as well as certain administrative functions under a ten-year contract expiring November 30, 2019.⁴ Okanagan Funding Ltd. (OKF), a subsidiary of CMI, provides administrative and management services for Stargas on an as-required basis at rates approved by the Commission.⁵

Stargas serves a total of 290 customers; the majority of which are small commercial and residential customers.⁶

1.2 Background

Under the existing Stargas tariff, the following charges are recovered directly from customers for new residential and small commercial installations:

- Application Fee:
 - New Installation \$50.00
 - New Installation – Manifold Meters \$50.00
- Service Line Connection Charge:
 - New Installation – Residential & Small Commercial \$1,250.00
- Meter Installation Charge:
 - Residential and Small Commercial \$450.00
 - Residential Manifold Individual Quotation

In addition, an administrative cost recovery charge of 10 percent, approved by Order G-115-05, of the cost invoiced by contractors for all customer initiated work (10 Percent Markup) is applicable to both service line

¹ Stargas application dated November 27, 2000, p. 4.

² Order G-4-00.

³ Stargas Application dated August 15, 2002, BCUC IR 3.2(a).

⁴ Stargas Application to Vary Delivery Rate, Amend Cost of Service Formula and Approve Replacement Term Financing/Redemption of Preferred Shares (2016 Delivery Rate Application), Exhibit B-1, p. 10; Order G-93-09.

⁵ Stargas 2016 Delivery Rate Application, Exhibit B-1, p. 12.

⁶ Exhibit B-5, Panel IR 9.1; 98 percent of Stargas' customers are small commercial and residential customers.

connection and meter installation charges. The service line connection charge and the meter installation charge reflect the costs incurred by Stargas pursuant to a 10 year contract with FAES, approved by Order G-93-09.

On September 26, 2016, Stargas filed its Application to Vary Delivery Rate, Amend Cost of Service Formula and Approve Replacement Term Financing/Redemption of Preferred Shares (2016 Delivery Rate Application). During that proceeding, the Commission was asked to consider an issue related to the fees charged by Stargas for new customer connections and direct Stargas to reduce the level of customer contribution required in order to reduce the “financial disincentive” for new customers to sign up.⁷ Stargas was not opposed and suggested that in the future it may consider a revised policy where it would fund the cost of new customer connections with capital costs included in rate base, up to a maximum investment level.⁸ However, given that customer connection fees are outside the scope of a delivery rate application proceeding and the evidence was insufficiently complete to direct Stargas to reduce the level of customer contribution required to any specific amount, the Commission made no determination. The Commission encouraged Stargas to file the proposed application with further process to be initiated at that time.⁹ In addition, given that Stargas has been “singularly unsuccessful” in winning new customers from those homes currently using propane and its submission that it would not be pursuing these conversions with time and money as it had in the past, the Commission denied Stargas’ request for executive hours to be spent on new customer marketing as applied for. Instead, the Commission approved only those marketing hours for maintaining relationships with existing customers and suggested that Stargas apply to the Commission for a corresponding amount of marketing budget when it files the proposed application, demonstrating the expected financial returns to the existing customers from the marketing investment.¹⁰

1.3 Application and approvals sought

On June 28, 2017, Stargas filed an application with the Commission requesting approval to amend its tariff regarding new service installations and its accounting for new service installation costs (Application). Specifically, Stargas proposes to charge new residential and small commercial customers its contractor’s cost of installing new meters, while adding new service line and applicable manifold costs related to these installations to rate base. It proposes, from November 1, 2019, to amortize these rate base additions over 10 years.¹¹

In the Application, Stargas also requests approval to establish a regulatory account to capture its cost of preparing the Application (up to \$9,500) and a marketing budget of \$3,500 to market the amended terms and conditions of its tariff (2017 Installation Application Regulatory Account). It proposes the balance in the 2017 Installation Application Regulatory Account be recovered from all ratepayers as a ride rider over 24-months, commencing November 1, 2019.¹²

During the proceeding, Stargas amended the details of its requests in reply argument and its responses to Commission and intervenor information requests (IRs). The final approvals sought are as follows:

- Approval to charge new residential and small commercial customers a service line installation charge of \$25;¹³

⁷ 2016 Delivery Rate Application, Silver Star Property Owners Association (SSPOA) Final Argument, pp. 9–10.

⁸ Ibid., Stargas Reply Argument, p. 15.

⁹ Order G-59-17, Appendix A, p. 23.

¹⁰ Order G-59-17, Appendix A, p. 11.

¹¹ Exhibit B-1, pp. 1–2; Exhibit B-2, BCUC IR 1.8; Note Directive 12 within Order G-59-17 directs Stargas to file its next application for a delivery rate with the Commission by July 31, 2019 for a delivery rate effective November 1, 2019.

¹² Exhibit B-1, p. 2.

¹³ Exhibit B-2, p. 1.

- Approval to add service line installation, meter and applicable manifold costs, along with an associated 10 Percent Markup (Rate Base Installation Costs), to rate base earning the Stargas' weighted average cost of capital (WACC);¹⁴
- Approval to amortize Rate Base Installation Costs over 40 years commencing November 1, 2019;¹⁵
- Approval to establish a 2017 Installation Application Regulatory Account, earning interest at Stargas' WACC, to capture its costs of preparing the Application (\$9,500);¹⁶ and
- Approval to recover the balance of a 2017 Installation Application Regulatory account as a ride rider over 24 months commencing "following receipt of Commission approval."¹⁷

Stargas submits that its "current installation billing policy constrains rather than aids customer acquisition and consequent growth in delivery volumes"¹⁸ and that the proposed changes to its accounting for new installations will result in the following benefits:

- Incremental volume increases will benefit existing Stargas ratepayers;
- Propane consumers that convert to Stargas will benefit from reduced energy costs; and
- Stargas will benefit from increases in rate base generating additional returns to its shareholder.¹⁹

1.4 Application review process

By Order G-106-17 on July 11, 2017, the Commission established the regulatory timetable for review of the Application, which provided for one round of information requests with further process to be determined. On July 19, 2017, the Silver Star Property Owners Association (SSPOA) registered as an intervener in the proceeding.

Stargas provided responses to Commission and SSPOA IRs on August 8, 2017 and August 9, 2017, respectively. By letter dated September 7, 2017, the Panel issued IRs requesting Stargas clarify responses to certain questions and to submit comments on further process.

On September 11, 2017, Stargas responded to Panel IRs and requested that its Application, together with its responses to IRs, be deemed its final argument. After considering this submission and SSPOA's letter dated August 31, 2017 on this matter, the Commission advanced the proceeding to written intervener final argument and Stargas reply argument in Order G-142-17, dated September 15, 2017.

The Commission also received letters of comment from Mr. D. Purser, and Mr. and Mrs. B. Olsen on July 17, 2017.

2.0 Determinations on approvals sought and issues arising

The Panel considers that there are three key issues to be addressed. Firstly, Stargas has applied to modify its tariff and its regulatory accounting for new residential and small commercial service installation costs. Secondly, Stargas has applied to create a 2017 Installation Application Regulatory Account to capture its costs of preparing

¹⁴ Exhibit B-2, BCUC IR 1.5 and 8.1.1; Exhibit B-5, Panel IR 3.1.

¹⁵ Stargas Reply Argument, p. 1.

¹⁶ Ibid., p. 4; Note Stargas withdrew the request in its original Application to include \$3,500 in marketing costs in the proposed regulatory account in its reply argument.

¹⁷ Ibid.

¹⁸ Exhibit B-1, p. 2.

¹⁹ Ibid., p. 1.

the Application. Finally, the Panel considers the treatment of incremental costs and revenues associated with new service installations prior to November 1, 2019. Each of these issues is discussed in turn below.

2.1 Modification to the existing tariff and accounting for new service installation costs

The Panel approves the modifications to the Stargas tariff and the regulatory accounting for new residential and small commercial service installation costs, as requested by Stargas. Specifically, the Panel approves the \$25 service line installation charge and the inclusion of the Rate Base Installation Costs in rate base, net of the \$25 service line installation charge, earning the Company's WACC and amortized into rates over 40 years.

In its Final Argument, SSPOA states that it “fully supports the proposed amortization of connection fees.”²⁰ SSPOA also indicates its support for the \$25 service line installation charge.²¹

The changes proposed will reduce the upfront investment by new residential and small commercial customers, potentially encouraging customers to switch to using Stargas' services. Further, the evidence indicates that under the proposed changes each new residential and small commercial customer taking service from Stargas will contribute a positive net revenue margin to Stargas' revenue requirement, thus not disadvantaging existing customers.

The following sections address the issues that were raised during the proceeding related to the modification of the existing tariff and the regulatory accounting for new service installation costs.

2.1.1 Revenue margin analyses

Stargas has included a table (Stargas Analysis) in its Application that “illustrates the impact on rates should the change in accounting for installation costs generate the indicated number of propane conversions and new installations.”²² The Stargas Analysis includes several forecast assumptions, including:

- Incremental variable revenue under the new installation policy, comprised of:
 - Number of propane conversions and new construction installations;
 - Consumption (GJs) per new customer;
- Rate Base Installation Costs of \$1,250 per customer added, reflecting the service line costs only. This reflects Stargas' original proposal in its Application that each new customer added pays a contribution equal to the cost of the meter (i.e. either \$215 or \$450);
- Incremental return on rate base, using the Company's weighted average cost of capital of 6.34%; and
- Incremental amortization expense resulting from the Rate Base Installation Costs, using an amortization period of 10 years.

Throughout the evidentiary process, Stargas identifies additional forecast assumptions and changes to several of the forecast assumptions included in the Stargas Analysis, as follows:

- Amend initial installation charge from a contribution equal to the cost of the meter (i.e. either \$215 or \$450) to \$25 charged to each new customer added;

²⁰ SSPOA Final Argument, p. 10.

²¹ Ibid, pp. 3, 11.

²² Exhibit B-1, p. 7.

- Amend proposed amortization period for Rate Base Installation Costs from 10 years to 40 years. Please refer to section 2.1.3 below for additional information on the amortization;²³
- Add incremental annual operating costs of \$40 per new customer added;²⁴
- Add \$1.41 variable charge per GJ of consumption paid by Stargas to its service contractor, FAES, pursuant to its service contract;²⁵
- Add amortization of the 2017 Installation Application Regulatory Account.²⁶ Please refer to section 2.2 below for additional information on the deferral account; and
- Rate Base Installation Costs:
 - Include the 10 Percent Markup in Rate Base Installation Costs;²⁷ and
 - The reduced meter cost of \$215 is only applicable to propane conversions until December 31, 2017. For all other new installations, the existing meter cost of \$450 applies.²⁸ Please refer to section 2.1.2 below for additional information on the meter cost.

Commission IR 9.5 included two analyses prepared by Commission staff, one that demonstrates the revenue margin for each new customer (Individual Customer Revenue Margin Analysis) and the other that demonstrates the total revenue margin stemming from the Stargas proposal for new installations (Total Revenue Margin Analysis) over a period of 10 years (collectively, the Revenue Margin Analyses). Both use the forecast assumptions provided by Stargas in its analysis and subsequently updated through the evidentiary process.

In response to Commission IR 9.5 regarding the Individual Customer Revenue Margin Analysis, Stargas submitted that it “accepts as appropriate the method to best calculate the revenue margin for each new customer that after amending the variable rate charged by FAE for its services and by the inclusion of an increment covering administrative costs.”²⁹ Further, in its response to Commission IR 9.6 regarding the Total Revenue Margin Analysis, Stargas submitted that it “does consider the method by which the revenue margin determined [to be] reasonable.”³⁰

Based on the responses to the first round of information requests, the Panel updated the Total Revenue Margin Analysis and provided the updated document as Amended Attachment B to Panel IR 10.1. The Panel asked Stargas if it considered this analysis to be reflective of its proposal for new installations and in response Stargas submitted that it:

...accepts the Panel spreadsheet as measuring the revenue margin is conceptually sound and observes that minor changes... (e.g. correcting the variable rate charged by FAE to \$1.41 per GJ) immaterial to that reflected in the version supplied by Commission staff.

²³ Stargas Reply Argument, p. 1.

²⁴ Exhibit B-2, BCUC IR 5.1.

²⁵ Ibid., BCUC IR 6.1, p. 7; Exhibit B-5, Panel IR 1.1.

²⁶ Ibid., BCUC IR 6.2, p. 7.

²⁷ Ibid., BCUC IR 8.1.1, p. 9.

²⁸ Ibid., BCUC IR 2.1–2.3, pp. 4–5.

²⁹ Ibid., BCUC IR 9.5, p. 11.

³⁰ Ibid., BCUC IR 9.6, p. 12.

Commission discussion

The Panel finds that there will be net positive impacts to Stargas' revenue requirement impact, and is satisfied that the proposed changes to the tariff and the regulatory accounting for new service installation costs will not disadvantage existing customers.

As described above, the Revenue Margin Analyses were introduced in the Commission IRs, incorporating the assumptions made by Stargas. The Individual Customer Revenue Margin Analysis, updated to include the additional forecast assumptions and changes to several of the forecast assumptions identified by Stargas during the proceeding, shows that under the proposed new policy each new installation and propane conversion customer added will contribute a positive net revenue margin to Stargas' revenue requirement.

The Total Revenue Margin Analysis includes the amortization expense of the Installation Application Regulatory Account. As discussed in section 2.2 below, the Panel finds the establishment of a 2017 Installation Application Regulatory Account is warranted to capture the costs of preparing this Application. The Panel considers these costs to be prudently incurred, notwithstanding the determinations made regarding the modifications to the Stargas tariff and the regulatory accounting for new residential and small commercial service installation costs. Accordingly, the Panel considers it appropriate to examine the Total Revenue Margin Analysis excluding the amortization expense of the Regulatory Account in order to assess the total impact of the new methodology on the revenue requirement. On this basis, Total Revenue Margin Analysis, updated to include the additional forecast assumptions and changes to several of the forecast assumptions identified by Stargas during the proceeding, shows that under the proposed new methodology there will be a net positive impact on Stargas' revenue requirement.

The Total Revenue Margin Analysis included in the Panel IR accounts for the \$25 customer installation charge as an offset to rate base (i.e. customer contribution). In its original Application, Stargas specifies the meter cost was to be a customer contribution. However, this issue was not specifically commented on further by either Stargas or SSPOA. The Panel finds that the treatment of the \$25 customer installation charge as an offset to rate base is warranted and is consistent with the proposed accounting treatment in the Application.

2.1.2 Meter cost

Under the existing tariff, the meter installation charge for residential and small commercial customers is \$450, which is based on Stargas' service contract with FAES. In its Application, Stargas states that it "has sought and obtained the commitment of its supplier... to support a propane conversion initiative by reducing meter costs for those converting from \$450 by \$235 to \$215."³¹ However, in its responses to Commission IR 2.0 Stargas clarified that the reduced meter cost of \$215 is only applicable to propane conversions until December 31, 2017 and all other new installations will be at a meter cost of \$450.³² The most up to date Memorandum of Agreement between Stargas and FAES that covers the reduced meter cost of \$215 is provided in response to Panel IR 4.1.³³

In its Final Argument, SSPOA raises the following concern:

The SSPOA recognizes that the FAES reduced meter charge is only available for propane conversions. The time sensitive limits of the offer are of concern, considering the restricted 2017 construction window... the SSPOA feels the FAES offer should be extended to the end of 2018.

³¹ Exhibit B-1, p. 2.

³² Exhibit B-2, BCUC IR 2.1–2.3.

³³ Exhibit B-5, Panel IR 4.1, p. 2.

The application of the reduced meter charge for conversions resonates well to the existing rate-payers who are funding the amortization of the program.³⁴

In its response, Stargas states that it “undertakes to seek the extension of the meter discount to the termination of its existing FAE service contract but, of course, obtaining the discount involves a third-party.”³⁵

The Panel recognizes SSPOA’s concern regarding the limitations to FAES reduced meter charge, and encourages Stargas to pursue an extension.

2.1.3 Amortization period for new installations

In its Application, Stargas requests approval to amortize the Rate Base Installation Costs over 120 months, or 10 years, commencing November 1, 2019.³⁶ Subsequently, in its introduction to the Commission IR No. 1 responses, Stargas amended the proposed amortization period from 10 years to 35 years,³⁷ using a single asset classification for both service line and meter costs.³⁸ With respect to the single asset classification, Stargas submits that if the “request to treat installation costs as a single asset classification in rate base is unacceptable, Stargas would request a 40-year amortization rate for line and other costs and a 32-year rate for meter sets.”³⁹

Stargas stated in its response to Commission IR No. 3.1 and 3.2 that the estimated service life of the service lines, manifolds and meter sets for new installation is 40 years.⁴⁰

Panel IR 5.1 requested that Stargas explain why the proposed amortization period for the meter set asset class is 32 years, when the estimated service life of the meter sets is 40 years. Stargas responded that it “accepts and, hereby, requests that amortization of meter sets be 40 years (consistent with the service life).”⁴¹

In its Final Argument, SSPOA submits that:

The SSPOA supports a longer amortization period relative to the 10 years Stargas initially proposed, and appreciates the exploration of the issue in BCUC IRs. There is some confusion, however, as the response to the Panel IR from Stargas was that the service life of the meter is 40 years, rather than 32 suggested in the question. The amortization schedule for rate-payers should be the same as for accounting purposes, whichever period is used, and applied to all parts of the meter including installation.⁴²

Subsequently, in its Reply Argument Stargas submits that “[i]n its response to the Commission IR’s Stargas accepted 40 years as the service life of the related assets and expects to amortize all its installation costs on that basis.”⁴³

³⁴ SSPOA Final Argument, p. 6.

³⁵ Stargas Reply Argument, p. 2.

³⁶ Exhibit B-1, p. 1.

³⁷ Exhibit B-2, p. 1.

³⁸ Exhibit B-2, BCUC IR 3.3, p. 6.

³⁹ Exhibit B-2, BCUC IR 3.1–3.3.1, pp. 5–6.

⁴⁰ Ibid., BCUC IR 3.1 and 3.2, p. 5.

⁴¹ Exhibit B-5, Panel IR 5.1, p. 3.

⁴² SSPOA Final Argument, p. 3.

⁴³ Stargas Reply Argument, p. 1.

The Panel agrees with SSPOA that the amortization period for regulatory accounting should match the accounting treatment of the assets. In its response to Commission IR No. 3.1 and 3.2 and in its Final Argument, Stargas clarified that the estimated service life of the service lines, meters and manifolds is 40 years and it will amortization all of its installation costs on that basis. Accordingly, the Panel finds that a 40 year amortization period for regulatory accounting purposes for installation capital costs (i.e. service line, meter and manifold costs as applicable) is appropriate, based on the estimated service life of the assets.

2.1.4 10 Percent Markup on new installations

As noted above, under the existing Stargas tariff the 10 Percent Markup is applicable to both the service line connection charge and the meter installation charge and is recovered directly from the new customer for residential and small commercial installations. The Commission approved the 10 Percent Markup by Directive 5 of Order G-118-05 dated November 7, 2005, which reads: “The Commission approves the 10 percent administrative fee on the installation of new services added to the schedule of rates and charges, applying to all applications for new service, effective December 1, 2005.”⁴⁴

In its Application, Stargas requests approval to include the 10 Percent Markup in rate base, similar to the Rate Base Installation Costs, and recover the 10 Percent Markup from all customers through amortization expense commencing November 1, 2019.

In its response to Commission IR No. 8.2, Stargas submitted that the 10 Percent Markup is in place to recover the following costs:

Each new customer acquisition involves exchanges (paper/phone calls, etc.) between among building contractor, building owner, FAE and Stargas management; while requested and approved (Stargas submits appropriately) as incremental revenues impacting cost of service and the utilities revenue requirement (thus of benefit to existing ratepayers) Stargas submits that in the now severely truncated level of allowed management time, that the continuance of the markup yet necessary and appropriate in equity to ratepayer and Stargas shareholders.⁴⁵

Panel IR 3.1 requested that Stargas confirm “whether Stargas intends to recover the 10 percent administrative markup by: a) collecting it from the individual customer, ii) rate base amortization or iii) both.” In response, Stargas submitted that it “proposed to include the 10% markup in its rate base amortization.”⁴⁶

Intervener argument and Stargas reply argument

In its Final Argument, SSPOA states that:

The SSPOA objects to a 10% markup, and submits that Stargas should simply forecast the time cost of processing new applications, using the approved “accounting” and “administrative” rates. That is an effective way to forecast and compensate Stargas for phone calls and establishing an account (an hour of accounting at \$46.16, and two hours of administration at \$24.46, per account, would both be very generous and less than the 10% markup). Or, if the markup is approved, then the associated forecast revenue should be “backed out” from the overall revenue requirement.

⁴⁴ Order G-118-05.

⁴⁵ Exhibit B-2, BCUC IR 8.2, p. 9.

⁴⁶ Exhibit B-5, Panel IR 3.1, p. 2.

In short, the Commission should ensure no double counting takes place, and only actual costs are recovered.⁴⁷

In its Reply Argument, Stargas submits that:

In the details provided within the [Stargas 2016 Delivery Rate] proceeding Stargas did not include time given to the coordination of new installations (propane conversions) as these were understood to be covered by the 10% markup. There was and remains, therefore, no double counting (revenue duplication) and the determination made is G-118-05 covering installation coordination costs remains an equitable recovery of incremental costs. Note further, should there be a substantial number of propane conversions in the spring/summer of 2017, the 10% markup on each will be a necessary component in Stargas efficiently coordinating the hoped for momentum.⁴⁸

Panel discussion

The Panel finds that the addition of the 10 Percent Markup by Stargas on service line, meter and applicable manifold contractor costs to be applied to its rate base amortization is reasonable. This approach is consistent with Commission Order G-118-05.

Based on Stargas' description of the costs that the 10 Percent Markup is in place to recover, the Panel considers that the additional staff and management time Stargas will incur as a result of any new service installation requests is overhead directly attributable to bringing these assets into use. Accordingly, the Panel finds rate base treatment to be reasonable. The cost of this additional time will not be recovered in the existing delivery rate, which has been set in Order G-59-17, as the activities associated with the new installations were not anticipated at the time that decision was made. Therefore, the Panel disagrees with SSPOA that there is double counting, since the additional time spent is not being billed to ratepayers on an hourly basis, and therefore there are no costs to be backed out.

Regarding Stargas' proposal to include the 10 Percent Markup in its rate base amortization, the Panel understands this statement to mean that the 10 Percent Markup will not be collected from new residential and small commercial customers at the time of signing up for new service, but instead will be recovered from all ratepayers through amortization expense.

2.2 2017 Installation Application Regulatory Account request

As stated in section 1.3 of these reasons for decision, in the original Application, Stargas requests approval to establish a regulatory account to capture its cost of preparing the Application (up to \$9,500) and a marketing budget of \$3,500 to market the amended terms and conditions of its tariff in a 2017 Installation Application Regulatory Account. In addition, it proposed the balance in the 2017 Installation Application Regulatory Account be recovered from all ratepayers as a ride rider over 24 months, commencing November 1, 2019.⁴⁹

Subsequently, the Application was amended to include:

- i. A request that the balance in the regulatory account accrue interest at Stargas' WACC of 6.34 percent; and

⁴⁷ SSPOA Final Argument, p. 7.

⁴⁸ Stargas Reply Argument, p. 3.

⁴⁹ Exhibit B-1, p. 2.

- ii. The balance in the regulatory account be recovered from all ratepayers as a rate rider over 24 months “commencing following receipt of [Commission] approval to do so.”⁵⁰

The Panel notes during final and reply arguments, Stargas withdrew its request to include a budget of \$3,500 in marketing costs⁵¹ in the regulatory account; the final balance sought is \$9,500 for application costs only.

Stargas provided a breakdown of \$9,500 application cost based on executive, accounting and legal costs incurred to-date, and its forecast cost of executive time through the completion of the Application, including arguments; this breakdown is summarized in Table 1:

Table 1 – Breakdown of total incurred and forecast legal and OKF costs⁵²

	<u>Hours</u>	<u>Rate</u>	<u>Cost</u>
Legal cost (incurred)			\$1,616.50
Executive cost (incurred)	39	\$144.26	\$5,626.14
Accounting cost (incurred)	4	\$69.24	\$276.96
Executive cost (forecast)	14	\$144.26	\$2,019.64
Total			\$9,539.24

Stargas submitted that an amortization period of 24 months is appropriate as it considers “...the outlay of direct and immediate benefit to ratepayers...” over a “...relatively short period...” of time.⁵³ Stargas stated in response to SSPOA IR 11 that it does not consider amortizing the application and marketing costs of the Application over the same term as the Rate Base Installation Costs to be “consistent with the underlying nature of the two cost pools.”⁵⁴ Stargas submitted that the application and marketing costs are a current outlay that can reasonably be treated as a prepaid expense, while the Rate Base Installation Costs are “analogous to other capital investments.”⁵⁵

Intervener argument and Stargas reply argument

In its Final Argument, SSPOA expresses its concerns regarding regulatory inefficiency and transparency.⁵⁶ It provides examples and submits that the cost of the Application “risk[s] being disproportionately expensive to the benefits offered to ratepayers, and should be reduced substantially.”⁵⁷ Furthermore, due to errors which Stargas acknowledged in the calculation of its 2016 Delivery Rate Application Regulatory Account,⁵⁸ SSPOA submits that it has “little comfort that what will be a more complicated amortization of staggered [Rate Base Installation Costs], will unfold appropriately” and therefore, requests that the Commission “direct Stargas to provide transparent and timely calculations” to avoid future errors.⁵⁹

⁵⁰ Exhibit B-5, Panel IR 11.3(a); Stargas Reply Argument, p. 4.

⁵¹ Stargas detailed its proposed marketing plan in BCUC IR 11.4; Stargas Reply Argument, p. 2.

⁵² Exhibit B-2, BCUC IR 11.2.

⁵³ Ibid., BCUC IR 11.5.

⁵⁴ Exhibit B-3, SSPOA IR 11.

⁵⁵ Ibid.

⁵⁶ SSPOA Final Argument, p. 2.

⁵⁷ Ibid., pp. 2, 7–9.

⁵⁸ Exhibit B-3, SSPOA IR 13.

⁵⁹ SSPOA Final Argument, p. 9.

In reply, Stargas disagrees with SSPOA, submitting that it has incurred \$9,911 in costs to the filing of its reply argument. Therefore, Stargas submits that the \$9,500 amount which it has requested is “justified and equitable.”⁶⁰ Stargas does not comment specifically on the action requested by SSPOA.

Commission determination

The Panel finds the establishment of a 2017 Installation Application Regulatory Account to capture the costs of preparing the Application is warranted, and therefore approves it to a maximum balance of \$9,500, with each annual balance accruing interest at Stargas’ current weighted average cost of capital. For reasons outlined below, Stargas’ request to amortize this account over 24 months is denied. Stargas is directed to amortize the balance of this account over 60 months from the date of this order through a rate rider.

The Panel acknowledges SSPOA’s concern that the regulatory costs of the Application risk being disproportionately expensive to the benefits gained by ratepayers of the Application. However, this risk is always present in applications made by small utilities, and is not of itself a reason to disallow costs. The submission of this Application was supported by SSPOA during the 2016 Delivery Rate Application; in this proceeding, it is a matter for the Panel to determine whether these regulatory costs have been prudently incurred.

The Panel finds that the \$1,616.50 in legal costs is reasonable for this Application. Further, the Panel finds that the total anticipated Stargas accounting and executive hours are reasonable, and that Stargas used the rates approved by Order G-59-17. Therefore, the Panel finds that the costs applied for, up to \$9,500, are reasonable.

Stargas applied to recover the costs in this regulatory account over 24 months, commencing the month following Commission approval of the account. The Panel agrees that these costs should be recovered starting immediately. However, the Panel disagrees with Stargas that there is a “direct and immediate benefit to ratepayers” that matches and necessitates a recovery of this account over 24 months. Rather, the Panel considers the magnitude of the expenditure to be recovered as well as the rate impact, and finds adjusting the amortization period to 60 months, or 5 years, to be sufficient to mitigate the immediate impact to ratepayers, while not being unduly lengthy.

The Panel agrees to take the action recommended by SSPOA and **directs Stargas to provide rate base, rate base amortization and all regulatory account continuity schedules as part of its next delivery rate application. Stargas is also directed to provide explanations and/or reconciliations of those schedules compared to the relevant financial schedules provided in the 2016 Delivery Rate Application proceeding.**

2.3 Incremental revenues and costs before November 1, 2019

Stargas does not propose to change its current delivery rate as a result of the Application.⁶¹ Accordingly, in Commission and Panel IRs, it was asked to consider its proposed treatment for incremental revenues and costs arising from new service installations in the period prior to its next application for delivery rates, for rates effective November 1, 2019. Stargas submitted that it contemplated net revenue or costs would be attributed to its shareholder, but submits the revenue margin generated would be immaterial, such that it is “an unwarranted exercise requiring it to catalogue net revenues from new and propane conversions.”⁶²

⁶⁰ Stargas Reply Argument, pp. 3–4.

⁶¹ Exhibit B-1, p. 1; Pursuant to Order G-59-17, Stargas’ current delivery rate is \$5.77 per gigajoule effective November 1, 2016 to November 1, 2019.

⁶² Exhibit B-5, Panel IR 2.1.1.

SSPOA did not comment on this issue in its final argument.

Commission determination

The Panel finds a regulatory account to capture the incremental revenues and costs associated with new service installations added prior to November 1, 2019 is warranted. Stargas is directed to establish this account, the disposition of which will be determined in the next revenue requirements proceeding. The Panel disagrees with Stargas that the total net revenue margin contribution of each new installation is immaterial. As discussed in section 2.1.1, it is on the basis of positive Revenue Margin Analyses that the Commission approves the modifications to the Stargas tariff and its regulatory accounting for new residential and small commercial service installation costs.