

M A N I T O B A ) Order No. 141/08  
 )  
THE PUBLIC UTILITIES BOARD ACT ) October 15, 2008

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

STITTCO UTILITIES MAN LTD.  
PROPANE RATES

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## 1.0 EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) establishes, on an ex-parte basis, a new interim rate schedule for Stittco Utilities Man Ltd. (Stittco), effective with propane consumed on and after November 1, 2008. The new rates, which represent an overall increase of 10%, are driven by actual and anticipated increased propane commodity prices and non-commodity costs and an expectation of reduced consumption. The new rates will be subject to further review and possible amendment as the Board concludes on its deliberations on Stittco's application, this expected to occur by December 31, 2008.

The interim rate schedule separates commodity and non-commodity billing elements, establishes a fixed monthly charge, and provides for regular rate reviews, the latter to involve quarterly reviews of the commodity rate and an annual review of the non-commodity rate.

The interim rates are established in advance of the heating season to mitigate against the risk of large adjustments which would exist if rates were not changed ahead of the heating season. As well, the interim rates reduce the degree of subsidization of domestic customers by commercial customers that has existed for some time.

Stittco has acknowledged that space heat by propane may be much more costly than by electricity, and the divide between the costs of these two energy sources to consumers, which will increase with this Order, is problematic for customer growth and retention. With electricity rates subsidized and cost-based as

compared to the market-driven costs of propane supply, it is doubtful the situation will improve for propane space heat.

Stittco is to continue to record and account for differences between the actual cost of propane and the cost imbedded in rates within the Purchased Propane Variance Account (PPVA), and is to file a monthly report with the Board reporting the cumulative position of the PPVA. This approach ensures that the cost of propane to Stittco is passed on without mark-up to customers, as has been the case.

## **2.0 INTRODUCTION**

By Order 21/08, the Board finalized rates that had been established on an interim basis by both Orders 84/07 and 179/07. The Board also accepted certain information filed by Stittco as requested by the Board and renewed a call for an application to amend the rate structure and rate-setting process.

As of January 1, 2008, the following rates have been in effect:

<b>Cubic meters</b>	<b>Rates as of January 1, 2008</b>
First 50	\$2.70536
Over 50	\$2.2373
First 1,000	\$2.50648
Next 3,000	\$2.35435
Over 4,000	\$2.08522

Industrial and large volume rates may be set through negotiation, subject to: a) negotiated rates not exceeding the rates specified above, and b) the rates being filed and accepted by the Board. At the time of the release of Order 21/08, Stittco had two customers with negotiated rates, the hospitals in Thompson and Flin Flon.

On July 31, 2008, Stittco responded by filing a rate application proposing a significantly increased revenue requirement and a new rate structure provided for:

- a) a fixed charge of \$10.00 per account (to-date, there has not been any fixed charge applied against customer accounts);
- b) a commodity charge to all accounts (Propane Cost Recovery Rate) of \$2.0610 per cubic meter; and
- c) a Delivery Charge with five rate steps:
  - i) monthly consumption to 100 cubic meters, \$1.0656 per cubic meter;
  - ii) on additional monthly consumption of 101 to 500 cubic meters, \$0.09504 per cubic meter;
  - iii) on additional monthly consumption of 501 to 1,500 cubic meters, \$0.8993 per cubic meter;
  - iv) on additional monthly consumption of 1,501 to 4,000 cubic meters, \$0.7286 per cubic meter; and
  - v) on additional monthly consumption above 4,000 cubic meters, \$0.5590 per cubic meter.

Stittco advised that the proposed rate structure would apply to its large volume industrial customers, those being the hospitals in Thompson and Flin Flon.

Subsequently, and having noted decreased propane commodity prices since the application was filed, the Board established a paper-based process to avoid undue regulatory costs. The Board

also enquired of Stittco as to whether it would amend its application to take into account more recent and lower propane market prices. Stittco subsequently filed revised schedules reflecting lower market commodity prices.

Also subsequent to the application, the Consumers' Association of Canada (Manitoba) Inc. and the Manitoba Society of Seniors (CAC/MSOS) applied to intervene in the application.

The Board has decided that it is in the public interest to establish new and higher rates ahead of the winter heating season and, as indicated above, does so herein. A complete review of the application, to conclude with the determination of final rates, will take place after the issuance of this Order and before December 31, 2008.

For a more complete understanding of this Order, it would best be read in conjunction with Orders 04/07, 79/07, 84/07, 152/07, 179/07 and 21/08, all of which may be accessed through the Board's website [www.pub.gov.ca](http://www.pub.gov.ca) or by contacting the Board's Office.

### **3.0 APPLICATION**

Stittco applied for an Order:

- a) fixing "just and reasonable rates" for all of its propane customers, effective August 1, 2008, taking into account:
  - i) a revised rate base, that as of July 31, 2008; and
  - ii) a single rate structure.
- b) establishing a single Purchased Propane Variance Account (PPVA);

- c) establishing quarterly Propane Cost Recovery Rate reviews (August 1, November 1, February 1 and May 1 of each year); and
- d) establishing annual Delivery Rates (non-commodity costs) reviews (May 1 of each year).

In its application, Stittco noted or opined that:

1. Stittco is a small public utility distributing propane by pipeline to customers in Thompson, Flin Flon and Snow Lake, Manitoba.
2. The cost of propane and transportation to Stittco's distribution area have been reflected in the applied for rates without mark-up, and that fluctuations in those costs, as compared to projected costs as reflected in rates, will continue to be recorded in the PPVA, for subsequent billing or crediting to customers.
3. The Board has allowed Stittco recovery of its costs, commodity related and other, and a 10% rate of return on rate base and shareholder's equity.
4. Stittco's rate base as of July 31, 2008 and 2009 was or is projected to be \$1,991,260 and \$2,086,164, respectively (2007 - \$1,927,450).
5. The Company's actual rate of return for its fiscal year ended July 31, 2007 was a negative 4.47% (normalized for weather, -0.81%), and is projected at 6.48% for the fiscal year ending July 31, 2008.

6. The Company proposes a single general service rate structure, one calculated to "recover the Stittco cost of providing service". (Stittco further advised that the revenue requirement, as shown below, had been calculated to recover "cost of product, operating expenses, income taxes, depreciation, and the allowed rate of return on rate base of 10%".

	<b>Original application</b>	<b>Revised application</b>
Commodity costs	\$4,569,761	\$3,969,214
Basic Monthly Charge	119,550	119,550
Delivery charges	1,982,034	1,968,962
<b>Total</b>	<b>\$6,671,345</b>	<b>\$6,057,726</b>

7. Total PPVA balances, for both domestic and commercial customers as of July 31, 2008, would be recovered through rates over Stittco's fiscal year ending July 31, 2009.

As to its proposed rate structure, Stittco noted that the Board had directed that it bring forward a proposal to address the rate imbalance with respect to the treatment of commercial and residential (domestic) customers, and advised that the Company had relied on The Foster Group (Foster) to "conduct analyses of the Company cost of service and rate design, and to make recommendations for a new rate structure".

Stittco reported that Foster had determined that the:

"current rate structure (that of Order 21/08 and earlier) resulted in the under-recovery of costs from domestic (residential) customers and over-recovery of costs from



commercial customers ... (and that) Foster concluded that there is cross-subsidization of domestic customers by commercial customers, and that commercial customers are paying more than their fair share of costs."

Stittco advised that Foster had:

"suggested that a re-balancing of rates is needed to bring the revenue-to-cost ratios into an acceptable range and correct a rate misalignment."

Stittco further reported that Foster had:

" ... expressed the view that competition with electricity and the overall trend to deregulation (unbundling of utility services) make it important to improve the alignment of rates with costs. Foster examined the current competitive position of propane vapour service for selected domestic service customers as compared to electricity supplied by Manitoba Hydro. The Foster analysis showed that the annual cost of propane exceeds the cost of electricity for domestic service space hearing by 73% to 238%."

Stittco advised that Foster had recommended the rate structure included in the Company's application, a structure that consists of:

"a single general service rate class, with rates consisting of a separate fixed charge, separate propane cost recovery rate (PCRR) and a delivery rate applicable to each of five consumption blocks."

The Company accepted Foster's claim that a single general service rate would address the cross-subsidization issue, while "increasing transparency by identifying the commodity cost of propane separately" and noted that Foster's recommendation for the consumption blocks was supported by a bill frequency analysis, and that the fixed charge would allow for "at least some of the utility's fixed costs (to be recovered) through the fixed monthly charge". As to the Company's proposal for a single

general service class, Stittco suggested the approach will lessen administrative burden.

#### **4.0 BACKGROUND**

Incorporated in Manitoba, Stittco distributes propane brought in by railcar and subsequently delivered through pipeline distribution to approximately 1,000 customers in Thompson, Flin Flon and Snow Lake, Manitoba.

It is the Board's understanding that about 65% of Stittco's propane sales volume is sold to commercial and institutional customers, the remainder to residential customers.

Commodity costs generally represent approximately 70% of the overall cost of service reflected in rates.

Stittco domestic (residential) customer base has been gradually falling, with new construction in the franchise area relying on electricity for space heat due the aforementioned growing gap between the cost of heating by propane and electricity.

As indicated previously, Stittco maintains a PPVA to accrue differences between actual propane supply and transportation costs and those reflected in rates, with interest either charged or credited, as may be appropriate.

With Stittco's fixed costs now being reflected in rates over a decreasing customer and consumption volume base, and with Stittco's operation being a small operation relative to major utilities, the Board attempts to provide low-cost regulation, as regulatory costs form a part of the non-commodity costs allocated through rates to Stittco's customers.

Recently, through a change to provincial regulations, sought by the Board, the annual direct levy on Stittco was reduced from \$10,000 to \$2,000. And, with this application the Board determined to proceed with the review through a paper-based process, to avoid a more costly oral hearing.

#### **5.0 BOARD FINDINGS**

The Board, on an interim basis, accepts that Stittco has responded appropriately to directions set out in Order 21/08.

Stittco has now supplied the Board with:

- a) an application and supporting information with respect to the Board's continuing impression that commercial customers are subsidizing residential customers; and
- b) an application to provide for more frequent rate adjustments with respect to commodity cost changes.

The current application appears to address the Board's major concerns and, with the implementation of the new rate schedule, increased fairness between rate classes and more frequent and timely rate amendments should be made possible.

Stittco's application also reflects higher propane commodity prices, driven by higher energy prices generally, and, as previously indicated, higher non-commodity costs, to be allocated amongst a declining customer number and consumption base.

The commodity rate will next be reviewed for adequacy as of February 1; Stittco is to provide the Board with an application for revised commodity rates by January 15, 2009. Non-commodity

rates are to be reviewed as of May 1, 2009. Stittco is to provide the Board with an application for non-commodity rate amendments on or before February 15, 2009.

The Board and CAC/ MSOS have posed a number of supplementary questions to Stittco and the Board anticipates that responses to these enquiries will be forthcoming shortly, following which the intervener will be provided opportunity to comment. The Board will then complete its analysis and finalize its decision on the application. The Board is not bound by this decision as to its final decisions with respect to Stittco's application.

This interim approval reflects a rate increase of approximately 10%, somewhat less than that applied for in Stittco's amended filing (the initial filing called for an overall 26% rate increase, this ahead of recently declining propane prices), pending the Board's final review of non-commodity costs.

The Board currently anticipates that the final approved rates will represent a further increase to the interim rates now set, the adjusted rates likely to be further affected by commodity and non-commodity cost changes.

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.

Stittco is to continue with the established procedure of maintaining the PPVA; this is to accrue differences between actual and estimated costs, as reflected in rates.

**6.0 IT IS THEREFORE ORDERED THAT:**

1. Stittco Utilities Man Ltd.'s rates be amended as per the attached Schedule A.
2. Stittco Utilities Man Ltd. continue to track, and report monthly to the Board, in its Purchased Propane Variance Account differences between actual propane costs and the estimated propane costs embedded in rates.
3. Stittco Utilities Man Ltd. plan for a rate review process to involve quarterly commodity rate changes (August 1, November 1, February 1 and May 1 of each year) and annual reviews of non-commodity rates, as of May 1 of each year.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"G. GAUDREAU, CMA"

Secretary

Certified a true copy of Order No.  
141/08 issued by The Public  
Utilities Board

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Secretary

SCHEDULE "A"  
INTERIM  
GENERAL SERVICE RATE STRUCTURE

Basic Monthly Charge	\$10.00/month
	per m <sup>3</sup> /mo
Commodity Costs Recovery	\$1.7902
Delivery Charge:	
First 100 m3	0.9634
Next 400 m3	0.8593
Next 1000 m3	0.8131
Next 2500 m3	0.6588
Over 4000 m3	0.5054