

M A N I T O B A) Order No. 84/07
)
THE PUBLIC UTILITIES BOARD ACT) June 29, 2007

BEFORE: Graham Lane, C.A., Chairman
 Susan Proven, P.H.Ec., Member

 STITTCO UTILITIES MAN LTD.
 INTERIM PROPANE RATES

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1.0 INTRODUCTION

By this Order, the Board establishes interim propane rates effective July 1, 2007.

	Rate per cubic meter	
Cubic meters	Interim	Existing Order 133/05
Domestic Service		
First 50	\$2.4155	\$2.3121
Over 50	\$1.9976	\$1.9121
Commercial, Industrial and Large Volume Service		
First 1,000	\$2.2379	\$2.1421
Next 3,000	\$2.1021	\$2.0121
Over 4,000	\$1.8618	\$1.7821

Industrial and large volume rates may be set through negotiation, subject to negotiated rates not exceeding the rates specified above and being filed and accepted by the Board. At the time of the release of this Order, Stittco had two customers with negotiated rates, the hospitals in Thompson and Flin Flon.

This Order follows Order 79/07 and Stittco's subsequent amendment of an application that had sought an across-the-board rate increase of 6.1%. Order 79/07, the Board directed Stittco to file, on or before June 22, 2007, an amended rate proposal reflecting the following changes:

- a) a reduction in revenue requirement to reflect an allowable rate of return on rate base and shareholder's equity of 10%, reduced from the current 10.83%; the Board will continue to allow Stittco's 100% equity-based capital structure; and
- b) a reduction, for regulatory rate setting purposes, in revenue requirement to account for a provision for income tax expense consistent with the allocation to Stittco of one-third of the

annual allowable maximum small business tax deduction, to a maximum of Stittco's prospective taxable income.

Following Stittco's filing of the required information, and its amendment of its application to reflect the directed changes, the Board accepts the revised rate application and acts to set interim rates. The rates, representing increases of 4.5%, will be subject to further amendment and finalization, following the Board's review of further additional information, to be filed by Stittco on or before September 15, 2007.

Stittco's Purchased Propane Variance Accounts (PPVA) are to continue to accrue differences between actual propane supply and transportation costs and those reflected in rates.

This Order should be read in conjunction with Order 79/07, which may be accessed through the Board's website www.pub.gov.ca or by contacting the Board's Winnipeg Office.

2.0 BACKGROUND

Incorporated in Manitoba, Stittco distributes propane brought in by railcar and then delivered through pipeline distribution to approximately 1,039 customers in Thompson, Flin Flon and Snow Lake. About sixty-five percent of Stittco's propane volume is consumed by its commercial customers including restaurants, other businesses and large institutions such as the Thompson and Flin Flon Hospitals; the remainder is consumed by residential customers.

On January 30, 2006, Stittco filed two applications with the Board. The first, for deregulation; if it had been approved would have made the second moot. The second requested across-the-board rate increases of 6.1%. At that time, the Board deferred addressing the requests, as commodity prices were then falling. Subsequently, Stittco renewed its applications.

With commodity prices still below the levels forecast by Stittco in its application, by Order 138/06, dated October 2, 2006, the Board denied Stittco's rate request and deferred further consideration of both the regulatory approach and rate increase applications to a public hearing. The hearing was held in March 2007, in Thompson, Manitoba.

A comparison of existing rates, as set by Order 133/05, and the rates initially sought by Stittco are set out below:

	Rate per cubic meter	
Cubic meters	Proposed	Existing Order 133/05
Domestic Service		
First 50	\$2.4526	\$2.3121
Over 50	\$2.0283	\$1.9121
Commercial, Industrial and Large Volume Service		
First 1,000	\$2.2722	\$2.1421
Next 3,000	\$2.1343	\$2.0121
Over 4,000	\$1.8904	\$1.7821

Industrial and large volume rates may be set through negotiation, subject to negotiated rates not exceeding the rates specified above and being filed and accepted by the Board. At the time of the release of this Order, Stittco had two customers with negotiated rates, the hospitals in Thompson and Flin Flon.

Stittco's propane supply and transportation expenses, to Stittco's franchise area, are reflected in customer rates without markup. Fluctuations in these costs, upwards or downwards, are captured in Stittco's PPVA balances. Stittco's application projected that higher propane commodity prices will be sustained, though market conditions and price fluctuations will occur.

Board Order 79/07 resulted from the hearing, the Order rejected Stittco's bid for forbearance of direct rate setting regulation, and required additional information prior to the Board addressing Stittco's application for across-the-board rate increases of 6.1%.

Reflected in Stittco's proposed rates were projected 2006/07 commodity and non-commodity expenses, a tax provision, and an allowable rate of return on shareholder's equity. The tax provision did not reflect any attribution to Stittco of the allowable small business tax deduction, reported by Stittco to have been fully taken by the parent. And, with respect to the actual annual rate of return allowed on shareholder's equity, the Board concluded on a 10% return.

3.0 BOARD FINDINGS

Stittco filed the information required by the Board ahead of an interim rate setting as of July 1, 2007, and its filing included an amended rate application reflecting the directions of the Board in Order 79/07.

Accordingly, the Board will accept the revised rate proposal effective July 1, 2007, on an interim basis. The interim rate increases now to be established represent (generally) increases of 4.5% rather than the 6.1% initially sought by Stittco.

However, if the remaining information being sought by the Board has not been provided by September 15, 2007, and the Board does not extend the timelines set herein, the revised rates now to set on an interim basis will expire as of September 30, 2007. On that expiry, the interim rates established by Order 133/05 will be returned to effect.

The information still sought by the Board is required to allow the Board to conclude on the fairness of current rates, and the balance of interests between customers and the utility. The Board lacks information related to affiliate transactions, and still intends to put itself in a position to better understand the utility's economic relationships and transactions with its parent and affiliate companies.

Stittco Energy controls Stittco and has a clear conflict of interest in its dealing with Stittco; while that does not mean that the transactions between the two companies are improper, it does mean that this Board must understand and accept the arrangements.

And, as well, the Board remains uncertain as to how to proceed with respect to an alleged subsidization of residential

customers by commercial customers, and requires additional information and an opinion from Stittco.

Upon receipt of the information still outstanding from Stittco, the Board intends to complete its understanding of the situation as quickly as possible, and then finalize revised rates. As well, it will consider amending future processes with respect to the setting of commodity and non-commodity based rates.

As to rates and this interim Order, Stittco sought 6.1% rate increases, citing:

- a) subsidization of Stittco by Stittco's parent company;
- b) non-commodity cost increases not reflected in rates since 2002, and accounting for 60% of the 6.1% increase sought;
- c) due to competitive issues, being "on the verge of shutting the doors and going out of business"; and
- d) a recent loss and continuing below norm returns due to lower than forecast volumes and a lack of recognition in rates of non-commodity cost increases.

Accordingly, the Board will respond to Stittco's request, though on an interim basis and following Stittco's amendment of its application in accordance with the direction of Order 79/07. Stittco amended its application to reflect Order 79/07's directions with respect to the allowable rate of return and the sharing of the small business tax rate.

Final rates will not be set until the Board is comfortable with the revenue requirement established for commercial customers as

opposed to residential customers, and has an acceptable understanding of inter-company arrangements between Stittco and its parent. Following the receipt of the additional information listed below, the Board will finalize rates and rate schedules.

Finally, the Board directs Stittco to continue with the established procedure maintaining Purchased Propane Variance Accounts (PPVA), these to accrue differences between actual and estimated costs, as reflected in rates.

5.0 IT IS THEREFORE ORDERED THAT

1. Stittco Utilities Man Ltd. rates be amended as of July 1, 2007, and reflect the following changes to Stittco's application:

- a) an allowable rate of return on rate base and shareholder's equity of 10%; and
- b) a one-third sharing, to the maximum of Stittco's prospective taxable income, of the small business tax deduction, for regulatory rate setting purposes.

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Industrial and large volume rates may be set through negotiation, subject to negotiated rates not exceeding the rates specified above and being filed and accepted by the Board. At the time of the release of this Order, Stittco had two customers with negotiated rates, the hospitals in Thompson and Flin Flon.

2. Stittco Utilities Man Ltd. continue to track and report to the Board in its Purchased Propane Variance Accounts differences between actual propane costs and the estimated propane costs embedded in rates.

3. Stittco Utilities Man Ltd. file with the Board on or before September 15, 2007:

- a) the most recent audited financial statements of Stittco Energy, together with;
- b) a description of the allocation methodology used for inter-company financial arrangements between Stittco Energy and Stittco, by category (this is to be accompanied by an audit attestation as to the accuracy and reasonableness of the methodology);
- c) on a revenue neutral basis, a five-year transition plan to bring residential and commercial rates within a 90%-105% range of revenue to cost ratio acceptability by customer class;
- d) the final or then-current version of Foster Group's review of Stittco's rate schedules;
- e) a proposal for a different rate structure, providing separate rates for each customer class for "commodity costs" (reflected in rates without mark-up on actual incurred costs) and for non-commodity costs;
- f) a proposal to establish a process by which commodity rates will be amended quarterly, on August 1, November 1, February 1 and May 1 of each year, to reflect actual and prospective commodity price and cost changes;
- g) a proposal for a process by which non-commodity costs will be amended annually, on May 1 of each year;
- h) a proposal to assist the residential propane customers that currently rely on mid or low-efficiency propane furnaces in upgrading to a high-efficiency furnace, and a review of the potential for the imposition of minimum charges.

The Public Utilities Board will, by separate Order, assess costs against Stittco Utilities Man Ltd. to meet the Board's disbursements related to Stittco proceedings.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, C.A."
Chairman

"Gerry Gaudreau, C.M.A."
Secretary

Certified a true copy of Order
No. 84/07 issued by The Public
Utilities Board

Secretary