

Utility Newsletter

June 2011



COMPOSTING PROJECT – Sun Peaks Utilities is working through the final approval process so that we can proceed with ordering equipment for our containerized composting system. As soon as weather permits, we'll start preparing the site. At present, we are on track for our composting system to be operational later this year.

GAS RATE INCREASE – Last month we advised that the commodity pricing was not following historical trends, as we had not yet seen a price decrease that usually occurs in late Spring. We planned to wait until the Fall to assess rates and apply to the BCUC for a rate change if required.

In May, as part of a required submission to the BCUC, an updated commodity price forecast was provided. This forecast was provided by FortisBC and MP Energy (part of Gibbson Energy). The forecast projects that there will be no price relief through the Summer, and instead, further increases are expected. Under these conditions, we cannot continue to absorb the increases in hopes of future price reductions. Sun Peaks Utilities has therefore applied for and been granted approval by the BCUC to increase rates to recovery costs.

The following are examples of the effects of the rate increase effective June 1, 2011 per BCUC Order G-104-11.

Customer Type	Annual Propane in Gigajoules (Gj) used	Current Commodity Rate per Gj	Proposed Commodity Rate Only per Gj	% Increase in Overall Annual Gas Costs (% includes Basic & Deliver Charges)
Residential Condo	18	\$16.6650	\$20.6650	12.9%
Single Family Home	85	\$16.6650	\$20.6650	18.7%
Small Commercial	354	\$16.6650	\$20.6650	20.1%
Commercial	4,260	\$16.6650	\$20.6650	20.3%
Large Commercial	10,000	\$16.6650	\$20.6650	20.5%

As approved, you will see this increase on your July invoice. We must also advise you that if energy prices continue to increase as forecast, it will be necessary for us to pass these increases, through an additional rate increase effective as early as of November 1, 2011.

We have investigated alternatives to eliminate or moderate our dependence on propane. In the past, the business case proved that it would be too costly to bring natural gas to the resort. In light of the current pricing environment, we are updating that business case, to see if there is merit in pursuing it further. We have also priced propane from other refineries to see if there is any room for pricing improvement, and benchmarked our contracts against other resorts, as their circumstances are similar to ours. We have confirmed that our current contracts are less costly than the alternatives, which, while good news, doesn't help us bring the cost down. At this point, there is no near-term solution to these increasing commodity costs, but we continue to investigate every possible avenue.

Background on commodity pricing at Sun Peaks

In Sun Peaks' early years, we purchased bulk gas from ICG, and charged the actual cost (averaged out over the month) of fuel delivered each month. Our customers at that time asked us to make sure we were always buying at the best price possible, and also to fix the price for longer periods of time so that there was some predictability for budgeting.

In 1998, Sun Peaks Utilities entered into a long term agreement with FortisBC (formerly Terasen Inc. / BC Gas) for construction of a single site propane storage facility (the Utility had three sites previously), installation and repair services, on-going training and regulatory support. The agreement also allowed Sun Peaks Utilities to purchase fuel using FortisBC's buying power. At the time, FortisBC purchased over 40,000,000 litres of propane annually. By leveraging this buying power, Sun Peaks Utilities was able to establish a long term practice of purchasing gas at volume pricing that was better than our own pricing could be.

We also investigated rate structures that would limit the number of annual changes in rates. Customers were asking for a system that implemented a change once a year, rather than every month. To meet this demand, we implemented a rate stabilization vehicle through the use of a Gas Cost Reconciliation Account (GCRA). This account accrues the differences between our actual commodity cost, and the commodity price being billed to our

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customers. Overages and shortages are accumulated in the GCRA until they either balance out, or a rate adjustment is required to lower or re-set the account to nil.

Most years, SPUCL purchases 50% of its winter gas requirement during the Summer when prices are normally lower. We pay a premium to store this gas until needed. This purchasing strategy has delivered competitive pricing to our customers and also allowed us to set an annual commodity cost change once a year, in the Fall. Over the past year, the storage premium has risen from \$0.03 per litre to over \$0.12 per litre. Based on these premiums it is no longer viable to pre-purchase the fuel, and we are now buying propane on the spot market. We still leverage FortisBC's volumes, and shop various refineries for best prices.

In the fall of 2010, SPUCL increased the commodity rate 5.9% instead of the 12% it could have been if set to cover the full commodity price. We were hoping that the seasonal trends we've seen in the past would continue. This meant setting a lower rate than our actual cost throughout the winter, allowing the GCRA to increase; with an expectation that reduced Spring pricing would balance out the GCRA. If the price of fuel had followed normal seasonal trends, the increase to the GCRA over time would not have been significant. However, prices kept increasing and so did the GCRA.

We have now reached a point where the GCRA has reached its highest level yet. A rate increase is required to ensure that we don't inadvertently create an unintentional long term debt. Based on discussions with the BC Utilities Commission, the Utility's larger customers, and given the current state of the economy, the Utility has decided to recommend an increase to the commodity rate only; to the point where we expect that the GCRA will remain close to current levels. If current high prices stay in place, we will need a subsequent increase in late fall to start reducing the GCRA, however there are some in the gas industry who believe that prices may drop due to the pressure to stop the practice of gas fracking (using propane to fracture underground rock formations to allow the easier release of oil and/or natural gas). For now, the Utility has requested that the BC Utilities Commission approve the application for a \$4.00 per Gigajoule (approx. \$0.1015 per litre) increase in the Commodity Charge. Hopefully we'll see some easing of prices over the next few months. We'll keep you posted with updates in our newsletters. A copy of the application is on our website at www.sunpeaksutilities.com under Gas Tariff & Rates.

Should you have any questions on these or any other utility matters, please contact us at the Utilities office at 250-578-5490 and press 1 or via email at info@sunpeaksutilities.com.



CONSTRUCTION PROJECTS – Construction or maintenance zones will have roadway signs in advance to warn motorists that road or utility work is being performed. Please slow down when you see Utility Crews working on the side of the Road.

DIAL BEFORE YOU DIG – Now that the snow is finally melting and you may be thinking of construction projects, please remember it is mandatory to know where your underground utilities are located. Simple projects like installing a deck or hot tub (where you need to put electrical services underground) can cause a life threatening or expensive

incident. Call BC One Call at **1-800-474-6886**, for all the member utility companies underground utility service locations. The information is provided at no charge to you. Let's keep everyone safe.

MAIL DELIVERY INTERRUPTION: In the event of a general postal strike, customers are responsible for keeping their account current. Sun Peaks Utilities' invoices are due the 7th of each month. You can pay in person (there is a drop box outside the Utilities' offices at the Burfield Lodge for after hours) or you can pay online using Internet Banking through your Canadian bank or Credit Union. If you are unsure of the amount due, please contact the office at info@sunpeaksutilities.com or 250-578-5490 (press 2). Please have your account number or address ready. Thank you for your cooperation.



Sun Peaks Utilities Co., Ltd.

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1280 Alpine Road, Sun Peaks, British Columbia, V0E 5N0 Tel: 250-578-5490 Fax: 250-578-5516

www.sunpeaksutilities.com – e-mail: info@sunpeaksutilities.com