

M A N I T O B A) Order No.45/09
)
THE PUBLIC UTILITIES BOARD ACT) April 24, 2009

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

 STITTCO UTILITIES MAN LTD.
 PROPANE RATES - EFFECTIVE MAY 1, 2009

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1.0 EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) approves revised propane rates effective for propane consumed on or after May 1, 2009.

Existing and revised rate structure:

	Revised	Current (Order 11/09)
Basic Monthly Charge	\$10.00/month	\$10.00/month
Commodity Costs Recovery per m³	\$0.9152	\$1.6333
Monthly Delivery Charge per m³:		
First 100 m3	0.9696	0.9634
Next 400 m3	0.8648	0.8593
Next 1000 m3	0.8183	0.8131
Next 2500 m3	0.6630	0.6588
Over 4000 m3	0.5087	0.5054

The revised rates represent an overall decrease of approximately 27% from rates set by interim rate Order 11/09 of February 11, 2009.

This Order also incorporates the quarterly rate setting (QRS) process established in Board Order 11/09, and finalizes revenue requirements for non-commodity costs, the latter arising from a General Rate Application (GRA) filed by Stittco Utilities Man Ltd. (Stittco) on July 31, 2008, with costing updates provided on March 23, 2009.

The rate decrease is primarily attributable to the decrease in the commodity costs, which constitute approximately two-thirds

(2³^{rds}) of an average household's annual propane bill, reflecting current market conditions for propane purchases.

The Board herein makes a final determination related to the GRA filed by Stittco on July 31, 2008, with updated data filed March 23, 2009.

This Order also confirms and finalizes all interim *ex parte* rates established by previous Orders.

2.0 INTRODUCTION

In Order 11/09, the Board approved rates on an interim *ex parte* basis to reflect the then-existent market price of propane. This approval dealt only with changes in the commodity price of propane, in accordance with a newly established quarterly rate setting (QRS) process.

Commodity costs, including transportation to Thompson, are passed on to customers without mark-up. Variances are tracked in a Purchased Propane Variance Account (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.

This also has the effect of minimizing large swings in commodity charges to customers, although major changes in market prices can cause significant quarterly pricing changes, as is the case with this quarter and Order.

Rates established by the QRS will be on an interim *ex parte* basis. This means that they will be established by the Board without further public consultation, subject to satisfactory information being filed by Stittco. This approach is justified

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

Being interim in nature, such rates are subject to finalization or variation following a public process expected to occur annually in conjunction with a review of revenue requirement with respect to non-commodity cost recoveries. The annual process may rely on a paper-based process or an oral hearing.

Decisions related to the GRA were initially deferred as the Board sought clarification of other matters. The Consumers' Association of Canada and the Manitoba Society of Seniors (CAC/MSOS) intervened in the GRA and posed a series of questions to Stittco concerning their rate application, revenue requirements and projected expenditures.

As previously indicated, this Order includes the finalization of rates determined to be required for Stittco's operations resulting from July 2008 and March 2009 filings.

This Order is best read in conjunction with Orders 141/08 and 11/09, which can be found on the Board's website at www.pub.gov.mb.ca or by contacting the Board's office.

3.0 APPLICATION

3.1 GRA

Stittco filed a GRA dated July 31, 2008, applying for approval of revised revenue requirements for non-commodity related expenses, including a rate of return on its investment (return on rate base).

The following schedule shows the original application as well as the update provided in March 2009

	July 31, 2008	March 23, 2009
Wages & benefits	582,200	604,400
Materials & supplies	43,000	44,500
Contract services	115,500	123,500
Other operating costs	275,000	144,500
Automotive	62,500	59,000
Insurance	73,500	75,000
Property taxes	148,000	150,000
Admin & general	284,500	273,000
Total direct	<u>1,584,200</u>	<u>1,473,900</u>
Admin fee	190,104	176,868
Total operating expense	<u>1,774,304</u>	<u>1,650,768</u>
Other cost of sales	120,000	120,000
Depreciation	136,172	136,172
Accretion	18,774	18,774
Return on rate base	208,616	201,459
Income tax requirement	100,318	100,318
Other income	<u>-256,600</u>	<u>-256,600</u>
	<u>327,280</u>	<u>320,123</u>
Total- non- commodity revenue requirement	2,101,584	1,970,891

Stittco requested that propane rates charged to its customers be amended to reflect the non-commodity revenue requirements. In the Stittco rate structure, revised in 2008, these amounts are built into the basic monthly charge and the delivery charge.

3.2 Quarterly Commodity Rate Adjustment

Stittco, in a separate filing dated April 21, 2009, requested that commodity costs be decreased from the current rate of \$1.6333 per cubic meter to \$0.9152 per cubic meter, reflecting revised commodity purchase costs extant in the market.

Stittco advised of its forecast of a propane commodity price of \$262.00 per cubic meter, including delivery to Thompson.

4.0 BOARD FINDINGS

4.1 GRA

The Board expects Stittco to file for annual non-commodity cost updates and previously directed Stittco to make such a filing in February 2009, for a possible May 1st rate adjustment.

Subsequently, the Board extended the filing date to March 1, 2009. The requested information was filed on March 23, 2009, and has been considered in the deliberations concerning the finalization of the July 31, 2008 GRA.

The Board has carefully considered Stittco's application and update, as well as the questions asked by CAC/MSOS and Stittco's responses. Resulting from this review, the Board will make the following adjustments to non-commodity revenue requirements:

	<u>March 23, 2009</u>	<u>Adjustments</u>	<u>Approved</u>
Wages & benefits	604,400		604,400
Materials & supplies	44,500		44,500
Contract services	123,500		123,500
Other operating costs	144,500	-20,000	124,500
Automotive	59,000		59,000
Insurance	75,000		75,000
Property taxes	150,000		150,000
Admin & general	273,000	-70,000	203,000
Total direct	<u>1,473,900</u>	<u>-90,000</u>	<u>1,383,900</u>
Admin fee	176,868	-10,800	166,068
Total operating expense	<u>1,650,768</u>	<u>-100,800</u>	<u>1,549,968</u>
Other cost of sales	120,000		120,000
Depreciation	136,172		136,172
Accretion	18,774		18,774
Return on rate base	201,459		201,459
Income tax requirement	100,318		100,318
Other income	-256,600		-256,600
	<u>320,123</u>	<u>-</u>	<u>320,123</u>
Total- non- commodity revenue requirement	1,970,891	-100,800	1,870,091

Included in Stittco's operating cost estimate was an amount of \$40,000 related to the relocation of pipe lines over which structures had been built, the lines representing a violation of CSA standards and a safety hazard.

The Board initially expected that relocation costs would be recovered from customers that inappropriately built structures over propane lines. However, the Board recognizes that there may be extenuating circumstances whereby the fault was not the customer's, either in whole or in part, and will accept that Stittco will not recover some of the costs incurred in relocating lines; the provision has accordingly been reduced by

50% on the expectation that recoveries from customers will occur.

Included in Stittco's projected administration costs were estimated expenses of \$50,000 for both regulatory costs related to the Board's oversight as well as legal fees. The Board notes that the estimated cost increase followed a 2007 GRA process which involved an oral hearing concerning not only rates, but also a requested change to the regulatory environment, whereby the Board was asked to forbear on its regulatory oversight.

That process involved the extensive use of legal counsel by Stittco and the Board, as well as costs related to an intervention by CAC/MSOS. The Board does not accept that such extensive costs will continue, and notes that by way of a change in regulation the annual levy on Stittco for standard annual regulatory charges was reduced from \$10,460 to \$2,000. In recognition of these factors, the Board has reduced the allowance for regulatory costs to \$10,000, and the estimate for legal costs to \$20,000.

The concurrent reduction to Stittco's estimated administrative fee is simply a function of the other reductions, as the administrative fee is based on a formula, 12% of direct operating expense.

The Board considered the return on rate base of 10% requested by Stittco. While this is not a change to previously allowed returns, the Board is cognizant of recent decisions in other jurisdictions, such as the National Energy Board, which has seen the allowed return on rate base reduced to the 6% to 7% range, reflecting the current market conditions.

However, the Board will not make adjustments at this time but will review this issue in the spring of 2010, when it next considers non-commodity revenue requirements.

The Board will direct Stittco to file an update of non-commodity costs in February of 2010 for consideration in setting the May 1, 2010 rates.

4.2 Commodity Rates

The Board is satisfied that, based on the information provided by Stittco, the commodity recovery rate herein established for the May to July 2009 quarter is reasonable. The Board is therefore accepting Stittco's proposal and ordering the decrease to be effective for consumption on or after May 1, 2009.

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.

5.0 IT IS THEREFORE ORDERED THAT:

1. Stittco Utilities Man Ltd.'s rates be amended on an interim ex parte basis as per the attached Schedule "A" effective for consumption on or after May 1, 2009.
2. Stittco Utilities Man Ltd. continue to track and report monthly to the Board its Purchased Propane Variance Account, reporting differences between actual and estimated propane commodity costs.
3. Stittco Utilities Man Ltd. file supporting data for a proposed change in non-commodity cost revenue requirement by March 1, 2010.
4. Stittco file, on or before January 15, April 15, July 15 and October 15 of each year, the information required for the quarterly commodity cost price adjustment.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"G. GAUDREAU, CMA"
Secretary

Certified a true copy of Order No.
45/09 issued by The Public
Utilities Board

Secretary

SCHEDULE "A"
GENERAL SERVICE RATE STRUCTURE
EFFECTIVE FOR CONSUMPTION ON OR AFTER MAY 1, 2009

Basic Monthly Charge	\$10.00/month
	per m ³ /mo
Commodity Costs Recovery	\$0.9152
Delivery Charge:	
First 100 m3	0.9696
Next 400 m3	0.8648
Next 1000 m3	0.8183
Next 2500 m3	0.6630
Over 4000 m3	0.5087