

M A N I T O B A                    )     Order No. 97/11  
  )  
THE PUBLIC UTILITIES BOARD ACT   )     July 26, 2011

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

                  STITTCO UTILITIES MAN LTD.  
                  PROPANE RATES EFFECTIVE AUGUST 1, 2011

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**1.0 EXECUTIVE SUMMARY**

By this Order, the Public Utilities Board (Board) approves an overall increase of approximately 2.5% in propane charges to customers of Stittco Utilities Man Ltd. (Stittco) effective for propane consumed on or after August 1, 2011.

The overall rate change combines an interim *ex parte* 0.8% decrease in the propane commodity rate and an interim *ex parte* 7.22% increase in non-commodity rates.

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
<b>Basic Monthly Charge</b>	\$10.00/mo	\$10.00/mo	\$10.00/mo	\$10.00/mo	\$10.00/mo
	per m <sup>3</sup>	per m <sup>3</sup>	per m <sup>3</sup>	per m <sup>3</sup>	per m <sup>3</sup>
<b>Commodity Cost Recovery</b>	<b>\$1.0850</b>	<b>\$1.4590</b>	<b>\$1.6460</b>	<b>\$1.5476</b>	<b>\$1.5353</b>
<b>Delivery charge</b>					
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

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 decrease represents a small increase in the commodity cost of propane (from \$340/m<sup>3</sup> for liquid propane in May 2011 to \$343/m<sup>3</sup> as of July 15, 2011), and the reflection in rates of a Purchase Price Variance Account balance of \$114,118 owing to customers. The net of the two factors result in a slight decrease to the commodity rate.

Stittco applied to the Board on June 30, 2011 seeking approval of an increase in non-commodity costs. Following a preliminary review of Stittco's application, the Board will approve Stittco's application to increase non-commodity costs on an interim ex parte basis.

The slight decrease in the commodity rate of 0.8% combined with the increase in non-commodity charges of 7.22% result in an overall increase of approximately 2.5% in propane charges to Stittco customers.

The quarterly rate setting (QRS) process for the commodity segment of Stittco's bills was established by Board Orders 141/08 and 45/09 (available for review on the Board's website).

## **2.0 INTRODUCTION**

The commodity portion of Stittco's overall propane rates is to be amended quarterly, in accordance with the QRS process. Delivery charges are set annually and are designed to recover the costs incurred by Stittco for the distribution of propane to customers. Delivery charges were last amended in Board Order 107/10 for propane consumed after November 1, 2010.

Commodity costs, including transportation to Thompson, are passed on to customers with no mark-up. Variances are tracked in a Purchased Price 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 and buffer often large swings in commodity charges.

Rates established by the QRS are set on an interim *ex parte* basis, subject to satisfactory information being filed by Stittco with the Board. The quarterly interim rates are reviewed and finalized annually through a public process (either by way of a paper-driven review or oral hearing).

The approach reflects reality - the commodity rate is driven by commodity price changes that are outside the control of Stittco. The *ex parte* rate approval process both reduces regulatory costs and better ensures a reasonable revenue flow to Stittco.

Propane remains an expensive fuel for heating purposes, and customers are encouraged to consider improving the heating efficiency of their properties and achieving longer term savings by switching to electric space heating. Heating with propane at current propane rates can cost up to three times more than heating with electricity.

### **3.0 APPLICATION**

Stittco filed its commodity application on July 15, 2011, seeking a decrease in propane commodity rates from \$1.5476 to \$1.5353 per cubic meter of propane vapour. The proposed

commodity rate reflects Stittco's forecast propane commodity price of \$343.00 per cubic meter of liquid propane, plus an additional \$70 per cubic meter for delivery to Thompson.

Stittco's application also included an adjustment to the propane commodity cost reflecting a PPVA balance of \$114,118 owing to the customer.

On June 30, 2011 Stittco filed a Non-Commodity Cost Application with the Board. Stittco's Non-Commodity Cost Application requested a 7.22% increase in non-commodity costs.

Non-commodity costs are designed to recover costs incurred for the distribution of propane to customers and include operating expenses, income taxes, depreciation, and an allowed rate of return on rate base of 10%. Stittco's Non-Commodity Cost Application also revised Stittco's estimates of annual propane consumption from 2,090,065m<sup>3</sup> to 1,819,868m<sup>3</sup>.

This change in annual consumption estimates was included in Stittco's July 15, 2011 propane commodity rate Application.

#### **4.0 BOARD FINDINGS**

The Board reviewed Stittco's Commodity Cost Application as filed July 15, 2011 and, as well, Stittco's Non-Commodity Cost Application as filed June 30, 2011 (Non-Commodity Cost Application).

The commodity recovery rate sought by Stittco fairly reflects projected commodity and transportation costs to Thompson. The Board also considers Stittco's projected decrease in annual

propane consumption reasonable (given past and expected changes in propane use patterns).

Accordingly, the Board will accept Stittco's proposal, and direct that a decrease in the propane commodity rate be effective for consumption on or after August 1, 2011 on an interim ex-parte basis.

The Board will also approve Stittco's request for a 7.22% increase in non-commodity costs on an interim ex-parte basis. The actual return earned by Stittco for fiscal 2010 (year ending July 31, 2010) was minus 8.12% (Stittco lost money on its operations). The projected return on rate base for the fiscal year ending in 2011 is 2.82%, taking into account the interim 7.22% increase in non-commodity costs.

The Board is concerned that Stittco receive a reasonable return on its investment. The last year that Stittco received a rate of return greater than 10% was in 2003 when Stittco earned 10.97%. The result in several of the more recent years has been losses. The financial stability of Stittco, along with just and reasonable rates paid by Stittco customers are key objectives that the Board must balance.

The Board will conduct a thorough review of Stittco's Non-Commodity Cost Application with the intent of issuing a final Order on non-commodity costs for propane consumed on or after November 1, 2011.

The public is urged to provide their comments to the Board on Stittco's Application for the proposed non-commodity cost

increase. A copy of Stittco's Non-Commodity Cost Application is on the Board's website at [www.pub.gov.mb.ca](http://www.pub.gov.mb.ca).

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 upwards of 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](http://www.pub.gov.mb.ca).



**5.0 IT IS THEREFORE ORDERED THAT:**

Stittco Utilities Man Ltd.'s rates be amended on an interim *ex parte* basis as per attached Schedule "A" effective for consumption on or after August 1, 2011.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE CA"  
Chairman

"KURT SIMONSEN P.Eng."  
Acting Secretary

Certified a true copy of Order No.  
97/11 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 <sup>3</sup> /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