

M A N I T O B A                    )     Order No. 133/05  
  )  
THE PUBLIC UTILITIES BOARD ACT    )     October 5, 2005

BEFORE:  Graham F. J. Lane, C.A., Chairman  
          M. Girouard, C.G.A., Member  
          S. Proven, P.H.Ec., Member

APPLICATION BY STITTCO UTILITIES MAN LTD.  
FOR AN INTERIM EX PARTE ORDER  
APPROVING AN INCREASE IN PROPANE RATES

## **INTRODUCTION**

On September 12, 2005, Stittco Utilities Man Ltd. ("Stittco") applied to The Public Utilities Board ("the Board") for an Interim Ex Parte Order ("IEP") approving a rate increase of \$0.2959 per cubic meter. Stittco proposed the increase be applied equally to residential and commercial accounts in each of the rate steps, for all billings based on meter readings on and after October 1, 2005.

A comparison of the existing rates, as approved by Order No. 50/05 dated April 8, 2005, and Stittco's proposed rates follows:

### **Existing Rates**

#### 1. Domestic Services

First 50 cubic meters per month	\$2.0162 per cubic meter
All over 50 cubic meters per month	\$1.6162 per cubic meter

#### 2. Commercial Service

First 1,000 cubic meters per month	\$1.8462 per cubic meter
Next 3,000 cubic meters per month	\$1.7162 per cubic meter
All over 4,000 cubic meters per month	\$1.4862 per cubic meter

### **Proposed Rates**

#### 1. Domestic Services

First 50 cubic meters per month	\$2.3121 per cubic meter
All over 50 cubic meters per month	\$1.9121 per cubic meter

#### 2. Commercial Service

First 1,000 cubic meters per month	\$2.1421 per cubic meter
Next 3,000 cubic meters per month	\$2.0121 per cubic meter
All over 4,000 cubic meters per month	\$1.7821 per cubic meter

The average increases for domestic and commercial service would be 16.5% and 17.2%, respectively.

By this Order, the Board will approve the increases but defer application to meter readings on and after November 1, 2005. With respect to residential customers, the Board will approve implementation in two stages. These variances from the application will be made so as to allow adequate notice to Stittco's customers of the impending price increase and lessen the immediate impact of the rate increase on residential customers.

#### **BACKGROUND**

Stittco distributes propane, a by-product of natural gas, by pipeline to customers in Thompson, Flin Flon and Snow Lake. The majority of Stittco's approximately 1,100 customers are residential and located in Thompson.

All energy prices have risen considerably since the Board approved the incorporation of a previous rate rider of \$.3662 in Stittco's base rates as of May 1, 2005. The increased price of natural gas, itself driven by factors similar to pressures on oil, gasoline and diesel prices, has led to the latest price increase for propane.

Stittco's commodity and transportation costs for propane are passed through to its customers without mark-up, and Stittco has always been allowed to reflect commodity price increases in rates by the Board. Prior to approving rates, the Board reviews

Stittco's actions and proposals, and the circumstances of the day.

Stittco's propane supply for the period April 1, 2005 to March 31, 2006 is being acquired on the basis of supply contracts providing 50% of required volumes on a fixed price basis and 50% on a variable current market price basis.

Stittco advised its application was necessitated by higher propane prices, and forecast that energy prices will remain high. Stittco's cost for liquid propane F.O.B. Thompson, Manitoba on the fixed price portion of its projected purchases is \$330.70 per cubic meter, while the variable price is currently \$374.19 per cubic meter. Blended together, if the variable price component remains as is, the average propane supply cost for the 2005/06 fiscal year will be \$352.44 per cubic meter, an increase of 29% over fiscal 2004/05's \$274.05.

Based on the forecast, Stittco proposed to increase customer rates by \$0.2959 per cubic meter effective October 1, 2005, and continue with its Propane Purchase Variance Account ("PPVA") to capture any differences between its actual and projected costs.

Consistent with prior practice, the Company tendered for its propane supply in advance of its 2005/06 fiscal year. Subsequent to receipt of tenders, Stittco advised the Board that it had not accepted any of the tenders -- the prices were unacceptable.

The Company then continued to purchase propane under a variable price contract and, pursuant to direction from the Board,

prepared to re-issue a tender. However, on September 7, 2005, Stittco advised that it did not re-tender as a result of advice from suppliers that their previous quotes were unchanged. Stittco has reviewed the earlier tenders and accepted the arrangement described above for the balance of the fiscal year.

As of July 31, 2005, the PPVA had a credit balance owing to customers of \$51,619. Without a change in rates, the subject of its application now considered, and with the sharply higher cost of propane, the PPVA balance would soon be in a debit position. If no increase was granted by the Board, the variance between the cost of propane reflected in rates and Stittco's actual costs would be carried in the PPVA, with interest, for later incorporation in rates.

#### **Board Comments**

The cost of propane is market-driven, similar to the situation with oil, natural gas, diesel and coal. Natural gas, oil, gasoline, diesel and coal prices have increased more than propane over the past year. For example, spot natural gas prices in the continental market recently surpassed \$14/GJ USD, compared to less than \$6/GJ USD a year ago.

The energy price situation is being driven by tightness in the demand/supply balance with respect to oil, gasoline and natural gas, along with recent weather-based supply and transportation difficulties and speculation. The situation is resulting in vastly disparate outcomes for the "winners" (producing provinces

and companies, and investors in the energy field) and "losers" (net importing provinces and consumers).

The Board is uncertain whether present energy prices are representative of a "bubble" or of a new reality as forecast by Stittco.

As indicated previously, the long-standing regulatory practice is to flow commodity costs through to ratepayers without markup. And, Stittco's application reflects the unfortunate reality of higher energy costs today. To not flow these higher costs through to the ratepayer would result only in a deferral of the higher rates that would ensue with approval of the application.

To not approve the increase in costs for reflection in rates, either now or later, would amount to the Board requiring Stittco to subsidize its customers, and this would challenge in time Stittco's solvency. This would be unacceptable not only to Stittco but also to the Board. The Board is concerned not only with the wellbeing of consumers, but also the financial health of the regulated utilities that provide necessary energy supplies and services.

While the market price of propane is beyond Stittco's control, it should take appropriate steps to inform its customers about the rising cost of energy and apprise them of available heat retention and heating efficiency conservation initiatives that may be available to reduce consumption and restrain bills.

The Board expects Stittco's efforts in this regard to be enhanced as quickly as possible, and assures Stittco that effective energy conservation educational measures it undertakes for the benefit of its customers will be accepted as an allowable cost by the Board.

As well, the Board will direct Stittco to prepare a plan for an enhanced customer Demand Side Management (DSM) program, one that will facilitate propane conservation and which will take into account the particular difficulties of residential and low-income customers. The Board suggests that Stittco may wish to consult with Manitoba Hydro (Centra Gas, being its subsidiary providing natural gas service to 250,000 customers).

As to Stittco's rate application, while accepting the necessity of allowing Stittco to recover its anticipated commodity costs, the Board is particularly concerned that not all of Stittco's customers are adequately prepared for an immediate 17% increase in propane rates, particularly residential low-income customers.

Accordingly, the Board will approve IEP rate increases as follows:

- a) For non-residential customers, rates as applied for, but to be effective as of November 1, 2005; and
- b) For residential customers:
  - i) 10% as of November 1, 2005; and
  - ii) a further 7% as of February 1, 2006.

The Board's decision to defer the requested rate increases by one month overall and, with respect to residential customers, to put into effect 7% of the 17% overall increase only as of February 1, 2006 will contribute to the development of larger than would otherwise occur PPVA accounts. The Board's decision will, in essence, reduce the burden on customers in the short-term without any certainty that propane supply costs will fall in future so as to offset the PPVA increases due to the Board's deferral action.

If propane costs do not fall, the Board's actions will eventually require an additional increase at a later date to amortize the PPVA balances.

If enhanced future DSM results in future reductions in propane volume requirements, the cost of propane to those customers may then-fall or remain more stable despite the rate increases.

Costs arise to consumers as a function of two variables, rate levels and consumption. Stittco cannot control the market price of propane, but acting with customers and by DSM measures, it may be able to reduce consumption.

The Board will direct that the effect of the variance between the rates and effective dates sought by Stittco and those approved by the Board be accrued within residential and commercial PPVA balances, for later reflection in rates.

The Board will expect Stittco to inform its customers of the Board's decision, the supporting reasons for the rate increases,



and its intent to develop plans for enhanced energy conservation measures to reduce consumption and energy costs.

The Board also notes that Stittco has yet to file a new General Rate Application, and will request that this be filed no later than January 31, 2006. The Board plans for a public hearing or other process to be in place concerning the GRA, for the first quarter of 2006.

**IT IS THEREFORE ORDERED THAT:**

1. The Schedule of Rates attached as Appendix "A" to this Order, to be effective for all billings based on meter readings for propane consumed on and after November 1, 2005, BE AND IS HEREBY APPROVED.
2. Stittco Utilities Man Ltd. shall continue to monitor PPVA developments, and provide a report to the Board on a monthly basis on the status of PPVA.
3. Stittco file its General Rate Application by January 31, 2006 as per Directive #5 in Order No. 50/05.
4. Stittco file with the Board, with its General Rate Application, a report on its DSM plans, inclusive of customer education initiatives.
5. Stittco provide the Board with a draft of its intended communication to its customers with respect to the rate changes so ordered, for the Board's approval prior to distribution.

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE"

Chairman

"G. O. BARRON"

Acting Secretary

Certified a true copy of  
Order No. 133/05 issued by The  
Public Utilities Board

\_\_\_\_\_  
Acting Secretary

APPENDIX A

STITTCO UTILITIES MAN LTD.

SCHEDULE OF RATES

For metered domestic and commercial sales under the Board's jurisdiction for all billings based on meter readings for propane consumed on and after November 1, 2005

1. Domestic Services

As of November 1, 2005:

First 50 cubic meters per month	\$2.2178 per cubic meter
All over 50 cubic meters per month	\$1.7778 per cubic meter

As of February 1, 2006:

First 50 cubic meters per month	\$2.3121 per cubic meter
All over 50 cubic meters per month	\$1.9121 per cubic meter

2. Commercial Service

As of November 1, 2005:

First 1,000 cubic meters per month	\$2.1421 per cubic meter
Next 3,000 cubic meters per month	\$2.0121 per cubic meter
All over 4,000 cubic meters per month	\$1.7821 per cubic meter

3. Industrial and large volume rates may be set by negotiation subject to approval of The Public Utilities Board and subject to such rates being available to all persons purchasing on the same conditions.

4. On all accounts outstanding for more than 30 days from the date of billing, an interest charge of 1½ percent per month will be charged from the date of billing until the account is paid.

5. All taxes extra, if applicable.