

MANITOBA) Order No. 179/07
)
THE PUBLIC UTILITIES BOARD ACT) December 31, 2007

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

STITTCO UTILITIES MAN LTD.
INTERIM PROPANE RATES

Table of Contents

| | Page |
|-----------------------------------|------|
| 1.0 INTRODUCTION | 3 |
| 2.0 BACKGROUND | 4 |
| 3.0 BOARD FINDINGS | 6 |
| 4.0 IT IS THEREFORE ORDERED | 8 |

1.0 INTRODUCTION

By this Order, the Public Utilities Board (Board) establishes interim propane rates for Stittco Man Utilities Ltd. (Stittco), to take effect January 1, 2008.

| Cubic meters | Rate per cubic meter | |
|--|----------------------|-------------------------|
| | Interim | Existing Order 84/07 |
| Domestic Service | | |
| First 50 | \$2.70536 | \$2.4155 |
| Over 50 | \$2.2373 | \$1.9976 |
| Commercial, Industrial and Large Volume Service | | |
| First 1,000 | \$2.50648 | \$2.2379 |
| Next 3,000 | \$2.35435 | \$2.1021 |
| Over 4,000 | \$2.08522 | \$1.8618 |

Industrial and large volume rates may be set through negotiation, subject to a) negotiated rates not exceeding the rates specified above, and b) the rates being filed and accepted by the Board. At the time of the release of this Order, Stittco had two customers with negotiated rates, the hospitals in Thompson and Flin Flon.

The increases provided represent increases of 12% across-the-board, and represent a variance from the 11.88%-15.41% increases sought by Stittco. Differences between the actual cost of propane and the rates now to be charges are to accumulate in the Purchased Propane Variance accounts (PPVA) and will be dealt with in a subsequent Board Order, once Stittco has complied with all outstanding directions of the Board as required by Board Orders 152/07 and 84/07.

.

This Order is provided pursuant to an *ex parte* process, and follows Order 152/07, which confirmed the Board's earlier denial of Stittco's application for a) a revised regulatory model, b) changes to Board directions with respect to the small business tax deduction, and c) the reversal of a direction for the filing of corporate information related to Stittco's parent company.

The Board now provides interim *ex-parte* approval for increased rates reflecting increases in the commodity price of propane.

This Order should be read in conjunction with Orders 152/07 and 84/07, which may be accessed through the Board's website www.pub.gov.ca or by contacting the Board's Winnipeg Office.

2.0 BACKGROUND

Incorporated in Manitoba, Stittco distributes propane brought in by railcar and then delivered through pipeline distribution to approximately 1,039 customers in Thompson, Flin Flon and Snow Lake. About 65% of Stittco's propane sales volume is sold to its commercial and institutional customers, the remainder to residential customers.

On November 23, 2007, Stittco applied to the Board for varying rate increases for residential and commercial customers, representing average increases of 13.1% for residential customers and 13.9% for commercial customers. Stittco cited increased commodity supply and transportation to Thompson costs of \$435.00 per cubic meter, as compared to \$359.00 at the time

of Order 84/07. Commodity costs generally represent approximately 70% of the overall cost of service reflected in rates.

Stittco maintains PPVAs to accrue differences between actual propane supply and transportation costs and those reflected in rates, with interest charged or provided.

A comparison of existing rates, Order 84/07, and the rates applied for by Stittco (and varied by this Order) is set out below:

| Cubic meters | Rate per cubic meter | |
|--|----------------------|-------------------------|
| | Interim | Existing Order 84/07 |
| Domestic Service | | |
| First 50 | \$2.7024 | \$2.4155 |
| Over 50 | \$2.2845 | \$1.9976 |
| Commercial, Industrial and Large Volume Service | | |
| First 1,000 | \$2.5248 | \$2.2379 |
| Next 3,000 | \$2.3890 | \$2.1021 |
| Over 4,000 | \$2.1487 | \$1.8618 |

Industrial and large volume rates may be set through negotiation, subject to a) negotiated rates not exceeding the rates specified above, and b) the rates being filed and accepted by the Board. At the time of the release of this Order, Stittco had two customers with negotiated rates, the hospitals in Thompson and Flin Flon.

Stittco's propane supply and transportation expenses are to be reflected in customer rates without markup. Fluctuations in these costs, upwards or downwards, are captured in Stittco's PPVA balances. Stittco's application opined that the now higher propane commodity prices are likely to be sustained.

Board Order 79/07, further confirmed by Orders 84/07 and 152/07, rejected Stittco's bid for forbearance of direct rate setting regulation, and required additional information. In the interim, pending receipt of that information, the Board granted Stittco a 4.5% across-the-board increases rather than the average increases of 6.1% requested at the time. The increases were related to non-commodity costs, while this Order pertains solely to commodity costs.

3.0 BOARD FINDINGS

The Board will vary the interim application and establish rates on an interim basis pursuant to an *ex parte* process. It will act now because of a concern that further delays in acknowledging and reflecting commodity cost increases in amended rates would be to the detriment of Stittco's consumers, as differences between costs reflected in rates and actual costs accumulated with interest in the PPVA accounts, and could affect the fairness of future levies against customers.

In any case, commodity costs above or below that reflected in rates, as accrued for in the PPVA accounts, with interest added or provided, will be subsequently recovered from customers or rebated through rate riders.

The Board is particularly concerned that delays in reflecting commodity cost changes in rates during the winter high-consumption season will result in the eventual recovery not

being entirely from those who consumed the more expensive supply.

Accordingly, the Board will amend the rates on an interim and *ex parte* basis effective January 1, 2008, though will vary Stittco's application to apply the increases on an across-the-board basis rather than varying the increases by customer and volume category as Stittco sought.

The information sought by the Board by earlier Orders is required to allow the Board to conclude on the fairness of rates across the customer categories. Without the information being sought, the Board is left with the impression that commercial customers are subsidizing residential customers, so it will not compound the problem by approving the rate proposal of Stittco.

As well, the Board still lacks information related to affiliate transactions, and still intends to put itself in a position to better understand the utility's economic relationships and transactions with its parent and affiliate companies. Stittco Energy controls Stittco and has a clear conflict of interest in its dealing with Stittco.

While that does not mean that the transactions between the two companies are improper, it does mean that this Board must understand and accept the arrangements.

Upon receipt of information and proposals still outstanding from Stittco, the Board will complete its understanding of the

situation and finalize revised rates. As well, it intends to amend future processes with respect to the setting of commodity and non-commodity based rates, making the setting of commodity-based rates more regular.

Rates will not be finalized until the Board is comfortable with the revenue requirement established for commercial customers as opposed to residential customers, and has an acceptable understanding of inter-company arrangements between Stittco and its parent.

Finally, the Board directs Stittco to continue with the established procedure maintaining Purchased Propane Variance Accounts (PPVA), these to accrue differences between actual and estimated costs, as reflected in rates.

4.0 IT IS THEREFORE ORDERED THAT

1. Stittco Utilities Man Ltd. rates be amended on an interim basis as of January 1, 2008, as follows:

| Cubic meters | Rate per cubic meter | |
|--|----------------------|----------------------|
| | Interim | Existing Order 84/07 |
| Domestic Service | | |
| First 50 | \$2.70536 | \$2.4155 |
| Over 50 | \$2.2373 | \$1.9976 |
| Commercial, Industrial and Large Volume Service | | |
| First 1,000 | \$2.50648 | \$2.2379 |
| Next 3,000 | \$2.35435 | \$2.1021 |
| Over 4,000 | \$2.08522 | \$1.8618 |

Industrial and large volume rates may be set through negotiation, **subject to a) negotiated rates not exceeding the rates specified above, and b) the rates being filed and accepted by the Board.** At the time of the release of this Order, Stittco had two customers with negotiated rates, the hospitals in Thompson and Flin Flon.

2. Stittco Utilities Man Ltd. track and report to the Board in its Purchased Propane Variance Accounts differences between actual propane costs and the estimated propane costs embedded in rates.
3. Stittco Utilities Man Ltd. file with the Board on or before January 31, 2008, all information and proposals as directed and or amended by Board Orders 152/07 and 84/07. Stittco Utilities Man Ltd., in consultation with the Public Utilities Board, develop a bill insert to be included with the next billing, so as to explain the rate change.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"G. O. BARRON, FCGA"

Acting Secretary

Certified a true copy of Order
No. 179/07 issued by The Public
Utilities Board

Acting Secretary