

M A N I T O B A) Order No. 107/10
)
THE PUBLIC UTILITIES BOARD ACT) October 29, 2010

BEFORE: Graham Lane, CA, Chairman
 Len Evans, LLD., Member
 Monica Girouard, CGA, Member

 STITTCO UTILITIES MAN LTD.
 Non-Commodity Costs and
 Propane Rates Effective November 1, 2010

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1.0 EXECUTIVE SUMMARY

By this Order, the Manitoba Public Utilities Board (Board) sets both non-commodity and commodity rates for Stittco Utilities Manitoba Ltd. (Stittco) and approves the rate base for Stittco as of July 31, 2010. Both non-commodity and commodity rates are effective for propane consumed on or after November 1, 2010.

Non-commodity costs include costs incurred by Stittco for the distribution of propane. In accordance with Board Order 141/08, non-commodity costs are reviewed annually, with allowed costs then recovered in rates through a basic monthly charge and delivery charges based on customer consumption.

By this Order, the Board approves annual non-commodity costs for Stittco of \$1,911,865, an increase of \$41,774 or 2.2% from \$1,870,091 (the last non-commodity cost approved by the Board in Order 45/09). The increase represents an increase in distribution rates of 9.7%.

The majority of non-commodity costs are collected through distribution rates which are based on consumption volumes. With lower projected propane consumption volumes, combined with the approved increase in non-commodity costs, there is a resulting larger percentage increase in charges to distribution rates.

The Board also approves Stittco's rate base at \$1,964,557, a reduction from the \$2,014,590 approved in Order 45/09.

Commodity costs are set quarterly pursuant to the Board approved Quarterly Rate Setting (QRS) process. Commodity costs, including transportation to Thompson, are passed on to customers with no mark up.

Variiances are tracked in a Purchase Propane Variance Account (PPVA) and are either refunded or collected from customers in subsequent quarterly rate setting applications.

By this Order, the Board approves an increase in commodity rates for the propane and transportation component of Stittco, effective for propane consumed on or after November 1, 2010.

The revised rate structure compared to the rates of the prior three quarters is provided below:

	Feb 1/10	May 1/10	Aug 1/10	Nov 1/10
Basic Monthly Charge	\$10.00/mo	\$10.00/mo	\$10.00/mo	\$10.00/mo
	per m ³	Per m ³	per m ³	per m ³
Commodity Costs Recovery	\$1.6990	\$1.2592	\$1.0850	\$1.4590
Delivery charge				
First 100 m3	0.9696	0.9696	0.9696	1.0634
Next 400 m3	0.8648	0.8648	0.8648	0.9484
Next 1000 m3	0.8183	0.8183	0.8183	0.8974
Next 2500 m3	0.6630	0.6630	0.6630	0.7271
Over 4000 m3	0.5087	0.5087	0.5087	0.5578

The new commodity cost represents an increase of 34.5% from current commodity rates (which were approved by Order 75/10). With the increase in both non-commodity and commodity rates, an average residential bill may be expected to increase by approximately 23% (bills will vary by customer depending on consumption).

This Order also finalizes interim ex-parte rates from Board Orders 11/09, 45/09, 115/09, 149/09, 9/10, 45/10, and 75/10.

2.0 INTRODUCTION

This order reflects the Board's decision on an application by Stittco in June of 2010 for an increase in non-commodity rates.

Non-commodity costs include costs incurred by Stittco for the distribution of propane to their customers. These costs typically include items such as operating expenses (salaries, materials and supplies, administrative costs), depreciation, income tax and an expected return on the rate base.

Board Order 45/09 was the last Board Order that approved non-commodity rates arising from a General Rate Application filed by Stittco in July of 2008 with cost updates provided by Stittco in March of 2009. In Order 45/09, the Board considered Stittco's application for non-commodity costs, including interventions from the Consumers' Association of Canada (Manitoba) Inc. and the Manitoba Society of Seniors (CAC/MSOS). Both the PUB and CAC/MSOS posed a number of questions to Stittco concerning their rate application, revenue requirements and projected expenditures.

Non-commodity costs are recovered through Stittco's Board approved distribution rates and a basic monthly charge.

Based on the non-commodity cost revenue requirements as approved by the Board in Board Order 45/09, the current basic monthly charge and distribution rates are shown in the table below.

Basic Monthly Charge	\$10.00/month
Commodity Costs Recovery	Set based on Quarterly Rate Application

Delivery Charge:	
First 100 m ³	0.9696
Next 400 m ³	0.8648
Next 1000 m ³	0.8183
Next 2500 m ³	0.6630
Over 4000 m ³	0.5087

Commodity costs reflect the actual cost of propane, including transportation costs to bring propane to Stittco's storage facilities. These costs are passed on to customers without mark-up.

Board Order 141/08 approved a rate setting methodology that has Stittco's commodity price for propane adjusted on a quarterly basis (August 1, November 1, February 1 and May 1 of each year) with annual reviews of non-commodity rates.

Variances between actual propane costs and estimated propane costs embedded in rates are tracked in a PPVA and either refunded to or collected from customers in subsequent rate settings. Regular adjustments to commodity prices help to minimize balances in this account.

Rates established by the quarterly rate setting process are approved on an *ex-parte* basis. This means that they are established by the Board without further public consultation, subject to satisfactory information being filed by Stittco.

This approach is justified on the basis that the changes are driven by commodity price changes and that the process restrains

regulatory costs while providing updated price signals to consumers.

Stittco's current commodity cost for propane is \$1.0850 per cubic meter as approved in Board Order 75/10.

3.0 APPLICATION

Non-Commodity rates

In June 2010, Stittco applied to the Board for an order fixing just and reasonable non-commodity rates for all gas customers served by Stittco, effective August 1 2010, including:

- a) a determination of the non-commodity cost revenue requirement of the Company; and,
- b) a determination of the rate base of Stittco as of July 31, 2010.

In its application, Stittco noted the most recent Board Order relating to non-commodity costs was Board Order 45/09 dated April 24, 2009. This Order determined the non-commodity revenue requirement of the Company and finalized rates effective May 1, 2009.

The Board ordered Stittco to file supporting data for a proposed change in non-commodity cost revenue requirement by March 1, 2010, and on April 27, 2010 Stittco provided the Board with information relating to its non-commodity costs (for the period August 1, 2009 through July 31, 2010).

On May 5, 2010, the Board asked Stittco for an application for revised non-commodity rates, for a possible rate change date of August 1, 2010.

On June 30, 2010, Stittco submitted to the Board its application for non-commodity rates.

In Board Order 141/08 the Board stated:

Going forward, subsequent to the Board finalizing the rate schedule now set on an interim basis, the Board anticipates that future rate reviews will also be handled by the Board's paper-based process. For the annual non-commodity rate review, the Board will expect Stittco to issue a notice to its customers concurrent with providing the Board with its application, that notice to be pre-vetted by the Board and to provide for customers with concerns writing the Board. Quarterly commodity rate changes will be reviewed by the Board and communicated to customers by Stittco in accordance with future directions of the Board.

In accordance with Board Order 141/08 the Board determined to proceed with the review of the non-commodity cost application through a paper-based process.

The Board reviewed Stittco's application and on August 5, 2010 provided Stittco with information requests on the application. On August 13, 2010 Stittco provided its customers with notification of the proposed non-commodity cost rate increase.

Note: No submissions were received by or complaints filed with the Board.

On September 10, 2010 Stittco provided responses to the Board's information requests. In Stittco's responses to information requests, Stittco also provided a revised application.

Upon review of the revised application and responses to information requests, the Board submitted additional information requests to Stittco for clarification.

Stittco's revised submission for non-commodity costs resulted in a projected 2011 non-commodity cost revenue requirement of \$1,932,025. The table below summarizes Stittco's non-commodity revenue requirement and compares it to non-commodity costs approved in Board Order 45/09.

	Stittco Revised Application September 2010	Approved From Board Order 45/09	Increase (Decrease)
Wages & benefits	619000	604,400	14,600
Materials & supplies	48400	44,500	3,900
Contract services	125000	123,500	1,500
Other operating costs	144,500	124,500	20,000
Automotive	59,000	59,000	0
Insurance	75,800	75,000	800
Property taxes	163,000	150,000	13,000
Admin & general	203000	203,000	0
Total direct	1,437,700	1,383,900	53,800
Admin fee	172524	166,068	6,456
Total operating expense	1,610,224	1,549,968	60,256
Other cost of sales	125,000	120,000	5,000
Depreciation	146,617	136,172	10,445
Accretion	21,000	18,774	2,226
Return on rate base	196,456	201,459	(5,003)
Income tax requirement	104,328	100,318	4,010
Other income	-271,600	-256,600	(15,000)
	321,801	320,123	1,678
Total- non- commodity revenue requirement	1,932,025	1,870,091	61,934

The Stittco mid-year rate base for 2009, and approved per Board Order 45/09, was \$2,014,590. Stittco's projected mid-year rate base for 2011 is \$1,964,557.

In its application, Stittco sought a 10% return on its projected rate base, this, if granted, would result in an annual revenue

requirement of \$196,456. Given the investment risk, Stittco held that an appropriate rate of return would be significantly higher than the approved 10%. However, Stittco is facing a very competitive market in a small service area, particularly competition from electricity for space heating. This competition places constraints on Stittco charging rates that reflect greater than a 10% return on rate base.

The non-commodity application submitted by Stittco would result in an overall increase in consumer non-commodity rates of approximately 10.9%. The actual projected operating costs are forecast by Stittco to increase 3.3%.

Commodity rates

On October 13, 2010 Stittco filed its quarterly propane cost application with the Board. In its application, Stittco sought an increase in the propane commodity rate from \$1.0850 per cubic metre to \$1.4590 per cubic metre.

This price reflects Stittco's forecast cost of liquid propane and includes transportation costs to Manitoba. Stittco also carries a PPVA which tracks variances between forecast propane costs and actual costs. Variance are either refunded or collected from customers in the quarterly rate setting process.

As of August 31, 2010, the variance account had a balance of \$55,402 owing to the customer. The required refund to customers is incorporated in the propane commodity rate of \$1.4590 per cubic meter.

4.0 BACKGROUND

Incorporated in Manitoba, Stittco distributes propane through a pipeline distribution network to approximately 950 customers in Thompson, Flin Flon and Snow Lake, Manitoba. Bulk propane is shipped to Stittco's storage facilities by rail or by truck.

As of July 2009, Stittco had 784 residential customers and 166 commercial customers. Residential customers account for approximately 25% of the overall propane volumes sold by Stittco; commercial customers account for approximately 75% of propane volumes.

Approximately 95% of Stittco's total sales volumes are in Thompson; 3% are in Flin Flon and 2% are from Snow Lake.

The Stittco residential customer base has been gradually declining over the last few years. This has generally been attributed to the difference in cost between heating with propane versus electricity. Commercial customer numbers have remained relatively constant over the last five years.

5.0 BOARD FINDINGS

Non-commodity rates

The Board has carefully considered Stittco's application, as revised as of September 10, 2010, and Stittco's response to interrogatories from the Board. Resulting from this review, the Board will make the following adjustments to non-commodity revenue requirements:

	Stittco Application September 2010		Approved
		Adjustments	
Wages & benefits	619000		619,000
Materials & supplies	48,400		48,400
Contract services	125,000		125,000
Other operating costs	144,500		144,500
Automotive	59,000		59,000
Insurance	75,800		75,800
Property taxes	163,000		163,000
Admin & general	203000	-18,000	185,000
Total direct	1,437,700		1,419,700
Admin fee	172524		170,364
Total operating expense	1,610,224		1,590,064
Other cost of sales	125,000		125,000
Depreciation	146,617		146,617
Accretion	21,000		21,000
Return on rate base	196,456		196,456
Income tax requirement	104,328		104,328
Other income	-271,600		-271,600
	321,801		321,801
Total- non- commodity revenue requirement	1,932,025		1,911,865

In its review, the Board reduced administration and general expenses as proposed by Stittco from \$203,000 to \$185,000, a reduction of \$18,000 attributable to two cost components - Board costs and legal costs.

In its application, Stittco projected Board costs at \$10,000. This cost was composed of \$2,000 for regulatory fees and \$8,000 for engineering costs. The Board reduced Stittco's projected engineering costs to \$5,000. Engineering costs are incurred as part of a regular safety audit program that is conducted annually on selected Stittco facilities.

Historical engineering costs have varied from \$1,800 to upwards of \$12,000 over the last three years. The revised engineering costs are estimated to be more reflective of anticipated costs based on the scope of work required for annual audits and historical engineering costs. The \$2,000 in regulatory fees represents the annual Board assessment paid by Stittco.

Stittco also projected legal costs for the year ending July 31, 2011 at \$20,000. Stittco's actual legal costs in their July 2009 financial statements totaled \$506. Stittco based its anticipated legal costs on 2008 legal fees, which were approximately \$20,000, the year when Stittco last filed a general rate application which resulted in an oral hearing involving interveners. The Board has reduced Stittco's projected legal costs from \$20,000 to \$5,000 - a reduction of \$15,000. The reduced cost is more representative of possible legal costs given the Board's paper-based review process.

The concurrent reduction in Stittco's administration fee is based on a formula whereby the administration cost is 12% of direct operating expenses.

The Board also notes that included in Stittco's expense base for the application year is an amount of \$40,000 related to the relocation of service lines under structures. Stittco has advised that this is the last year it expects to incur these expenses. It is expected therefore that this will be removed from the revenue requirement in the next non-commodity cost application.

Commodity rates

The commodity recovery rate sought by Stittco fairly reflects the projected commodity and transportation costs to Thompson. The Board will accept Stittco's proposal and direct that Stittco's proposed commodity rate of \$1.4590 per cubic metre be effective for consumption of propane on or after November 1, 2010.

The Board continues to recommend that customers seek ways to upgrade the heating efficiency of their premises, so as to reduce energy consumption and resulting costs. The Board notes that the cost of heating an average residential dwelling by propane is more than twice the average cost of heating by electricity (this excludes the cost of converting to electric heat).

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or

reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

6.0 IT IS THEREFORE ORDERED THAT:

1. Stittco Utilities Manitoba Ltd.'s rates for distribution costs be amended as per the attached Schedule "A" for consumption on or after November 1, 2010.
2. Stittco Utilities Manitoba Ltd. Rate base of \$1,964,557 BE AND IS HEREBY APPROVED.
3. Stittco Utilities Manitoba Ltd. propane commodity rate be amended as per attached schedule "A" effective for propane consumed on or after November 1, 2010.
4. All Interim ex-parte Orders referenced in Board Orders 11/09, 45/09, 115/09, 149/09, 9/10, 45/10 and 75/10 BE AND ARE HEREBY APPROVED AS FINAL.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"H. M. SINGH"

Acting Secretary

Certified a true copy of Order No.
107/10 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"
Stittco Distribution Rates

Basic Monthly Charge	\$10.00/month
	per m ³ /mo
Propane Commodity Cost Recovery	\$1.4590
Delivery Charge:	
First 100 m ³	\$1.0634
Next 400 m ³	\$0.9484
Next 1000 m ³	\$0.8974
Next 2500 m ³	\$0.7271
Over 4000 m ³	\$0.5578