

**M A N I T O B A** ) **Order No. 125/13**  
 )  
**THE PUBLIC UTILITIES BOARD ACT** ) **October 28, 2013**

**BEFORE:** Régis Gosselin, B ès Arts, MBA, CGA, Chair  
Larry Soldier, Member  
Marilyn Kapitany, B.Sc. (Hon), M.Sc., Member

**STITTCO UTILITIES MAN LTD.  
NON-COMMODITY COSTS  
EFFECTIVE NOVEMBER 1, 2013  
FINAL APPROVAL**

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## **1.0 EXECUTIVE SUMMARY**

By this Order, The Public Utilities Board (Board) hereby approves the non-commodity rates for Stittco Utilities Manitoba Ltd. (Stittco) effective November 1, 2013. The Board also approves the rate base for Stittco as of July 31, 2013 and confirms as final the commodity rates previously approved on an interim ex parte basis.

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

The Board accepts Stittco's projected annual non-commodity costs of \$1,747,381, an increase of \$17,179 or 1% over \$1,730,202, which were the last non-commodity costs approved by the Board in Order 142/12. However, while there is only a slight (1%) increase in non-commodity costs, the non-commodity volumetric rate will increase by approximately 6.4% because the projected expenses are being spread over a smaller customer base and propane consumption is projected to decline.

The majority of non-commodity costs are collected through distribution rates, which are based on volumes of propane consumed. Stittco's customer base and propane volumes have steadily declined over the last number of years. In 2009 Stittco had 950 customers and propane sales of approximately 8,631,000 litres. For the 2014 fiscal year, Stittco is projecting a total of 880 customers and propane sales of 6,280,000 litres.

The Board also approves Stittco's rate base of \$1,708,951 down from the \$1,780,695 approved in Order 142/12.

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. Variances are tracked in a Propane Purchase Variance Account (PPVA), and are either refunded to (when rates charged are higher than the cost of propane) or collected from (when rates charged are lower than cost) customers in subsequent quarterly rate setting applications.

The table below compares the propane commodity and non-commodity rates over the last year and provides the revised non-commodity rates effective November 1, 2013:

<b>Table 1 Non-commodity rates- 12 month history</b>						
	Aug 1/12	Nov 1/12	Feb 1/13	May 1/13	Aug 1/13	Nov 1/13
Basic Monthly Charge	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
<b>Volumetric Charges per m<sup>3</sup>:</b>						
Commodity Cost Recovery	\$0.60000	\$0.91360	\$0.92490	\$1.13400	\$1.16330	\$1.4721*
Non-Commodity Cost recovery- Delivery Charge (monthly volumes)						
first 100 m <sup>3</sup>	\$1.20122	\$1.20122	\$1.20122	\$1.20122	\$1.20122	\$1.27814
next 400 m <sup>3</sup>	\$1.07129	\$1.07129	\$1.07129	\$1.07129	\$1.07129	\$1.13992
next 1000 m <sup>3</sup>	\$1.01371	\$1.01371	\$1.01371	\$1.01371	\$1.01371	\$1.07863
next 2500 m <sup>3</sup>	\$0.82131	\$0.82131	\$0.82131	\$0.82131	\$0.82131	\$0.87389
over 4000 m <sup>3</sup>	\$0.63006	\$0.63006	\$0.63006	\$0.63006	\$0.63006	\$0.67040

\* As approved in Board Order 124/13

This Order also finalizes interim ex parte rates established in Board Orders 11/13, 41/13, and 84/13.

## **2.0 INTRODUCTION**

On July 23, 2013, Stittco applied to the Board seeking approval for an approximate 1% increase in non-commodity costs, effective August 1, 2013. However, due to the lateness of the Application and the need for additional information, the Board did not approve revisions to non-commodity rates effective August 1, 2013.

Non-commodity costs consist of costs incurred by Stittco for the distribution of propane to its customers. These costs include operating expenses (salaries, materials and supplies, administrative costs, etc.), depreciation, a provision for corporate income tax and a return on Stittco's rate base for its owners.

The Board last approved non-commodity rates by Order 142/12 issued on October 29, 2012.

Stittco's non-commodity rate application for the year ending July 2014 was managed using a paper-based review process to minimize regulatory costs to the utility and ultimately to Stittco customers. Customers were advised of Stittco's application in September of 2013 by means of a bill insert. The Board received telephone calls from customers seeking clarification on the application and/ or expressing concerns over Stittco's operations. No written communications were received by the Board from Stittco customers. One customer voiced concerns about Stittco's ability to control costs; other customers sought clarification between commodity (propane) rates and non-commodity (distribution) rates.

Board Order 141/08 approved a rate setting methodology that adjusts Stittco's commodity price for propane on a quarterly basis (August 1, November 1, February 1, and May 1 of each year) with annual reviews of non-commodity rates. Non-commodity costs are recovered through Stittco's Board approved distribution rates and a basic monthly charge.

Variances between actual propane costs and estimated propane costs embedded in rates are tracked in a Purchase Price Variance Account (PPVA) and either refunded to customers (when rates charged a higher than the cost propane) or collected from customers (when rates charged are lower than the cost of propane), this all in subsequent rate settings. Regular adjustments to commodity prices help to minimize balances in this account.

Rates established by the QRS are approved on an ex parte basis. That means that they are established by the Board without further public consultation, subject to satisfactory information being filed by Stittco. This approach is considered to be the most reasonable and economical, as the changes are driven by commodity price changes and the process minimizes regulatory costs while providing regular updated price signals to consumers.

On October 16, 2013 Stittco applied to The Board for an increase on the propane commodity rates from \$1.1633/m<sup>3</sup> to \$1.472/m<sup>3</sup>. Board Order 124/13 approved the propane commodity rate increase.

### 3.0 APPLICATION

#### Non-Commodity Rates

On July 23, 2013 Stittco applied to the Board for an Order fixing non-commodity rates for all gas customers served by Stittco, requesting an effective date of August 1, 2013.

The application included:

- a) A determination of the non-commodity cost revenue requirement of the company;
- b) A continuation of the existing rate of return; and
- c) A determination of the rate base of Stittco as of July 31, 2013.

In its application, Stittco noted the most recent Board Order relating to non-commodity costs was Board Order 142/12 dated October 29, 2012. This Order determined the non-commodity revenue requirement of the company and finalized rates effective August 1, 2012.

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 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 rates 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 decided to review the August 2013 non-commodity cost application using a paper-based process.

Stittco notified its customers of the proposed non-commodity cost rate increase in an information insert included with the September 2013 billing. Customers were advised that they could contact either Stittco or the Board to review the application and to express their concerns. While the Board received several telephone calls from Stittco customers either seeking clarification about the application or expressing concern over Stittco's ability to control costs, the Board received no written communication related to the application.

On September 6, 2013, the Board submitted information requests to Stittco; Stittco responded on September 27, 2013.

Stittco's 2013 submission for non-commodity costs projected a 2013 non-commodity cost revenue requirement of \$1,747,381.



The table below summarizes Stittco's non-commodity revenue requirement and compares it to non-commodity costs approved in Board Order 142/12.

**Table 2 Approved non-commodity costs- current and proposed**

	Stittco July 2013 application	Order 142/12	Increase (decrease)
Wages & Benefits	666,760	657,960	8,800
Materials & Supplies	47,600	42,460	5,140
Contract Services	101,600	95,000	6,600
Other Operating Costs	103,500	93,000	10,500
Automotive	44,750	50,800	(6,050)
Insurance	75,000	60,000	15,000
Property Taxes	118,000	120,000	(2,000)
Administrative & General	204,740	208,268	(3,528)
Total Direct	1,361,950	1,327,488	34,462
Administration Fee	163,434	159,299	4,135
<b>Total Direct Operating Expenses</b>	<b>1,525,384</b>	<b>1,486,787</b>	<b>38,597</b>
Other Cost Of Sales	120,000	120,000	-
Depreciation	115,185	125,165	(9,980)
Accretion	27,560	25,011	2,549
Return On Rate Base	170,895	178,070	(7,175)
Income Tax Requirement	62,957	69,769	(6,812)
Other Income	(274,600)	(274,600)	-
<b>Non-Commodity Revenue Requirement</b>	<b>1,747,381</b>	<b>1,730,202</b>	<b>17,179</b>

Overall, Stittco's total *direct* operating costs for 2014 are expected to increase by \$38,597, or 2.6%, from \$1,486,787 as approved in Board Order 142/12. Based on current estimates, actual *direct* operating costs for Stittco's fiscal year ending July 31, 2013 are expected to be \$1,437,928. The *total* non-commodity revenue requirement is expected to increase by slightly less than 1% over the currently approved costs.

The Stittco midyear rate base for 2013, and approved by Board Order 142/12, was \$1,780,695. Stittco's projected midyear rate base for 2014 is \$1,708,951.

In its application, Stittco seeks to continue the 10% return on the projected rate base. This would result in an annual revenue requirement of \$170,895. Stittco holds the view that, given the investment risk, an appropriate rate of return would be significantly higher than the approved 10%. However, Stittco acknowledges that it operates in a very competitive market in a small service area, particularly competition from electricity for space heating. This competition constrains Stittco from charging rates yielding more than 10% return on rate base. In recent years, the actual returns have generally been less than 10% return provided for in the rates. Stittco's return on rates for the past ten years has been as follows:

<b>Table 3 Rate of return- 10 year history</b>				
Year	Mid - Year Rate Base	Actual Return(Loss)	Actual % Return	Normalized % Return*
2012	\$1,953,864	\$67,310	3.44%	10.02%
2011	2,051,484	111,698	5.44%	6.72%
2010	1,980,700	(160,751)	(8.12)%	(0.48)%
2009	2,009,574	112,030	5.57%	4.10%
2008	2,138,167	(11,520)	(0.54)%	(1.99)%
2007	1,927,450	(88,036)	(4.57)%	(0.81)%
2006	1,937,865	(93,102)	(4.80)%	0.03%
2005	1,929,813	83,480	4.33%	4.76%
2004	1,897,533	169,904	8.95%	10.29%
2003	2,039,653	223,741	10.97%	11.92%

\*adjusted to eliminate variances due to weather fluctuations

On a weather normalized basis, Stittco achieved its approved rate of return in 2012. On an actual basis, Stittco last attained a 10% (10.97%) return on rate base in 2003.

Although the actual projected non-commodity rate requirements are forecast by Stittco to increase by approximately 1%, the non-commodity application submitted by Stittco results in an overall increase in non-commodity rates of approximately 6.4 % because the customer and sales volumes are projected to be lower in 2014. This spreads non-commodity costs over a smaller customer base, producing a higher unit cost.

#### 4.0 STITTCO OPERATIONS

Incorporated in Manitoba, Stittco distributes propane through a pipeline distribution network to approximately 880 customers in Thompson, Flin Flon and Snow Lake, Manitoba. Bulk propane is shipped to Stittco's storage facilities by rail or by truck.

Stittco's historical and projected propane sales base is described in the table below:

<b>Table 4 Propane sales- historical and projected</b>					
		<b>Residential</b>	<b>Commercial</b>	<b>Total</b>	<b>Change</b>
<b>2009</b>	Customers	784	166	950	
	Propane Volumes	2,161,828	6,468,853	8,630,681	
<b>2010</b>	Customers	770	164	934	-1.7%
	Propane Volumes	1,735,190	5,365,294	7,100,484	-17.7%
<b>2011</b>	Customers	749	163	912	-2.4%
	Propane Volumes	1,864,586	5,230,726	7,095,312	-0.1%
<b>2012</b>	Customers	740	162	902	-1.1%
	Propane Volumes	1,663,000	5,207,000	6,870,000	-3.2%
<b>2013</b>	Customers	732	163	895	-0.8%
	Propane Volumes	1,865,000	5,324,100*	7,189,100*	4.6%
<b>2014 projected</b>	Customers	724	156	880	-1.7%
	Propane Volumes	1,690,000	4,590,000	6,280,000	-12.6%

\*Includes non-recurring volume of 428,560

Both the number of customers and propane volumes are steadily declining.

Historically, residential customers have accounted for approximately 25% of the overall propane volumes sold by Stittco, with commercial customers accounting for the remaining 75%.

In 2010, Stittco reported that approximately 89% of its sales volumes were in Thompson, with 9.5% in Flin Flon and 1.5% in Snow Lake.

The Stittco residential customer base has been gradually declining over the last few years, as has its commercial customer base. The commercial customer base is projected to decline significantly in 2014 as a result of the conversion of several apartment buildings to electrical heat and the closing of a large commercial business. The residential decline has generally been attributed to the difference in cost between heating with propane versus heating with electricity.

## **5.0 BOARD FINDINGS**

### *Non-commodity rates*

The Board has reviewed Stittco's application for non-commodity costs of July 2013, as well as Stittco's responses to interrogatories posed by the Board.

The Board hereby approves the non-commodity rate application filed by Stittco for non-commodity rates effective November 1, 2013. The Board finds Stittco's revenue requirements to be reasonable. Some of the larger increases in Stittco's direct operating costs arise from insurance costs, operating costs such as leak surveys and vaporizer

consumption, and an approximate 1.5% increase in wages and benefits when compared to costs approved in Board Order 142/12.

The Board agrees that Stittco should receive a reasonable return on its investment. The Board will therefore approve Stittco's rate base of \$1,708,951 and a 10% return on rate base amounting to \$170,895.

As in the past, the Board encourages Stittco to continue to examine ways to reduce its costs. Due to the competitive environment, this is in the best interest of both the company and its customers.

#### Commodity rates

The quarterly rate setting process for commodity costs appears to continue to serve customers well, with the periodic rate adjustment helping to mitigate rate shock due to fluctuating commodity market prices. The Board continues to recommend that customers seek ways to upgrade the heating efficiency of their premises, so as to reduce consumption, bills and carbon emissions. The Board notes that the current cost of heating an average residential dwelling with propane is 2 to 3 times the average cost of heating by electricity depending on heating efficiencies.

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 reviewed on the Board's website at [www.pub.gov.mb.ca](http://www.pub.gov.mb.ca).

**6.0 IT IS THEREFORE ORDERED THAT:**

1. Stittco Utilities Manitoba Ltd's rates for distribution costs, as per Schedule "A" for consumption on or after November 1, 2013, BE AND ARE HEREBY APPROVED.
2. Stittco Utilities Manitoba Ltd's rate base of \$1,708,951 for 2014 BE AND IS HEREBY APPROVED.
3. All interim ex parte orders referenced in Board Orders 11/13, 41/13 and 84/13 BE AND ARE HEREBY APPROVED AS FINAL.

THE PUBLIC UTILITIES BOARD

"RÉGIS GOSSELIN, B ès Arts, MBA, CGA,"  
Chair

"KURT SIMONSEN, P.Eng."  
Acting Secretary

**SCHEDULE" A"**  
**GENERAL SERVICE RATE STRUCTURE**  
**EFFECTIVE FOR CONSUMPTION ON OR AFTER NOVEMBER 1, 2013**

Basic Monthly Charge	\$10.00
<b>Volumetric Charges per m<sup>3</sup>:</b>	
Commodity Cost Recovery	\$1.4721*
<b>Non-Commodity Cost Recovery-Delivery Charge (monthly volumes):</b>	
first 100 m <sup>3</sup>	\$1.27814
next 400 m <sup>3</sup>	\$1.13992
next 1000 m <sup>3</sup>	\$1.07863
next 2500 m <sup>3</sup>	\$0.87389
over 4000 m <sup>3</sup>	\$0.67040

\* Commodity Cost approved per Board Order 124/13