

**M A N I T O B A** )      **Order No. 88/12**  
                        )  
**THE PUBLIC UTILITIES BOARD ACT**      )      **July 19, 2012**

BEFORE: Régis Gosselin, MBA, CGA, Chair  
Leonard Evans, LLD, Member  
Monica Girouard, CGA, Member  
Raymond Lafond, CA, Member

**STITTCO UTILITIES MAN LTD.**  
**PROPANE RATES EFFECTIVE AUGUST 1, 2012**

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## **1.0 EXECUTIVE SUMMARY**

By this Order, the Public Utilities Board (Board) approves, on an interim *ex parte* basis, a 43.6% decrease in the propane commodity rate for Stittco Utilities Man Ltd. effective for propane consumed on or after August 1, 2012. This Order also approves, on an interim basis, an overall increase in non-commodity cost of approximately 5.35% for propane consumed after August 1, 2012.

The table below compares propane commodity rates and delivery charges over the last year, and provides the revised commodity and non-commodity rates effective August 1, 2012:

	<b>Aug 1/11</b>	<b>Nov 1/11</b>	<b>Feb 1/12</b>	<b>May 1/12</b>	<b>Aug 1/12</b>
<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>				
<b>Commodity Cost Recovery</b>	<b>\$1.54</b>	<b>\$1.78</b>	<b>\$1.47</b>	<b>\$1.0642</b>	<b>\$0.6000</b>
<b>Delivery charge (Non-Commodity Charge)</b>					
First 100 m3	\$1.14	\$1.14	\$1.14	\$1.14024	\$1.20122
Next 400 m3	\$1.02	\$1.02	\$1.02	\$1.01691	\$1.07129
Next 1000 m3	\$0.96	\$0.96	\$0.96	\$0.96223	\$1.01371
Next 2500 m3	\$0.78	\$0.78	\$0.78	\$0.77963	\$0.82131
Over 4000 m3	\$0.60	\$0.60	\$0.60	\$0.59809	\$0.63006

Commodity rates are adjusted every quarter in accordance with the quarterly rate setting (QRS) process approved by the Board in Orders 141/08 and 45/09 (available for review on the Board's website). Interim orders are issued for quarters prior to the

issuance of the Board's annual final order; they are confirmed or varied when the Board issues its final order.

Commodity rates can represent approximately half of the average annual residential bill depending on propane costs; the remainder of the costs are non-commodity costs such as distribution and administrative costs.

The 43.6% commodity rate decrease is a result of a market price decrease in the cost of the propane commodity (from \$235/m<sup>3</sup> for liquid propane to \$125/m<sup>3</sup>), and a purchase price variance account balance of \$256,381 owing to customers as of May 31, 2012.

On June 22, 2012 Stittco applied to the Board seeking approval for an approximate 5.35% 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 for propane consumed after August 1, 2012.

The commodity rate decrease, combined with the increase in non-commodity costs, is expected to decrease the average residential propane bill by approximately 18%. Actual customer bills will vary with propane consumption and are dependent on weather conditions, heating efficiency, and individual household practices.

## **2.0 INTRODUCTION**

The commodity portion of Stittco's overall propane rates is amended quarterly, in accordance with the QRS process. Non-commodity costs, or 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 recently amended in Board Order No. 140/11 for propane consumed after August 1, 2011.

Commodity costs, including transportation to Thompson, are passed on to customers with no mark-up. Prices of the purchased commodity may vary because of market conditions; they may be higher or lower than price levels established by PUB Order. The differences 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 review or oral hearing).

The *ex parte* (without notice as Stittco is not giving notice to anyone other than PUB) rate approval process reduces regulatory costs. This approach reflects the reality of the North American propane market; the commodity rate is driven by commodity price changes that are outside the control of Stittco.

### **3.0 APPLICATION**

Stittco filed its application on July 12, 2012, seeking a decrease in commodity rates from \$1.0642 to \$0.6000 per cubic

meter of propane vapour. The commodity rate reflects Stittco's forecast propane commodity price of \$125.00 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 Purchase Price Variance Account balance of \$256,381 owing to the customer (which was due to lower than forecasted gas prices).

On June 22, 2012 Stittco filed a Non-Commodity Cost Application with the Board. Stittco's Non-Commodity Cost Application requested a 5.25% 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 1,819,868m<sup>3</sup> to 1,658,915m<sup>3</sup>.

This change in annual consumption estimates was included in Stittco's July 12, 2012 propane commodity rate Application.

#### **4.0 BOARD FINDINGS**

The commodity recovery rate sought by Stittco fairly reflects projected commodity and transportation costs to Thompson. The Board will direct that the propane commodity rate be decreased effective for propane consumed on or after August 1, 2012.

The Board will also approve Stittco's request for a 5.35% increase in non-commodity costs on an interim ex-parte basis. The actual return earned by Stittco for fiscal 2011 (year ending

July 31, 2010) was 5.44%. The projected return on rate base for the fiscal year ending in 2012 is 4.16%. The Board has previously approved a target return on rate base of 10%.

The Board is of the view that Stittco should 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%. During several more recent years, Stittco has suffered losses. The Board seeks to balance the financial stability of Stittco with just and reasonable rates paid by Stittco customers.

The present order is an interim order because the Board will conduct a thorough review of Stittco's Non-Commodity Cost Application prior to issuing a final Order on non-commodity costs for propane consumed on or after November 1, 2012.

The public is urged to provide their comments to the Board on Stittco's Application for the proposed non-commodity cost increase before the Board issues its final order. 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).

Propane remains an expensive fuel for heating purposes in comparison to other options. The Board continues to recommend that customers seek ways to upgrade the heating efficiency of their premises, so as to reduce propane consumption and resulting costs, and to consider other heating options such as converting to electric heat or geothermal. The Board notes that the cost of heating an average residential dwelling by propane is approximately 1.5 times the average cost of heating by electricity using a conventional furnace.

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 the attached Schedule "A" effective for consumption on or after August 1, 2012.

THE PUBLIC UTILITIES BOARD

"RÉGIS GOSSELIN, MBA, CGA"  
Chair

"KURT SIMONSEN, P.ENG."  
Acting Secretary

Certified a true copy of Order No.  
88/12 issued by The Public  
Utilities Board

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Acting Secretary

SCHEDULE "A"  
GENERAL SERVICE RATE STRUCTURE  
EFFECTIVE FOR CONSUMPTION ON OR AFTER AUGUST 1, 2012

Basic Monthly Charge	\$10.00/month
	per m <sup>3</sup> /mo
Commodity Costs Recovery	0.6000
Delivery Charge:	
First 100 m3	1.20122
Next 400 m3	1.07129
Next 1000 m3	1.01371
Next 2500 m3	0.82131
Over 4000 m3	0.63006