

M A N I T O B A) Order No. 4/07
)
THE PUBLIC UTILITIES BOARD ACT) January 23, 2007

BEFORE: Graham Lane, C.A., Chairman
 Monica Girouard, C.G.A., Member
 Susan Proven, P.H.Ec., Member

 STITTCO UTILITIES MAN LTD - REBATE
 FOR RESIDENTIAL AND COMMERCIAL ACCOUNTS

1.0 EXECUTIVE SUMMARY

By this Order, The Public Utilities Board (Board) approves Stittco Utilities Man Ltd.'s (Stittco) proposal to provide rebates to its customers. The rebates are intended to reduce December 31, 2006 balances in Stittco's Purchase Price Variance Accounts (PPVA) to zero. The rebates have been calculated to distribute the balances to customer proportionate to their consumption from November 1, 2005 (when the rates were last changed) to December 31, 2006.

These rebates will appear on customers' February 2007 bills. For a residential (domestic) customer that consumed 4,000 litres during the November 1, 2005 to December 31, 2006 period, the rebate will approximate \$25.00; for a commercial customer that consumed 16,000 litres, approximately \$287.00.

While Stittco's current propane commodity costs are lower than the cost reflected in customers' continuing rates, rates will not be varied ahead of an upcoming General Rate Application hearing, the date of which remains to be determined. Any further PPVA owing to customers (or to Stittco) balances that may develop between January 1, 2007 and the public hearing will be addressed in the Order that will follow the hearing.

2.0 BACKGROUND

Incorporated in Manitoba, Stittco distributes propane brought in by railcar and then delivered through pipeline distribution to

approximately 1,100 customers in Thompson, Flin Flon and Snow Lake. Stittco's operations are subject to regulation and oversight by the Board.

Stittco has provided regulated propane services to customers in Northern Manitoba since 1963. The initial term of the Company's Thompson franchise agreement began in 1967. Following a 2012 expiry of the current ten-year franchise extension, it is the Board's understanding that either a further ten-year extension will be granted or the City of Thompson will exercise a longstanding option to purchase the system.

Stittco Energy, the parent company of Stittco, is not regulated by the Board. Stittco Energy sells propane through the use of tanks, rather than by pipeline, to the same communities served by Stittco, as well as other communities both within and outside of Manitoba. The Board has neither received nor reviewed the financial results of Stittco Energy.

On January 30, 2006 Stittco applied to the Board for rate increases of 6.1% effective April 1, 2006, the Board deferred addressing the request. Subsequently, Stittco renewed its rate application on August 9, 2006, and again in late September 2006, seeking revised higher rates as of November 1, 2006. By Order 138/06, dated October 2, 2006, the Board denied Stittco's request and deferred consideration of revised propane rates to a December 15, 2006 public hearing in Thompson, Manitoba, at which the Board was to consider Stittco's rate request and its concurrent application for reduced regulatory oversight.

The December 2006 hearing was postponed at the request of Stittco; as of this date, a new date for the hearing has not been set.

If Stittco's initial and renewed rate application had been approved, residential rates would have increased by approximately 6.1% from existing rates.

The major contributing factor driving rate changes and applications for same has been variations in the wholesale cost for propane, where prices are determined by the market place and outside the control of Stittco. Secondary factors for rate changes have been Stittco's non-commodity operating costs and the allowable return on shareholder's equity.

A comparison of existing rates, set by Order 133/05, and the rates sought by Stittco in its current and deferred rate application are set out below:

| | Proposed | Existing Order 133/05 |
|---|----------------------|--------------------------|
| Cubic meters | Rate per cubic meter | |
| Domestic Service | | |
| First 50 | \$2.4526 | \$2.3121 |
| Over 50 | \$2.0283 | \$1.9121 |
| Commercial, Industrial and Large Volume Service | | |
| First 1,000 | \$2.2722 | \$2.1421 |
| Next 3,000 | \$2.1343 | \$2.0121 |
| Over 4,000 | \$1.8904 | \$1.7821 |

Industrial and large volume rates may be set through negotiation, subject to negotiated rates not exceeding the rates specified above and being accepted by the Board.

A summary of rates charged to domestic (residential) customers since 1997 follows:

| <u>Year</u> | <u>Order #</u> | <u>First 50 meters</u> | <u>% Inc.</u> | <u>Over 50</u> | <u>% Inc.</u> |
|-------------|----------------|----------------------------|---------------|----------------|---------------|
| 1997 | 91/97 | 1.2930 | n.a. | 1.0660 | n.a. |
| 1998 | 115/98 | 1.2930 | nil | 1.0660 | nil |
| 1998 | 158/98 | 1.2930 | nil | 1.0660 | nil |
| 1999 | 182/99 | 1.4160 | 9.50 | 1.1890 | 11.50 |
| 1999 | 187/99 | 1.4160 | nil | 1.8890 | nil |
| 2000 | 120/00 | 1.6020 | 13.1 | 1.3750 | 12.20 |
| 2001 | 4/01 | 2.0361 | 27.1 | 1.8091 | 31.60 |
| 2001 | 124/01 | 1.9131 | (6.0) | 1.6861 | (6.8) |
| 2002 | 28/02 | 1.7271 | (9.7) | 1.5001 | (21.6) |
| 2002 | 172/02 | 1.6500 | (4.5) | 1.2500 | (16.7) |
| 2003 | 20/03 | 2.0162 | 22.2 | 1.6162 | 29.30 |
| 2005 | 50/05 | 2.0162 | nil | 1.6162 | Nil |
| 2005 | 133/05 | 2.2178 | 10.0 | 1.7778 | 10.00 |
| 2006 | 133/05 | 2.3121 | 4.3 | 1.9121 | 7.60 |
| 2007 | Proposed | 2.4526 | 6.1 | 2.0283 | 6.10 |

Generally, rate changes have been symmetrical, either as to the rate of change or the absolute monetary change applied to each customer class.

Stittco's cost of propane and expenses relating to transportation to Stittco's franchise area are reflected in rates without markup and daily fluctuations in these costs, upwards or downwards, are captured in Stittco's PPVA to be settled at some future date.

The latest and current propane supply contract with Keyera Energy, arising out of a tender that was issued to thirteen companies to which four companies responded, provides for propane to be purchased half the volume on a variable basis and

half on a fixed price. The fixed price portion is priced at \$352.64 per cubic meter F.O.B. Thompson (prior contract fixed price component was \$330.70).

Stittco's renewed rate application assumes an overall commodity product cost of \$360 per cubic meter for fiscal 2006/07, only slightly changed from the Company's January 2006 estimate of \$359.14 per cubic meter. On a cost per litre basis, commodity costs advanced from 2002's level of \$0.185 to \$0.2738 for the year ended July 31, 2005, and to a projected level of \$0.359 for the year ended July 31, 2006. Stittco's application projects higher propane commodity prices would be sustained at least through to the fiscal year end of July 31, 2007.

However, propane prices, which rose sharply in 2005, have since fallen. Wholesale propane prices (Shell Canada - Edmonton prices), which were set in early August, 2006 at \$313.00 per cubic meter, were, as of recent dates, below \$260.00 per cubic meter.

As previously indicated, the wholesale cost of propane is passed on to customers through rates without mark-up. Rates are established based on forecast commodity prices and costs, and thus differences arise between the forecasts and the actual experience. Variations between actual and forecast commodity costs are recorded within Stittco's Board-approved domestic and commercial PPVA, for later reflection in rates.

As at December 31, 2006, PPVA accounts had credit balances (owing to customers) of \$19,796.00 and \$125,859.00, for domestic (residential) and commercial (non-residential) customers respectively. In its renewed interim rate application, Stittco projected PPVA balances as of July 31, 2007 of zero, based on the assumption that propane prices would remain high and the Board granted the applied for rate increases.

3.0 STITTCO FILING

On January 18, 2006, Stittco, pursuant to a Board request, filed a proposal to refund customers the credit balances in the PPVA as of December 31, 2006. Stittco proposed to provide a rebate on each customer's bill based upon amount of propane consumed since the last rate change occurred on November 1, 2005 representing a pro-rata share of the PPVA credit balance over a 14 month period. With respect to customers that have moved during the period, Stittco advised it will take steps to ensure that all rebates owed to customers are refunded.

Stittco proposed refunds of \$0.00627 per litre (residential) and \$0.01792 per litre (commercial). Stittco estimated that a domestic customer using 4,000 litres of propane during the 14 month period would receive a rebate of approximately \$25.00, a commercial customer having consumed 16,000 litres, \$287.00.

For customers on the equal monthly payment plan, Stittco proposed that the rebate be applied to their account, with the

required monthly payment to remain unchanged until the next amendment date.

Stittco, noting that the sustainability of market price declines is uncertain, did not propose a change in the current rates, notwithstanding propane prices have fallen since the last rate change on November 1, 2005. Stittco advised it would soon begin discussions related to a new propane supply contract, for 2007/08, and noted that the GRA hearing remains outstanding.

Accordingly, Stittco suggested that in the interest of minimizing rate fluctuation, rate change be deferred. Stittco noted that future changes in propane supply prices will continue to be tracked in the PPVA, and balances arising to or from customers may be settled following the GRA hearing.

4.0 BOARD FINDINGS

The Board will approve Stittco's proposal to rebate customers. It acts by way of an ex parte process, and approves the proposal on an interim basis, subject to review at the upcoming GRA hearing.

The Board determined to act without notice to interested parties and registered interveners to the upcoming GRA process because of special circumstances. The Board determined that it would be in the public interest for Stittco's customers to be provided a rebate during this current winter season, rather than to await the GRA hearing which is yet to be set.

If the Board had proceeded in another way, the time required to provide for intervenor involvement would have meant that the rebates would not be provided during this winter season and, in the Board's view, PPVA balances due customers would likely have continued to grow. Customers would have continued to change, through moving, ownership changes and other reasons, making distribution of the credit balances more difficult. As well, additional regulatory cost would have developed, such, in the past, have been reflected in customer rates.

The Board holds that the upcoming GRA will allow interested parties and intervenors an adequate opportunity to test the decisions made herein as well as the application to be heard with respect to rates, regulatory oversight and other matters.

The Board has been regularly monitoring wholesale propane prices, and this monitoring has noted the decline in prices and has led to the Board denying and deferring rate applications made by Stittco since January 2006. The Board notes that Stittco's proposal to rebate funds received from customers follows the Board's request of Stittco to carefully review the development of PPVA balances ahead of the upcoming GRA hearing.

While the Board agrees there is no certainty of a sustained market decline in the wholesale cost of propane, the balances owing to customers as at December 31, 2006, particularly to the account of commercial customers, are at a level which suggests a rebate occur.

The Board anticipates that the rebates will assist customers during the remaining winter months of 2006/07, a time of the highest heating bills.

Customers should be aware that the rebates will eliminate the credit PPVA balances, resulting in these balances not being available to cushion customers' bills if and when wholesale propane prices climb. As at the date of this Order, propane prices had not recovered, and the Board is of the view that this supports the rebates being provided.

The Board is expecting to convene the deferred public hearing, which will consider rates and regulatory oversight, within the next few months. This will provide a public opportunity to review market prices, PPVA balance, and the adequacy of rates ahead of the winter of 2007/08.

Rebates are to be reflected in February bills; for customers that have moved, Stittco is to make reasonable attempts to ensure rebates due to those customers are provided.

IT IS THEREFORE ORDERED THAT:

1. Stittco Utilities Man Ltd. provide a rebate to its customers effective the February billing cycle, towards distributing PPVA balances as of December 31, 2006;
2. Rebates are to be based on actual consumption of customers from November 1, 2005 to December 31, 2006

3. Stittco Utilities Man Ltd. is to advise customers through bill inserts of the rebates and the rationale therefore;
4. Stittco Utilities Man Ltd. is to provide the Public Utilities Board with a proposed timetable for a public hearing of its General Rate Application by no later than January 31, 2007;
5. Stittco Utilities Man Ltd. is to continue to track differences between actual propane costs and the estimated propane costs embedded in rates, and continue to provide monthly reports to the Board.

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, B.A., C.A."
Chairman

"G. O. BARRON, F.C.G.A."
Acting Secretary

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Utilities Board

Acting Secretary