Public Utilities Board
Régie des services publics

Order No. 179/19

AN APPLICATION BY STITTCO UTILITIES MAN LTD.
NON-COMMODITY COSTS EFFECTIVE JANUARY 1, 2020
FINAL APPROVAL

December 11, 2019

BEFORE: Larry Ring, Q.C., Panel Chair
Marilyn Kapitany, B.Sc., (Hon), M.Sc., Member
Carol Hainsworth, C.B.A., Member
Susan Nemec, FCPA, FCA, Member
Michael Watson, Member

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1.0 EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) approves revised non-commodity rates for Stittco Utilities Man Ltd. (Stittco) effective January 1, 2020. The Board also approves Stittco's projected mid-year rate base for the year ending July 31, 2019 and confirms as final the commodity rates previously approved on an interim ex parte basis.

The increase in non-commodity rates, along with the already approved commodity charge, is expected to increase the average overall residential propane monthly bills by approximately 7% when compared to the previously approved propane rates. Actual customer impacts will depend on propane consumption.

Non-commodity costs include costs incurred by Stittco for the distribution of propane to customers. In accordance with Board Order 141/08, non-commodity costs are reviewed annually and are recovered in rates through a basic monthly charge and delivery charges. Delivery charges are assigned based on a customer's monthly consumption of propane. In contrast, Stittco's propane commodity costs are reviewed on a quarterly basis pursuant to the Board-approved Quarterly Rate Setting process.

The Board approves Stittco's projected non-commodity costs of $2,463,304 for the year ending July 31, 2020. This represents an increase of $206,241 over the last annual non-commodity costs approved by the Board in Order 169/18, which was $2,257,062 for fiscal year 2019. Additionally, the Board accepts that the implementation of new non-commodity rates on January 1, 2020 instead of November 1, 2019 as originally requested by Stittco, will lead to lost revenues for Stittco in November and December 2019. As such, the Board approves the recovery of an additional $47,277 in non-commodity costs for the year ending July 31, 2020. The recovery of this additional non-commodity revenue amount will afford Stittco the opportunity to fully recover its approved non-commodity revenue requirement for the year ending July 31, 2020, this despite the delayed rate implementation date of January 1, 2020. However, Stittco is directed to file its next non-commodity costs application by July 15, 2020 in order to minimize future rate implementation delays.

The Board also finds that the non-commodity rates approved in Order 169/18 allowed Stittco to earn approximately $43,213 between January 1, 2019 and October 31, 2019 in relation to projected 2019 rate base plant additions that were not actually completed in 2019 and were subsequently fully deferred to a future fiscal year. In this case, the Board will allow Stittco to retain the $43,213 of incremental non-commodity revenue associated with the 2019 capital project deferrals, with no further adjustments required to Stittco's 2020 non-commodity revenue requirement. Going forward, however, the Board directs Stittco to immediately inform the Board should any of its approved capital projects be substantially delayed, are deferred beyond the fiscal year for which they were approved, or if any capital project is expected to be significantly over or under Stittco's previously approved project costs.

The Board approves Stittco's projected mid-year rate base of $2,458,685 for the year ending July 31, 2019, which represents an increase of $81,517 from the fiscal year 2018 projected mid-year rate base of $2,377,168 approved in Order 169/18. Rate base is the value of property upon which the utility is allowed to earn a specified rate of return. The Board will continue to approve a rate of return of 10% on Stittco's rate base, which is currently projected to be $2,665,533 for 2020.

To address an outstanding matter related to Order 133/05, the Board also approves the recovery of a residual commodity cost balance of $5,755 owing to Stittco from all ratepayers through Stittco's Purchased Propane Variance Account effective February 1, 2020. As part of its February 1, 2020 commodity rate application, Stittco shall file the compliance information outlined in this Order.

Pursuant to Section 11 of *The Gas Pipe Line Act*, the Board also directs Stittco to file with the Board, on a confidential basis and by July 15, 2020 or another date approved by the Board, additional supporting information (as outlined in this Order) regarding its liability insurance coverage.

The table below compares the propane commodity and non-commodity rates approved over the last year and provides the revised non-commodity rates effective January 1, 2020:

Table 1 Non-commodity rates - 12 month history							
		Jan 1/19	Feb 1/19	May 1/19	Aug 1/19	Nov 1/19	Jan 1/20
Basic Monthly Charge		$10.00	$10.00	$10.00	$10.00	$10.00	$10.00
Volumetric Charges per m³							
Commodity Cost Recovery		$1.3444	$1.3173	$1.0465	$0.9046	$0.8385	$0.8385
Delivery Charge (Non-Commodity Cost Recovery)							
	first 100 m³	$1.5102	$1.5102	$1.5102	$1.5102	$1.5102	$1.6788
	next 400 m³	$1.3469	$1.3469	$1.3469	$1.3469	$1.3469	$1.4973
	next 1000 m³	$1.2746	$1.2746	$1.2746	$1.2746	$1.2746	$1.4169
	next 2500 m³	$1.0326	$1.0326	$1.0326	$1.0326	$1.0326	$1.1479
	over 4000 m³	$0.7921	$0.7921	$0.7921	$0.7921	$0.7921	$0.8805

Notes to Table: 1/ The Delivery Charges shown for January, February, May, August, and November 2019 were approved in Board Order 169/18.

2/ The Commodity rate shown for November 2019 and January 2020 was approved in Board Order 159/19.

This Order also finalizes interim ex parte commodity rates established in Board Orders 144/18, 14/19, 46/19.

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2.0 INTRODUCTION

Stittco Utilities Man Ltd. distributes propane gas through a pipeline distribution network to approximately 840 customers in Thompson, Flin Flon, and Snow Lake, Manitoba. Bulk propane is supplied from Edmonton and is shipped to Stittco's main storage facilities in Thompson. Stittco subsequently makes use of trucks to transport propane supplies from Thompson to additional propane storage facilities in both Flin Flon and Snow Lake. As of late 2017, Stittco's parent company is Superior Plus LP.

Stittco's historical and projected propane sales are summarized in the table below:

Stittco Propane Sales- Historical and Projected					
		Residential	**Commercial**	**Total**	**Change**
2011	Customers	749	163	912	
	Propane Volumes	1,864,586	5,230,726	7,095,312	
2012	Customers	740	162	902	-1.1%
	Propane Volumes	1,663,000	5,207,000	6,870,000	-3.2%
2013	Customers	732	163	895	-0.8%
	Propane Volumes	1,750,339	5,409,688*	7,160,027*	4.2%
2014	Customers	690	153	843	-5.8%
	Propane Volumes	1,809,663	5,280,573*	7,090,236*	-1.0%
2015	Customers	690	153	843	0.0%
	Propane Volumes	1,596,044	4,977,692	6,573,736	-7.3%
2016	Customers	641	138	779	-7.6%
	Propane Volumes	1,398,347	4,506,262	5,904,609	-10.2%
2017	Customers	646	138	784	0.6%
	Propane Volumes	1,450,476	4,811,334	6,261,810	6.0%
2018	Customers	625	155	780	-0.5%
	Propane Volumes	1,521,090	5,047,209	6,568,299	4.9%
2019	Customers	682	155	837	7.3%
	Propane Volumes	1,521,175	5,234,768	6,748,943	2.8%
2020	Customers	682	155	837	0%
Projected	Propane Volumes	1,529,745	5,260,867	6,790,612	0.6%

* increase in volume due to colder weather and a one-time construction load.

As can be seen from the table, the number of customers, and corresponding propane sales volumes, was generally decreasing between 2009 and 2016. However, slight increases in both customer numbers and propane sales volumes have been experienced since 2017.

The number of commercial customers declined significantly in 2014 as a result of the conversion of several apartment buildings to electrical heat and the closing of a large commercial business. The residential decline has generally been attributed to the difference in cost between heating with propane versus heating with electricity.

Historically, residential customers have accounted for approximately 25% of the overall propane volumes sold by Stittco, with commercial customers accounting for the remaining 75%.

The three components of propane rates billed to Stittco's customers are:

- Basic Monthly Charge:
  Recovers a portion of Stittco's administration costs and is reviewed annually as part of Stittco's non-commodity costs applications.
- Commodity Rate:
  Recovers the cost of propane gas and the associated transportation costs to Thompson. Stittco's propane commodity costs are passed on to customers with no mark-up and are reviewed on a quarterly basis using the Quarterly Rate Setting (QRS) process approved by the Board in Orders 141/08 and 45/09. Variances between actual propane costs and estimated propane costs embedded in Stittco's commodity rates are tracked in a Purchased Propane Variance Account and are either collected from, or refunded to, customers by way of a commodity rate rider. Stittco's commodity price for propane is normally adjusted by the Board on August 1, November 1, February 1, and May 1 of each year per the Board's QRS process, on an interim ex parte basis (i.e. without further public consultations), subject to satisfactory information filed by Stittco. These interim commodity rates for propane are reviewed and finalized annually when Stittco files its non-commodity application.
- Delivery Charges (or non-commodity rates):
  Recover Stittco's approved non-commodity revenue requirement for the upcoming fiscal year (less the revenue collected through the Basic Monthly Charge). Stittco's non-commodity revenue requirement consists of costs projected to be incurred by

Stittco for the distribution of propane to its customers over an upcoming fiscal year. Stittco's non-commodity costs include operating expenses (e.g. salaries, materials, and supplies), depreciation, a provision for corporate income tax, and a return on Stittco's rate base for its owners. Stittco's delivery charges are assigned based on a customer's monthly consumption of propane and are reviewed annually as part of Stittco's non-commodity costs applications.

Board Order 159/19 (dated October 28, 2019) approved the existing Stittco propane commodity rate, effective November 1, 2019.

Since 2010, Stittco has filed, typically in July of every year, non-commodity costs applications seeking approval of its prior year rate base and the projected non-commodity revenue requirement for the upcoming fiscal year. The last Board review of Stittco's non-commodity costs was completed in 2018 and resulted in Order 169/18 (dated December 20, 2018), which approved the existing Basic Monthly Charge and Delivery charges, effective January 1, 2019.

In regards to the amount of liability insurance held by the owner of a gas pipeline, Section 11 of *The Gas Pipe Line Act* states:

> "*Every owner shall be insured, by an insurance company licensed to do business in the province, against liability that it may incur to others by reason of negligence on its part, or on the part of its servants or agents, in the construction or operation of a gas pipe line or for any other reason; and the insurance shall be to such an amount as is approved by the board.*"

On June 15, 2016, the Board approved the liability insurance amount held by Stittco's then owner Gibson Energy ULC and directed Stittco to inform the Board if this coverage amount was modified or if Stittco experienced significant changes in its risk profile.

3.0 PROCEDURAL HISTORY

On September 25, 2019, Stittco applied to the Board seeking approval of its projected non-commodity cost revenue requirement for the year ending July 31, 2020 and its projected rate base as of July 31, 2019. On October 18 and 24, 2019, Stittco filed revised Application materials that proposed new non-commodity rates for propane consumed after November 1, 2019, which reflected a 9.1% increase in total non-commodity revenue from the level previously approved by the Board in Order 169/18.

In 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 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 Order 141/08, and to minimize regulatory costs to the utility and its customers, the Board reviewed Stittco's non-commodity cost Application using a paper-based process.

Stittco's customers were notified of the proposed non-commodity rate increase by including the Board's public notice in Stittco's October 2019 billings to customers for September propane consumption. Customers were advised that they could contact the Board to review Stittco's Application and to express their concerns. The Board did not receive any oral or written communication from the public regarding Stittco's Application.

On October 4, 2019, the Board submitted Information Requests to Stittco. While Stittco provided its responses on October 18, 2019, the responses were re-filed on October 24, 2019 in order to correct inadvertent errors included in Stittco's original materials.

On October 28, 2019 the Board submitted a second round of Information Requests that sought further clarifications on Stittco's Application materials, to which Stittco responded on November 1, 2019.

4.0 APPLICATION

On September 25, 2019, Stittco applied to the Board for an Order fixing non-commodity distribution rates for all gas customers served by Stittco for propane consumed on or after November 1, 2019. The following represents a summary of Stittco's application.

Pursuant to Parts II and IV of *The Public Utilities Board Act*, Stittco's Application requested the following from the Board:

a) Approval of the non-commodity cost revenue requirement of the company for the year ending July 31, 2020;

b) Approval of the projected rate base for Stittco as of July 31, 2019.

In recognition of the fact that the Board may not complete the review of Stittco's Application prior to the requested rate implementation date of November 1, 2019, Stittco also requested that the Board approve the recovery of the lost non-commodity revenue arising from delays in implementing new rates past November 1, 2019. For example, should Stittco's proposed non-commodity rates be implemented on January 1, 2020 instead of November 1, 2019, Stittco would have two fewer months to recover the entire amount of its proposed 2020 non-commodity revenue requirement, which would result in a projected non-commodity revenue shortfall of $47,277.

In response to Directive 3 of Order 169/18, Stittco also submitted its 2020-2024 capital expense plan as part of its Application materials. While Stittco's projected capital expenditures for 2020 are embedded in Stittco's proposed non-commodity rates, expenditures beyond the 2020 test year have not yet been finalized. Once determined to be a prudent investment by Stittco's management, each capital investment will subsequently be presented to the Board, in future non-commodity cost applications, in order to seek approval for cost recovery through rates.

The table below summarizes Stittco's projected non-commodity revenue requirement for the year ending July 31, 2020 and compares it to non-commodity costs approved in Board Order 169/18 for the year ending July 31, 2019.

Comparison of Stittco's Non-Commodity Revenue Requirement

	Revised 2019 Application (for FY2020)	Approved From Board Order 169/18 (for FY2019)	Increase / Decrease
Wages & Benefits	$877,386	$880,364	-$2,978
Materials and Supplies	$54,700	$50,700	$4,000
Contract Services	$145,098	$119,000	$26,098
Other Operating Costs	$131,210	$129,000	$2,210
Automotive	$71,219	$60,500	$10,716
Insurance	$153,000	$13,000	$140,000
Property Taxes	$126,465	$132,600	-$6,135
Administrative & General	$271,500	$263,300	$8,200
Administration Fee	$219,669	$197,816	$21,853
Sub-Total Direct Operating Costs	**$2,050,248**	**$1,846,280**	**$203,968**
Other Cost of Sales	$75,175	$75,175	$0
Depreciation	$126,431	$116,875	$9,556
Accretion	$35,979	$33,942	$2,037
Return on Rate Base	$266,553	$282,093	-$15,540
Income Tax Requirement	$123,918	$117,698	$6,220
Other Income	-$215,000	-$215,000	$0
Sub-Total Other Costs	**$413,056**	**$410,783**	**$2,273**
Total Non-Commodity Revenue Requirement	**$2,463,304**	**$2,257,062**	**$206,241**

The total non-commodity revenue requirement for 2020 is projected to be $2,463,304, which represents an increase of $206,241 over the 2019 projected non-commodity revenue requirement approved in Order 169/18.

Operating Costs

In fiscal year 2019, Stittco incurred significant operating expenses as a result of a broken water main in January 2019 that caused flooding in Stittco's main office building in Thompson. In addition to the flood damage to the office's interior, which was subsequently remediated, the soil under the adjacent parking lot was disrupted and subsequently shifted from the freezing and thawing that occurred since January 2019, causing significant pavement cracks and surface shifting. Additional unexpected operating expenses were also incurred in 2019 to address a significant gas leak that occurred in Thompson in March 2019.

In total, Stittco incurred $182,253 (pre-GST) in fiscal year 2019 to address these two unforeseen incidents. Stittco stated that given its existing insurance coverage, its insurer would not provide compensation for these incidents. As Stittco's existing non-commodity rates were set based on projected 2019 costs that did not include the costs related to the 2019 office flood and gas leak incidents, and that Stittco's proposed non-commodity rates are based on projected 2020 costs, Stittco's unforeseen 2019 operating expenses will be borne by Stittco's shareholder.

Stittco's projected 2020 operating expenses of $2,050,248, which are proposed to be included in Stittco's proposed non-commodity rates, are 11% (or $203,968) higher than those approved in Order 169/18 for fiscal year 2019. The majority of this increase is related to the projected $140,000 in insurance related costs for the repair of the Thompson office parking lot, which has not yet commenced but is projected to be completed during the 2020 fiscal year. Stittco stated that the existing parking lot is solely owned by Stittco and used by its staff, visitors, and customers. In addition, the parking lot's asphalt needs to be completely removed in order to determine the extent of the January 2019 flooding damage as well as to assess the integrity of the Thompson office building and surrounding areas. Once the required underground repairs are complete, Stittco plans to resurface the parking lot. Without the projected $140,000 office parking lot repair expense, Stittco's projected 2020 operating expenses would be approximately 2.6% higher than those approved in Order 169/18.

A major component of Stittco's projected operating costs are its employee wages and benefits. For fiscal year 2020, Stittco continues to include an expected 2.5% inflation salary increase as part of its projected wage expenses (a $5,000 increase to forecast overtime wages is also included). However, Stittco projects lower benefit costs in 2020 than previously approved as a result of Stittco implementing Superior's corporate policies related to employee benefits. The table below summarizes Stittco's projected costs for wages and benefits in 2019 and 2020, compared to the levels approved in Order 169/18.

Stittco Wages and Benefits			
	PUB Order 169/18 (for 2019)	**2019 Projected (9 Months Actual and 3 Months Budget)**	**2020 Projected (to July 31, 2020)**
Wages	$ 713,864	$ 691,412	$ 736,086
Benefits	$ 166,500	$ 103,298	$ 141,300
Total	**$ 880,364**	**$ 794,710**	**$ 877,386**

Other significant items related to Stittco's projected 2020 operating expenses include:

- $21,098 in higher projected costs for contracted services related to the delivery of propane from Thompson to Flin Flon and Snow Lake. Stittco advised that this increase is related to higher projected 2020 volume consumption forecasts in those areas compared to Stittco's 2018 non-commodity costs application.
- $8,500 in higher projected automobile maintenance costs, which Stittco states are reflective of its aging vehicle fleet and Superior's policies for more thorough inspections.
- 5% lower property taxes (or approximately $6,100 lower) projected for 2020 relative to those approved in Order 169/18 for 2019.

Rate Base and Rate of Return

Rate base is the value of property upon which the utility is allowed to earn a specified rate of return. Stittco's mid-year rate base projections for 2019 and 2020 are summarized in the table below.

STITTCO'S RATE BASE

PLANT IN SERVICE:	Order 169/18 (for 2019)	2019 PROJECTED	2020 PROJECTED
Beginning Year Balance	$6,010,302	$6,010,303	$6,010,303
Additions, Net	$905,000	$0	$643,479
End of Year Balance	$6,915,302	$6,010,303	$6,653,782
Average, Mid-year	**$6,462,802**	**$6,010,303**	**$6,332,042**
ACCUMULATED DEPRECIATION:			
Beginning Year Balance	$4,296,697	$4,296,697	$4,410,245
Additions, Net	$116,875	$113,548	$69,909
End of Year Balance	$4,413,572	$4,410,245	$4,480,154
Average, Mid-year	**$4,355,135**	**$4,353,471**	**$4,445,200**
AVERAGE MID-YEAR NET PLANT IN SERVICE:	$2,107,668	$1,656,832	$1,886,843
WORKING CAPITAL	$713,259	$801,853	$778,691
MID-YEAR RATE BASE	**$2,820,926**	**$2,458,685**	**$2,665,533**

The Stittco projected mid-year rate base for 2019 approved in Board Order 169/18 was $2,820,926. At the time, Stittco's projected 2019 mid-year rate base included $905,000 in projected rate base plant additions. These projected 2019 capital expenditures included $750,000 for the replacement of two aging propane vaporizers in Thompson, $90,000 for the replacement of two service trucks, $40,000 for upgrades to the Thompson town meter building, and $25,000 for general site maintenance and repairs.

In its Application, Stittco now projects its 2019 mid-year rate base to be $2,458,685, which is significantly lower than previously projected. While changes in projected accumulated depreciation and working capital also affected Stittco's 2019 mid-year rate base, Stittco stated that the lower than expected value is largely the result of Stittco fully deferring the $905,000 in planned rate base plant additions from 2019 to future years, as shown in its updated 2020-2024 capital expense plan. Stittco further explained that the decision to fully defer its previously planned 2019 rate base plant additions to future years was due to factors such as timing (e.g. receipt of the Board's 169/18 Decision in December 2018 and the expected system disruptions resulting from project execution during the winter heating season), weather, parent company funding, and the condition of the affected assets.

However, the inclusion of the now deferred $905,000 in projected 2019 rate base plant additions resulted in $65,969 of additional non-commodity revenue requirement to be included in the non-commodity rates approved in Order 169/18, which took effect January 1, 2019. Based on weather and customer consumption experienced between January 1, 2019 and October 31, 2019, Stittco estimates that $43,213 of incremental non-commodity revenue was collected as a result of the inclusion of $905,000 in projected 2019 plant additions in its approved rates. This additional non-commodity revenue partially offsets the unexpected 2019 operating costs related to the Thompson office flooding and gas leak incidents described above.

For fiscal year 2020, Stittco's Application includes rate base plant additions totaling $700,000 (less $56,522 in projected fixed asset disposal). The majority of these projected rate base additions ($600,000) arise from the replacement of two aging propane vaporizers located in the town of Thompson. Stittco advised that this is the same capital project approved in Order 169/18, which was fully deferred to fiscal year 2020, but with a revised budget of $600,000 instead of $750,000 as originally estimated in 2018. Stittco stated that the project work scope described in its 2018 non-commodity application remains the same but that the revised project budget was the result of Stittco obtaining additional quotes and leveraging the buying power of Superior. Stittco states that this project is already underway and is expected to be completed by October 2019. The affected vaporizer units are 50 years old and are used to transform stored liquid propane into propane gas that is subsequently distributed to customers via the Thompson pipeline distribution system.

Additional rate base additions projected for 2020 include $100,000 for the replacement of two aging service trucks. Under Superior's current policy, replacement vehicles are purchased rather than leased (Stittco's previous owner preferred vehicle leases).

Given Stittco's projected rate base plant additions in 2020, the projected mid-year rate base for 2020, after considering accumulated depreciation and working capital, is $2,665,533.

In Order 169/18, the Board approved a 10% rate of return for Stittco's fiscal year ending July 31, 2019. In its Application, Stittco continues to seek a 10% return on the projected rate base. This would result in a projected net income of $266,553 for 2020. Stittco holds 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. Stittco's primary competition is from existing electricity providers, which allow customers to choose electricity as their option for space and water heating rather than propane.

In recent years, Stittco's actual returns have generally been less than the 10% return provided for in rates. Stittco's return on rate base for the past ten years is provided in the table below:

Stittco Rate of Return- 10 year History				
Year	Mid – Year Rate Base	Actual Return (Loss)	Actual % Return	Normalized % Return*
2018**	$2,377,585	$149,533	6.29%	7.17%
2017**	$2,324,873	($147,889)	(6.36%)	(4.35%)
2016***	$1,808,243	$157,230	8.70%	13.99%
2015***	$1,556,473	$107,523	6.91%	5.91%
2014***	$1,745,302	$150,468	8.62%	3.05%
2013	$1,733,284	$258,248	14.90%	13.78%
2012	$1,953,864	$67,310	3.44%	10.02%
2011	$2,051,484	$111,698	5.44%	6.72%
2010	$1,980,700	($160,751)	(8.12%)	(0.48%)
2009	$2,009,574	$112,030	5.57%	4.10%

* Adjusted to eliminate variances due to weather fluctuations.

** Updated figures to reflect revised submissions per Directive 5 of Order 169/18.

*** Revised figures to remove overcharge (per Order 158/16).

Stittco's projected return (i.e. net income) for the year ending July 31, 2019 is a gain of $48,458 for a return on a mid-year rate base of 1.97%. The unexpected operating costs related to the Thompson office flooding and gas leak incidents in January and March 2019 significantly contributed to the lower than 10% return on rate base projected for 2019 (partially offset by incremental non-commodity revenue associated with the deferred $905,000 of capital additions included in the Order 169/18 non-commodity rates).

Residual Purchased Propane Variance Account (PPVA) Balance from Order 133/05

To ensure that Stittco's commodity costs are passed on to customers without markup, Stittco makes use of a PPVA to track variances between actual propane costs and estimated propane costs embedded in Stittco's commodity rates. Historically, Stittco required two separate PPVAs as different rates were set for residential and commercial customers. The domestic PPVA is the portion of Stittco's overall PPVA attributable to residential customers. Similarly, the commercial PPVA applies to Stittco's commercial customers. Given Stittco's current rate structure (i.e. common rates for residential and commercial customers), accrued balances in both the domestic and commercial PPVAs are now added together and the resulting balance is collected from, or refunded to, all customers by way of a single rate rider embedded in Stittco's quarterly commodity rate.

In Order 133/05 (dated October 5, 2005), the Board delayed the implementation of new Stittco sales rates beyond the requested date of October 1, 2005 in an effort to smooth the significant bill impacts associated with the high commodity costs in effect at the time. For non-residential customers, the Board approved a one month rate implementation delay (i.e. approved rates for November 1, 2005 instead of October 1, 2005). For residential customers, the Board approved a two-step rate increase where part of the Stittco rate increase was approved for November 1, 2005 and a further increase was approved for February 1, 2006. At the time, Stittco made use of a PPVA for its commodity costs, however, Stittco's rate structure did not make use of separate commodity and non-commodity rates. As a result, the rate implementation delays approved in Order 133/05 resulted in an additional commodity-related PPVA balance to accrue that was never recovered from Stittco's ratepayers.

In Order 133/05, the Board stated:

> "*The Board will direct that the effect of the variance between the rates and effective dates sought by Stittco and those approved by the Board be accrued within residential and commercial PPVA balances, for later reflection in rates.*"

Stittco stated that the residual PPVA balance resulting from Order 133/05 is $5,755 owing to Stittco, although this total residual balance was not further broken down between residential and commercial customers.

In order to address this outstanding issue, Stittco now proposes to include the residual $5,755 PPVA balance in the ongoing domestic PPVA balance.

Liability Insurance Coverage

As part of its submissions in this proceeding, Stittco provided confidential information regarding the existing liability insurance coverage held by Superior Plus LP (Stittco's current owner), which would apply to both Stittco and the rest of Superior's business operations. Stittco further stated that it was not able to confirm whether its existing insurance coverage had changed following the recent change in Stittco ownership. However, based on the similarity of the insurance structure and the premiums allocated by Stittco's parent company, Stittco does not believe there to be a significant change in policies.

5.0 BOARD FINDINGS

The Board accepts the information filed by Stittco on September 25, 2019, along with its subsequent submissions on October 18, 21, 24, 2019 and November 1, 2019, to be Stittco's evidence in support of its Application.

Non-commodity Costs

The Board finds that Stittco's proposed non-commodity revenue requirement for the year ending July 31, 2020 is reasonable. As a result, the Board approves Stittco's non-commodity revenue requirement of $2,463,304 for the year ending July 31, 2020. This approved amount represents a 9.1% increase in Stittco's total non-commodity revenue requirement relative to the level previously approved by the Board in Order 169/18.

However, for the purposes of determining Stittco's new non-commodity rates, which are to take effect January 1, 2020, the Board also accepts the recovery of an additional $47,277 in non-commodity revenue, arising from the delay in implementing new rates on January 1, 2020 instead of November 1, 2019. While the Board accepts the recovery of lost non-commodity revenue in this case, the Board is of the view that the current non-commodity rate implementation delay could have been avoided had Stittco filed its Application earlier in the year, such as in July as per Stittco's prior annual non-commodity costs application filing timelines. As a result, the Board directs Stittco to file its next non-commodity costs application by July 15, 2020. In the event that Stittco does not meet this filing date, the Board may consider not including in rates lost revenues caused by rate implementation delays.

The Board also finds that Stittco collected through rates approximately $43,213 between January 1, 2019 and October 31, 2019 in relation to projected 2019 rate base plant additions that were subsequently fully deferred to a future fiscal year. However, the Board accepts that the timing of the 2018 non-commodity application review process relative to Stittco's fairly short construction season and the implementation of Superior's capital planning processes caused Stittco to fully review its prior five year capital plan. Furthermore, Stittco informed the Board that work on the Thompson vaporizer replacement project commenced during the summer of the 2019 calendar year and was expected to be completed in October 2019. As a result, the Board allows Stittco to retain the incremental $43,213 in 2019 non-commodity revenue associated with the 2019 capital project deferrals, with no further adjustments required to Stittco's 2020 non-commodity revenue requirement. Going forward, however, the Board directs Stittco to immediately inform the Board should any of its approved capital projects be substantially delayed, are deferred beyond the fiscal year for which they were approved, or if any capital project is expected to be significantly over or under Stittco's previously approved project costs.

Since Stittco has a relatively small operational market and customer base, the Board also recommends that Stittco continue to make every effort to further control its operating costs so as to minimize future rate increases to customers.

Rate Base and Rate of Return

The Board agrees that Stittco should receive a reasonable return on its investment. The Board therefore approves Stittco's projected mid-year rate base of $2,458,685 for the year ending July 31, 2019, and continues to approve a 10% return on rate base, which amounts to $266,553 in non-commodity cost revenue requirement for the year ending July 31, 2020. The Board remains of the view that Stittco's 10% return on rate base is reasonable given that Stittco operates in a small market area and faces competition from other service providers.

The Board further finds that Stittco's planned capital expenditures for 2020, which include the replacement of two Thompson vaporizer units and of two service trucks, are similar, if not the same, in scope as two of the now deferred 2019 capital expenditures approved in Order 169/18. The Board continues to view these investments, now projected to be completed in fiscal year 2020, as necessary in order to maintain the long-term safety and reliability of Stittco's propane distribution system. In addition, the Board acknowledges the fact that the projected capital cost of the Thompson vaporizer replacements is now projected to be $150,000 lower than initially reported in Stittco's 2018 non-commodity costs application.

The Board accepts that additional investments in Stittco's propane distribution system may be required given the age of some of its existing assets. However, the Board continues to find that these investments must be carefully planned in order to maximize the operational life of existing assets, minimize future rate increases for ratepayers, and increase Stittco's market competitiveness, all the while maintaining system safety and reliability. As a result, the Board continues to recommend that Stittco carefully plan its capital expenditures and assess whether there are opportunities to spread out these expenditures (or a portion thereof) over a longer period of time so as to smooth out the annual impact on Stittco's ratepayers. This ongoing effort should continue to be reflected in Stittco's revised five-year capital plans included with future non-commodity costs applications per Directive 3 of Order 169/18.

Residual Purchased Propane Variance Account (PPVA) Balance from Order 133/05

The Board finds that the residual commodity-related $5,755 PPVA balance (owing to Stittco), which resulted from the rate implementation delays approved in Order 133/05, shall be recovered from all ratepayers through Stittco's existing PPVA, effective February 1, 2020. As Stittco's commodity costs are passed on to customers without markup, and the rate implementation delays approved in Order 133/05 resulted in a portion of Stittco's commodity costs to not be recovered from ratepayers, the Board deems it reasonable to address this outstanding matter at this time. The February 1, 2020 effectivity date also coincides with the next review of Stittco's commodity rate, which includes a rate rider to address any PPVA balances.

While Stittco's single commodity volumetric rate shall continue to apply to both residential and commercial customers, the residual $5,755 PPVA balance shall be allocated 25% to the domestic PPVA and 75% to the commercial PPVA. This allocation is reflective of Stittco's historical volumetric consumption breakdown between residential and commercial customers and is directed in order to maintain the historical continuity of each customer group's responsibility of the ongoing PPVA combined balance. In its February 1, 2020 commodity rate application submissions, Stittco shall file information demonstrating the inclusion of the $5,755 residual PPVA balance in the historical domestic and commercial PPVA balance totals and the subsequent effect of this inclusion on the proposed commodity rate.

Liability Insurance Coverage

Pursuant to Rule 13 of the Board's Rules of Practice and Procedure, the Board finds that it is in the public interest to maintain specific information regarding Stittco's liability insurance coverage in confidence. The Board is of the opinion that disclosure of the information could reasonably be expected to disadvantage Stittco and its customers in the event that liability claims are advanced by external parties in the future.

In 2014, the Board initiated a review of Stittco's liability insurance coverage pursuant to Section 11 of *The Gas Pipe Line Act*. At the time, the Board received details of the liability insurance coverage held by Stittco's owner, which also applied to Stittco's operations, as well as an independent opinion of Stittco's liability insurance limits relative to industry benchmarks and worse case scenarios for catastrophic accidents. On June 15, 2016, the Board approved the liability insurance coverage amount held by Stittco's then owner Gibson Energy ULC.

Given the recent change in Stittco's ownership and the liability insurance coverage details filed in this proceeding, which suggest a change in Stittco's liability insurance limits, the Board finds it necessary to conduct another review of Stittco's liability insurance coverage pursuant to Section 11 of *The Gas Pipe Line Act*. To that end, Stittco is directed to file with the Board, by July 15, 2020 or another date approved by the Board, the following information on a confidential basis, pursuant to Rule 13 of the Board's Rules of Practice and Procedure:

- The latest liability insurance policy applicable to Stittco (both the certificate of insurance and the associated policy details);
- The total premiums associated with the latest liability insurance policy applicable to Stittco and details regarding the methodology used to allocate a portion of this overall premium to Stittco's ratepayers;

- A detailed explanation of the process utilized by Stittco (or its parent) to establish the quantum of Stittco's liability insurance requirements;
- The written advice from the insurance professionals engaged by Stittco (or its parent) regarding the quantum of Stittco's liability insurance;
- A summary of the industry benchmarking studies on which Stittco (or its parent) relied to determine the quantum of its liability insurance requirements;
- A summary of the peer benchmarking studies on which Stittco's liability insurance limits are based; and
- Any additional information that Stittco (or its parent) relied on in finalizing its liability insurance coverage.

Commodity rates

In the absence of further evidence received in regards to the interim commodity rates approved in the last year, the Board also finalizes the interim ex parte commodity rates established in Board Orders 144/18, 14/19, 46/19, and 104/19.

The quarterly rate setting process for commodity costs appears to continue to serve customers well, with the periodic commodity rate adjustment helping to mitigate rate shock due to fluctuating 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.

6.0 IT IS THEREFORE ORDERED THAT:

1. Stittco Utilities Man Ltd's rates for distribution costs, as per Schedule "A", for consumption on or after January 1, 2020, **BE AND ARE HEREBY APPROVED**.

2. Stittco Utilities Man Ltd's projected non-commodity revenue requirement of $2,463,304 for the year ending July 31, 2020 **BE AND IS HEREBY APPROVED**.

3. Stittco Utilities Man Ltd's projected mid-year rate base of $2,458,685 for the year ending July 31, 2019 **BE AND IS HEREBY APPROVED**.

4. Stittco Utilities Man Ltd shall recover the residual commodity costs balance attributed to the rate implementation delays approved in Order 133/05, totaling $5,755 owing to Stittco, from all ratepayers through Stittco's existing Purchased Propane Variance Account (PPVA), effective February 1, 2020. As part of its February 1, 2020 commodity rate application, Stittco shall also file information demonstrating both the inclusion of the $5,755 residual PPVA balance in the historical domestic and commercial PPVA totals (allocated 25% to the domestic PPVA and 75% to the commercial PPVA as detailed in this Order) as well as the subsequent effect of this inclusion on the proposed February 1, 2020 commodity rate.

5. Stittco Utilities Man Ltd shall file with the Board, on a confidential basis and by July 15, 2020 or another date approved by the Board, the additional supporting information outlined in this Order regarding its liability insurance coverage.

6. All interim ex parte orders referenced in Board Orders 144/18, 14/19, 46/19, and 104/19 **BE AND ARE HEREBY APPROVED AS FINAL**.

7. Stittco Utilities Man Ltd shall file a non-commodity costs application by July 15, 2020.

8. Stittco Utilities Man Ltd shall immediately inform the Board should any of its approved capital projects be substantially delayed, are deferred beyond the fiscal

year for which they were approved, or if any capital project is expected to be significantly over or under the previously approved project costs.

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. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Larry Ring, Q.C."
Panel Chair

"Rachel McMillin, B.Sc."
Assistant Associate Secretary

Certified a true copy of Order No. 179/19
issued by The Public Utilities Board

R McMillin
Assistant Associate Secretary

SCHEDULE" A"

GENERAL SERVICE RATE STRUCTURE

EFFECTIVE FOR CONSUMPTION ON OR AFTER JANUARY 1, 2020

Basic Monthly Charge		\$10.00 /month
Monthly Volumetric Charges per m³:		
Commodity Cost Recovery		\$0.8385*
Delivery Charge (Non–Commodity Cost Recovery)		
	first 100 m³	\$1.6788
	next 400 m³	\$1.4973
	next 1000 m³	\$1.4169
	next 2500 m³	\$1.1479
	over 4000 m³	\$0.8805

* Commodity Cost approved per Board Order 159/19