

M A N I T O B A) Order No. 142/12
)
THE PUBLIC UTILITIES BOARD ACT) October 29, 2012

BEFORE: Régis Gosselin, BA, CGA, MBA, Chair
Raymond Lafond, BA, CMA, FCA, Member
Robert Warren, MBA, Member

STITTCO UTILITIES MAN LTD.
NON-COMMODITY COSTS AND
PROPANE RATES EFFECTIVE AUGUST 1, 2012
FINAL APPROVAL

Table of Contents

	Page
1.0 EXECUTIVE SUMMARY	3
2.0 INTRODUCTION	4
3.0 APPLICATION	7
4.0 BACKGROUND	11
5.0 BOARD FINDINGS	13
6.0 IT IS THEREFORE ORDERED THAT:	15
Schedule "A"	16

1.0 EXECUTIVE SUMMARY

The Public Utilities Board (Board) hereby confirms as final the non-commodity rates initially approved for Stittco Utilities Manitoba Ltd. (Stittco) on an interim ex parte basis in Order No. 88/12 effective August 1, 2012. The Board also approves the rate base for Stittco as of July 31, 2012, and confirms as final the 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 recovered in rates through a basic monthly charge and a delivery charge, the latter based on customer consumption.

The Board accepts Stittco's projected annual non-commodity costs of \$1,730,202, a decrease of \$76,729 or 4.3% from \$1,806,931 (the last non-commodity cost approved by the Board in Order 140/11). However, while there is a decrease in non-commodity costs, the non-commodity rate will increase because the projected expenses are being spread over a smaller customer base and propane consumption is projected to decline. This is reflective of Stittco's declining customer base.

The majority of non-commodity costs are collected through distribution rates, which are based on consumption volumes. Along with the declining customer base, Stittco is projecting sales volumes to drop from 6,870,000 litres in 2011/12 to 6,262,403 litres in 2012/13.

The Board also approves Stittco's rate base of \$1,780,695 down from the \$1,965,508 approved in Order 140/11.

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 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, 2012:

	Aug 1/11	Nov 1/11	Feb 1/12	May 1/12	Aug 1/12
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	\$1.54	\$1.78	\$1.47	\$1.0642	\$0.6000
Delivery charge (Non-Commodity Charge)					
First 100 m3	\$1.14	\$1.14	\$1.14	\$1.14024	\$1.20122
Next 400 m3	\$1.02	\$1.02	\$1.02	\$1.01691	\$1.07129
Next 1000 m3	\$0.96	\$0.96	\$0.96	\$0.96223	\$1.01371
Next 2500 m3	\$0.78	\$0.78	\$0.78	\$0.77963	\$0.82131
Over 4000 m3	\$0.60	\$0.60	\$0.60	\$0.59809	\$0.63006

This Order also finalizes interim ex-parte rates established in Board Orders 149/11, 9/12 and 53/12.

2.0 INTRODUCTION

Stittco applied in June of 2012 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 140/11 issued on October 17, 2011.

Stittco's non-commodity rate application for 2012 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 August of 2012 by means of a bill insert. Customers were asked to provide their comments to the Board by August 31, 2012. The Board received one call from a customer seeking clarification on the rates. No complaints were received by the Board.

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 (rates charged are higher than the cost of propane) or collected from customers (rates charged are lower than cost of propane) 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 minimizes regulatory costs while providing updated price signals to consumers.

On June 22 2012, Stittco applied to the Board seeking approval for an approximate 5.35% increase in non-commodity costs. On July 12, 2012 Stittco also applied for revised quarterly commodity costs effective August 1, 2012. Following a preliminary review of Stittco's Application, the Board approved Stittco's Application to increase non-commodity costs on an interim *ex parte* basis for propane consumed after August 1, 2012 in Order 88/12 released July 19, 2012. Order 88/12 also approved Stittco's Application for revised propane rates to \$0.6000/m³ and the \$10.00 basic monthly charge. The rates were as follows:

	Previous Rates Effective May 1, 2012	Interim Approved Rates Effective August 1, 2012
Basic Monthly Charge	\$10.00/month	\$10.00/month
	per m ³ /mo	per m ³ /mo
Commodity Costs Recovery	\$1.0642	\$0.6000
Delivery Charge:		
First 100 m ³	\$1.14024	\$1.20122
Next 400 m ³	\$1.01691	\$1.07129
Next 1000 m ³	\$0.96223	\$1.01371
Next 2500 m ³	\$0.77963	\$0.82131
Over 4000 m ³	\$0.59809	\$0.63006

3.0 APPLICATION

Non-Commodity rates

In June 2012, Stittco applied to the Board for an order fixing non-commodity rates for all gas customers served by Stittco, effective August 1 2012, 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, 2012.

In its application, Stittco noted the most recent Board Order relating to non-commodity costs was Board Order 140/11 dated October 17, 2011. This Order determined the non-commodity revenue requirement of the Company and finalized rates effective November 1, 2011.

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 decided to review the June 2012 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 August 2012 billing. Customers could contact either Stittco or the Board to view the Application and to express their concerns. The Board received one phone call from a Stittco customer seeking clarification on the commodity versus non-commodity portion of the bill. No complaints were received.

On September 10, 2012 the Board submitted information requests to Stittco; the applicant responded on September 26, 2012.

Stittco's 2012 submission for non-commodity costs projected a 2012 non-commodity cost revenue requirement of \$1,730,202. The table below summarizes Stittco's non-commodity revenue requirement and compares it to non-commodity costs approved in Board Order 140/11.

	Stittco Application June 2012	Approved From Board Order 140/11	Increase (Decrease)
Wages & benefits	657,960	634,000	23,960
Materials & supplies	42,460	43,400	(940)
Contract services	95,000	112,500	(17,500)
Other operating costs	93,000	106,650	(13,650)
Automotive	50,800	58,000	(7,200)
Insurance	60,000	73,000	(13,000)
Property taxes	120,000	140,000	(20,000)
Admin & general	208,268	215,000	(6,732)
Total direct	1,327,488	1,382,550	(55,062)
Admin fee	159,299	165,906	(6,607)
Total operating expense	1,486,787	1,548,456	(61,669)
Other cost of sales	120,000	100,000	20,000
Depreciation	125,165	132,547	(7,382)
Accretion	25,011	22,260	2,751
Return on rate base	178,070	196,551	(18,481)
Income tax requirement	69,769	81,717	(11,948)
Other income	(274,600)	(274,600)	0
Total - non-commodity revenue requirement	1,730,202	1,806,931	(76,729)

Overall, Stittco's total operating costs for 2013 are expected to decline almost 4% from \$1,548,456, as approved in Board Order 140/11 to \$1,486,787. This represents a decrease in operating costs of \$61,669. Actual operating costs for Stittco's year ending July 31, 2011 were \$1,485,119. The largest single decrease in operating costs results from declines in property taxes. Wages and benefits include a provision for a 3.78% compensation rate increase in 2013.

The Stittco mid-year rate base for 2012, and approved by Board Order 140/11, was \$1,965,508. Stittco's projected mid-year rate base for 2013 is \$1,780,695.

In its application, Stittco seeks to continue the 10% return on its projected rate base, which would result in an annual revenue requirement of \$178,070. Stittco, consistent with 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 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 a 10% return on rate base. In recent years, the actual returns have been less than the 10% return provided for in rates. Stittco last attained its target return on rate base of 10% in 2003 when its rate of return was 10.97%.

Although the actual projected operating costs are forecast by Stittco to decrease by approximately 4%, the non-commodity application submitted by Stittco results in an overall increase in non-commodity rates of approximately 5.35% because the customer and sales volumes are projected to be lower in 2013 than in 2011 (see table under Background). This spreads the Non-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 maintains 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 and consumption varies with weather conditions, heating efficiency, and individual household practices.

The revised commodity rate as approved for August 1, 2012 was a 43.6% decrease in propane commodity costs. This reflects a forecast propane commodity price of \$125 per cubic meter (plus \$70 per cubic meter for delivery to Thompson).

This is further offset by a PPVA balance of \$256,381 owing to customers. The Board also approved, on an interim basis, the 5.35% non-commodity rate increase. The combined effect was an overall decrease to the average residential propane bill of 18%.

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 propane 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%
Estimated Order 140/11	Propane Volumes	1,663,000	5,207,000	6,870,000	-3.2%
	Customers	732	163	895	-0.8%
2013 Estimated	Propane Volumes	1,674,572	4,587,831	6,262,403	-8.8%

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

Residential customers account for approximately 27% of the overall propane volumes sold by Stittco, with commercial customers accounting for the remaining 73%.

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 heating with electricity.

5.0 BOARD FINDINGS

Non-commodity rates

The Board has reviewed Stittco's Application for non-commodity costs of June 2012, as well as Stittco's responses to interrogatories from the Board.

The Board confirms the non-commodity rates approved in Order 88/12 for rates effective August 1, 2012.

The Board agrees that Stittco receive a reasonable return on its investment. The Board will therefore approve Stittco's rate base of \$1,780,695 and a 10% return on rate base amounting to \$178,070.

The Board is encouraged by Stittco's efforts to reduce costs. Projected operating expenses for 2012 are \$1.45 million. The Board encourages Stittco to continue to examine ways to reduce costs.

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 two to three 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 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, 2012, BE AND ARE HEREBY APPROVED AS FINAL.
2. Stittco Utilities Manitoba Ltd. rate base of \$1,780,695 BE AND IS HEREBY APPROVED.
3. All Interim ex-parte Orders referenced in Board Orders 149/11, 9/12 and 53/12 BE AND ARE HEREBY APPROVED AS FINAL.

THE PUBLIC UTILITIES BOARD

"RÉGIS GOSSELIN, BA, CGA, MBA"
Chair

"KURT SIMONSEN, P.Eng."
Acting Secretary

Certified a true copy of Order No.
142/12 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"

GENERAL SERVICE RATE STRUCTURE

EFFECTIVE FOR CONSUMPTION ON OR AFTER AUGUST 1, 2012

Basic Monthly Charge		\$10.00/month
		per m ³ /mo
Commodity Costs Recovery		\$0.6000
Delivery Charge (Non-commodity):		
	First 100 m3	\$1.20122
	Next 400 m3	\$1.07129
	Next 1000 m3	\$1.01371
	Next 2500 m3	\$0.82131
	Over 4000 m3	\$0.63006