

M A N I T O B A) Order No. 140/11
)
THE PUBLIC UTILITIES BOARD ACT) October 17, 2011

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

STITTCO UTILITIES MAN LTD.
Non-Commodity Costs and
Propane Rates Effective August 1, 2011
Final Approval

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1.0 EXECUTIVE SUMMARY

The Public Utilities Board (Board) herein confirms as final the non-commodity rates initially approved for Stittco Utilities Manitoba Ltd. (Stittco) on an interim ex parte basis in Order No. 97/11. The Board also approves the rate base for Stittco as of July 31, 2011, and confirms as final commodity rates previously approved on an interim ex parte basis.

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

By this Order, the Public Utilities Board (Board) finalizes an overall increase in rates of approximately 2.5% effective for propane consumed on or after August 1, 2011. The overall rate change combines a 0.8% decrease in the propane commodity rate and a 7.22% increase in non-commodity rates.

The Board accepts Stittco's projected annual non-commodity costs of \$1,806,931, a decrease of \$104,934 or 5.5% from \$1,911,865 (the last non-commodity cost approved by the Board, that in Order 107/10). However, while there is a dollar decrease, the non-commodity rate will increase as the projected expenses are being spread over a smaller customer base and consumption, reflective of Stittco's declining market share.

The majority of non-commodity costs are collected through distribution rates, which are based on consumption volumes. Along with the declining customer base (Stittco has projected a decrease from 770 residential and 164 commercial customers in 2010, to 740

and 162 respectively for 2012), Stittco is projecting sales volumes to drop from 7,100,484 litres in 2010 to 6,870,000 litres in 2012.

The Board also approves Stittco's rate base at \$1,965,508, relatively unchanged from the \$1,964,557 approved in Order 107/10.

Commodity costs are set quarterly, this 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 or collected from customers in subsequent quarterly rate setting applications.

The table below compares propane commodity and non-commodity rates over the last year, and provides the revised rates effective August 1, 2011:

	Aug 1/10	Nov 1/10	Feb 1/11	May 1/11	Aug 1/11
Basic Monthly Charge	\$10.00/mo	\$10.00/mo	\$10.00/mo	\$10.00/mo	\$10.00/mo
	per m ³	per m ³	per m ³	per m ³	per m ³
Commodity Cost Recovery	\$1.0850	\$1.4590	\$1.6460	\$1.5476	\$1.5353
Delivery charge					
First 100 m3	0.9696	\$1.0634	\$1.0634	\$1.0634	1.14024
Next 400 m3	0.8648	\$0.9484	\$0.9484	\$0.9484	1.01691
Next 1000 m3	0.8183	\$0.8974	\$0.8974	\$0.8974	0.96223
Next 2500 m3	0.6630	\$0.7271	\$0.7271	\$0.7271	0.77963
Over 4000 m3	0.5087	\$0.5578	\$0.5578	\$0.5578	0.59809

This Order also finalizes interim ex-parte rates established in Board Orders 19/11, 64/11 and 97/11.

2.0 INTRODUCTION

Stittco applied in June of 2011 for an increase in non-commodity rates.

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 117/10, that arising from a General Rate Application filed by Stittco in June of 2010. The application was dealt with using a paper-based review process, this to minimize regulatory costs, which are eventually passed on to consumers. Customers were advised of the application and given the opportunity to comment; none did.

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 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 as the changes are driven by commodity price changes and the process restrains regulatory costs while providing updated price signals to consumers.

Based on the non-commodity cost revenue requirements, the Board, in Order No. 117/10, approved the following basic monthly charge - which has remained stable at \$10 per month, and distribution rates (commodity rates are set based on quarterly rate applications):

Basic Monthly Charge	\$10.00/month
	per m ³ /mo
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

3.0 APPLICATION

Non-Commodity rates

In June 2011, Stittco applied to the Board for an order fixing non-commodity rates for all gas customers served by Stittco, effective August 1 2011, 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, 2011.

In its application, Stittco noted the most recent Board Order relating to non-commodity costs was Board Order 117/10 dated October 29, 2010. This Order determined the non-commodity revenue requirement of the Company and finalized rates effective November 1, 2010.

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 June 2011 non-commodity cost application through a paper-based process.

Stittco provided its customers with notification of the proposed non-commodity cost rate increase in an information insert included with the August 2011 billing. Customers were advised that they could contact either (or both) Stittco or the Board to view the application and to express concerns. No submissions or complaints from Stittco customers were filed with the Board.

The Board reviewed Stittco's application and on August 10, 2011 provided Stittco with information requests on the application. Stittco responded to the information requests on September 20, 2011.

Stittco's 2011 submission for non-commodity costs resulted in a projected 2011 non-commodity cost revenue requirement of \$1,806,931. The table below summarizes Stittco's non-commodity revenue requirement and compares it to non-commodity costs approved in Board Order 117/10.

	Stittco Application June 2011	Approved From Board Order 117/10	Increase (Decrease)
Wages & benefits	634,000	619,000	15,000
Materials & supplies	43,400	48,400	(5,000)
Contract services	112,500	125,000	(12,500)
Other operating costs	106,650	144,500	(37,850)
Automotive	58,000	59,000	(1,000)
Insurance	73,000	75,800	(2,800)
Property taxes	140,000	163,000	(23,000)
Admin & general	215,000	185,000	30,000
Total direct	1,382,550	1,419,700	(37,150)
Admin fee	165,906	170,364	(4,458)
Total operating expense	1,548,456	1,590,064	(41,608)
Other cost of sales	100,000	125,000	(25,000)
Depreciation	132,547	146,617	(14,070)
Accretion	22,260	21,000	1,260
Return on rate base	196,551	196,456	95
Income tax requirement	81,717	104,328	(22,611)
Other income	(274,600)	(271,600)	(3,000)
Total - non-commodity revenue requirement	1,806,931	1,911,865	(104,934)

Wages and benefits include a provision for a 3% compensation rate increase in 2012, which Stittco advises is representative of the expected increase for the Northern Manitoba employee market.

The projected increase for 2012 takes into account the anticipated consulting fee associated with review of the rate structure. Stittco proposes to have the Foster Group, which prepared the report upon which the current distribution rates are set, review the rate structure for next year's application.

The bad debt allowance is proposed at \$40,000, double what the Board had approved in 117/10, but less than the expected 2011 result of \$55,000. Stittco indicates that it intends to pursue a more vigorous collection program to reduce the bad debt experience.

The Stittco mid-year rate base for 2011, and approved per Board Order 117/10, was \$1,964,557. Stittco's projected mid-year rate base for 2012 is \$1,965,508.

In its application, Stittco sought to continue the 10% return on its projected rate base, which would result in an annual revenue requirement of \$196,551. Stittco, as it did in its 2010 application, holds to 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 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. In recent

years, despite the 10% return provided for in rates, the actual return has not reached that level.

Although the actual projected operating costs are forecast by Stittco to decrease by 5.5%, the non-commodity application submitted by Stittco would result in an overall increase in non-commodity rates of approximately 7.22%. This apparent "oddity" is because the customer and sales volumes are projected to be lower in 2012 than occurred in 2010 (see table under Background).

This spreads the commodity cost over a smaller base, producing a higher unit cost.

Commodity rates

The commodity 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. Variances are either refunded to or collected from customers in the quarterly rate setting process.

Commodity rates represent approximately two-thirds of the average residential bill; actual bills vary with consumption (consumption varies with weather conditions, heating efficiency, and individual household practices).

The revised commodity rate as approved for August 1, 2011 was a slight decrease, resulting from a small increase in the commodity cost of propane (from \$340/m³ for liquid propane in May 2011 to \$343/m³ as of July 15, 2011) offset by a PPVA balance of

\$114,118 owing to customers. The net of the two factors resulted in a 0.8% decrease to the commodity rate.

4.0 BACKGROUND

Incorporated in Manitoba, Stittco distributes propane through a pipeline distribution network to approximately 900 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 customer and sales volume base is:

		Residential	Commercial	Total	Decrease
2009	Customers	784	166	950	
	Propane volumes	2,161,828	6,468,853	8,630,681	
2010	Customers	770	164	934	-1.7%
	Propane volumes	1,735,190	5,365,294	7,100,484	-17.7%
2011	Customers	749	163	912	-2.4%
	Propane volumes	1,864,586	5,230,726	7,095,312	-0.1%
2012	Customers	740	162	902	-1.1%
(est'd)	Propane volumes	1,663,000	5,207,000	6,870,000	-3.2%

As the table reflects, both customers and volumes are steadily declining.

Residential customers account 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 total 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, albeit at a more moderate rate. The residential decline has generally been attributed to the difference in cost between heating with propane versus electricity.

5.0 BOARD FINDINGS

Non-commodity rates

The Board has, since its interim ex parte approval of July 2011, had the opportunity to review in detail Stittco's application of June 2011, as well as Stittco's responses to interrogatories from the Board.

The Board will confirm the rates approved in Order 97/11.

The Board notes that Stittco's expense base for the application year recognizes that the amount of \$40,000 related to the relocation of service lines under structures has been eliminated, with the line relocation program now complete.

The Board supports Stittco's proposal to have the Foster Group report on distribution rates reviewed and updated. The original report was prepared in 2006.

The Board is concerned over the level of bad debt expenses being incurred, which results in "paying" customers subsidizing delinquent customers. The Board agrees with Stittco's proposal to introduce a more aggressive collection techniques, although it expects Stittco to exercise discretion and assess whether customer are delinquent because of particular negative economic circumstances.

The Board supports the proposition that Stittco receive a reasonable return on its investment. The last year that Stittco actual rate of return of 10% or greater was in 2003, when Stittco earned 10.97%. The result in several of the more recent years has been losses, not profits.

Ensuring the financial stability of Stittco and setting just and reasonable rates for Stittco's customers represent, with safe operations, the three key factors the Board balances.

Commodity rates

The commodity quarterly rate setting process 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 cost of heating an average residential dwelling by propane is some three times the average cost of heating by electricity.

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, as per the attached Schedule "A" for consumption on or after August 1, 2011, BE AND ARE HEREBY APPROVED AS FINAL.
2. Stittco Utilities Manitoba Ltd. rate base of \$1,965,508 BE AND IS HEREBY APPROVED.
3. All Interim ex-parte Orders referenced in Board Orders 19/11, 64/11 and 97/11 BE AND ARE HEREBY APPROVED AS FINAL.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE CA"
Chairman

"KRISTINE SHIELDS"
Acting Secretary

Certified a true copy of Order No.
140/11 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"

GENERAL SERVICE RATE STRUCTURE

EFFECTIVE FOR CONSUMPTION ON OR AFTER AUGUST 1, 2011

Basic Monthly Charge	\$10.00/month
	per m ³ /mo
Commodity Costs Recovery	\$1.5353
Delivery Charge:	
First 100 m3	1.14024
Next 400 m3	1.01691
Next 1000 m3	0.96223
Next 2500 m3	0.77963
Over 4000 m3	0.59809