

**PUBLIC UTILITIES BOARD OF MANITOBA**

**IN THE MATTER OF** the *Public Utilities Board Act* (Act) of Manitoba,  
C.C.S.M. c. P280; and

**IN THE MATTER OF** an application by Stittco Utilities Man Ltd. pursuant  
to Parts II and IV of the Act for orders of the Public Utilities Board of  
Manitoba relating to the rates to be charged to propane customers in  
Thompson, Flin Flon, and Snow Lake, Manitoba

**STITTCO UTILITIES MAN LTD.**

**APPLICATION**

**July 2017**

To: Public Utilities Board  
400 – 330 Portage Avenue  
Winnipeg, Manitoba  
R3C 0C4

**APPLICATION**

1. Stittco Utilities Man Ltd. (Stittco or the Company) hereby applies to the Public Utilities Board of Manitoba (Board) for an Order fixing just and reasonable non-commodity rates for all gas customers served by Stittco, effective November 1, 2017, including:
  - (a) a determination of the non-commodity cost revenue requirement of the Company; and
  - (b) a determination of the rate base of Stittco as of July 31, 2017.

**BACKGROUND**

2. Stittco is a small public utility that distributes propane by pipeline to customers in Thompson, Flin Flon, and Snow Lake, Manitoba. The majority of Stittco's customers are residential and located in Thompson.
3. The Board has been approving the rates of Stittco and its predecessor company since 1963.
4. In 2014, Gibson Energy Inc. (Gibson) acquired all of the issued and outstanding shares of Stittco Energy Limited, the parent company of Stittco. Gibson's Canwest Propane Partnership (Canwest), which has been providing propane and related services for 30 years in Western Canada and Northwestern Ontario, provides management and support services to Stittco.
5. The rates of the Company include commodity costs and non-commodity costs. By Order 141/08 dated October 15, 2008, the Board accepted a proposal by Stittco to establish a rate review process involving quarterly commodity rate changes (August 1, November 1, February 1, and May 1 of each year) and annual reviews of non-commodity rates, as of August 1 of each year.<sup>1</sup>

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<sup>1</sup> Board Order No. 141/08, Page 13 of 14, section 6.0, paragraph 3.

6. The commodity costs include the cost of propane and expenses relating to transportation of that propane to the Stittco franchise area, both of which are reflected in rates without markup. Differences between estimated and actual commodity costs are recorded in a Purchased Propane Variance Account that is settled as part of the quarterly rate setting (QRS) process established in Board Order No. 11/09.<sup>2</sup>
7. The most recent Board Order relating to non-commodity costs was Board Order 136/16 dated October 27, 2016 which determined the non-commodity revenue requirement of the Company, set non-commodity rates effective November 1, 2016, and approved the rate base for Stittco as of July 31, 2016. These rates were set as interim pending the Board's determination of how to deal with customer overpayments resulting from an inadvertent arithmetical error in the calculation of Stittco's rates for 2014, 2015 and 2016.<sup>3</sup> The Board directed Stittco to make a compliance filing, including statements of what return on rate base would have been for these years with corrected distribution rates.<sup>4</sup>
8. By Order No. 158/16 dated December 13, 2016, the Board approved Stittco's rates as final, subject to a rate rider that effected a refund of the over collection to customers over calendar 2017.<sup>5</sup> The Board also directed that Stittco file a monthly continuity schedule that provides a status report on customer refund amounts.<sup>6</sup> The continuity schedule filed by Stittco for June 30, 2017 indicates that \$141,069.99 of the total refund of \$265,439.48 has been refunded.<sup>7</sup>
9. By Order No 43/17 (dated April 26, 2017, effective May 1, 2017), Order No. 8/17 (dated January 25, 2017, effective February 1, 2017), and Order No. 135/16 (dated October 27, 2016, effective November 1, 2016) the Board set interim ex parte propane commodity rates.

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<sup>2</sup> Board Order 11/09, dated February 11, 2009, Page 3 of 8.

<sup>3</sup> Board Order 136/16, section 6.0, page 17 of 19.

<sup>4</sup> Board Order 136/16, section 6.0, paragraph 3, page 17 of 19. Stittco would note that, upon review of the compliance filing in the context of this Application, it was discovered to contain errors relating to the calculation of returns for the years of overpayments. The amount of the requisite refund is correct. The corrected returns calculations for 2013 through 2016 appear in Tab 1, Historical Earnings, attached.

<sup>5</sup> Board Order 158/16, section 6.0, paragraphs 1 and 2, page 11 of 13.

<sup>6</sup> Board Order 158/16, section 6.0, paragraph 3, page 11 of 13.

<sup>7</sup> Stittco letter to the Board dated July 13, 2017, with attached schedule showing Total Refund Amount as of June 30, 2017.

10. As required by Board Order No. 45/09<sup>8</sup>, Stittco filed the information required for the quarterly commodity cost price adjustment on July 13, 2017, to be reflected in rates effective August 1, 2017.

### PROPOSED NON-COMMODITY RATES

11. Stittco proposes continuation of the rate methodology established in Board Order No. 141/08 and implemented in subsequent orders. Stittco proposes the continuation of the Basic Monthly Charge of \$10.00 per month for all customers plus Monthly Delivery Charges per cubic metre, as follows.

#### GENERAL SERVICE RATE STRUCTURE

Basic Monthly Charge	10.00 Per Month
Non-Commodity Costs Recovery	
Delivery Charge	
FIRST 100 m <sup>3</sup>	1.4553
NEXT 400 m <sup>3</sup>	1.2979
NEXT 1000 m <sup>3</sup>	1.2282
NEXT 2500 m <sup>3</sup>	0.9950
OVER 4000 m <sup>3</sup>	0.7633

12. The non-commodity rates proposed in this Application are calculated to recover the non-commodity costs incurred by Stittco in the provision of service. The non-commodity cost revenue requirement<sup>9</sup> includes operating expenses<sup>10</sup>, income taxes<sup>11</sup>, depreciation<sup>12</sup>, and the allowed rate of return on rate base of 10%.<sup>13</sup>
13. The proposed rates are exclusive of the rate rider that was approved in Order No. 158/16<sup>14</sup> and will remain in effect until the full repayment amount has been refunded to customers.

<sup>8</sup> Board Order No. 45/09, Pages 7 through 12, section 4.1 and 5.0.

<sup>9</sup> See Tab No. 2. Revenue Requirement, Schedule, Revenue Requirement Projected for Year Ending July 31, 2018.

<sup>10</sup> See Tab No. 10. Operating Expenses, Schedule, Summary of Operating Expenses Projected for Years Ending July 31, 2017/2018.

<sup>11</sup> See Tab No. 4. Income Tax Requirement, Schedule, Income Tax Requirement Projected for Years Ending July 31, 2017/2018.

<sup>12</sup> See Tab No. 9. Depreciation Schedules, Depreciation Schedules Projected for the Years Ending July 31, 2017/2018.

<sup>13</sup> See Tab No. 3. Income Statements, Schedule, Income Statements Projected for Years Ending July 31, 2017/2018.

<sup>14</sup> See Order No. 158/16 Page 13.

14. Stittco seeks approval of a 3.8% overall increase in non-commodity costs. The amount reflects reductions in labour and administration costs from the synergies of integration of Stittco into the Gibson network (including the elimination of a senior management position) which have unfortunately been more than offset by new and increased operating expenses (including the cost of increased inspections mandated by the new requirements of CSA Z662). There has also been an increase in rate base with consequent increase in the amount of return, although the rate of return remains unchanged. Some of the factors driving the increase in operating expenses are:
  - a. Increases in labour costs resulting from additional management, HSS&E administration and service related costs associated in part to enhanced CSA Z662 requirements.
  - b. Higher leak survey costs to ensure safety of pipeline system and meet requirements laid out by the Pipeline Integrity Management program.
  - c. Increased automotive costs due to the replacement of old units with new leases in the fall.
15. The Stittco projected mid-year rate base for 2017 per Board Order 136/16 was \$2,229,502, while the projected rate base for 2017 in the current Application is \$2,320,584.
16. The projected mid-year rate base for 2018 is \$2,458,771.<sup>15</sup>

There are several reasons for the increase in rate base versus Order No. 136/16:

- a. There is continued deterioration of the supports and piping connecting the storage tank farm to the distribution system. Because of a delay in completing the rail tower upgrades this past year the replacement of piping and supports at the storage tank farm will occur this year.
- b. Also occurring this year will be a replacement of the backup generator in Thompson, MB. The current generator is approaching 35 years old and is due

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<sup>15</sup> See Tab No. 3. Income Statement, Schedule, Income Statements Projected for Years Ending July 31, 2017/2018.

for replacement. Included in this cost are building improvements, including replacement of the door on the building so that the old generator can be removed and the new generator installed.

c. Summary of Capital Expense:

Building Improvements & Replacement of Backup Generator.	\$50,000
Piping upgrades and supports	\$250,000
TOTAL	\$300,000

d. The estimate for cost of propane in this application is increasing slightly when compared to the estimate provided in Board Order 136/16 thus increasing the working capital estimate. Stittco management expects propane pricing to remain higher as inventory levels are now below the 5 year average.

17. Canwest has a long-established reputation as a dependable, customer service-oriented propane supplier, consistently honouring its service and supply commitments to its customers and maintaining industry-leading health, safety and environment standards. The Canwest and Stittco focus on safety and security is the driver behind the continuing capital investments that are being made this year and into 2018.
18. The actual return earned by Stittco for fiscal 2016 (year ending July 31, 2016) was 8.70%. Normalized (that is, adjusted to reflect normal weather), the return would have been 13.99%.<sup>16</sup> The projected actual return on rate base for fiscal 2017 (derived from 9 months of actual numbers and 3 months of projections) is -9.59%.<sup>17</sup> The reason for the lower than expected projected return is due to an accrual performed to cover the cost of repaying the overcharge in the amount of \$265,439.48 from the 2013, 2014 and 2015 non commodity applications.<sup>18</sup> Stittco also experienced lower than anticipated sales volumes.

<sup>16</sup> See Tab No. 1. Historical Earnings, Schedule, Historical Earnings Ending July 31, 2017/2018.

<sup>17</sup> See Tab No. 3. Income Statement, Schedule, Income Statements Projected for Years Ending July 31, 2017/2018.

<sup>18</sup> Order No 158/16, Section 1.0, Page 3.

19. In Order 136/16, the Board considered the existing allowed rate of return on rate base of 10% and approved rates that included that rate of return.<sup>19</sup>
20. Stittco does not seek an increase in its allowed rate of return of 10%. By law,<sup>20</sup> and the stand alone principle, the equity investors in Stittco are entitled to a return that is equivalent to the returns available from investing in enterprises of similar risk. The range of rates of return awarded to utilities much larger and significantly less risky than Stittco is from 8.50% for the Alberta utilities<sup>21</sup> to 11.5% for the TransCanada PipeLines Limited Mainline.<sup>22</sup> Stittco continues to hold the view that its investment risk justifies a rate of return on rate base (which is entirely financed by equity) that is significantly higher than the approved 10%. However, the Company is rate constrained because it operates in a very competitive market in a small service area where it faces primary competition from electricity. A higher rate of return would increase the non-competitiveness of Stittco's rates.
21. Stittco requests that this Application be handled in writing with email correspondence as per contact information below.
22. Attached is a proposed notice to customers for review and consideration by the Board prior to it being sent to Stittco customers.

**WHEREFORE**, Stittco requests an Order of the Board:

- (a) fixing just and reasonable non-commodity rates for all gas customers served by Stittco, effective November 1, 2017, including:
  - (i) approval of the non-commodity cost revenue requirement of the Company as proposed in this application; and

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<sup>19</sup> Order No. 136/16, Section 4.0, Pages 11-12.

<sup>20</sup> See, e.g. *Northwestern Utilities Limited v. City of Edmonton*, [1929] S.C.R. 186; *TransCanada PipeLines Limited v. National Energy Board et al.*, [2004] F.C.A. 149.

<sup>21</sup> Alberta Utilities Commission Decision 20622 D01-2016 Generic Cost of Capital, October 7, 2016, Chapter 7, page 73, para 339.

<sup>22</sup> National Energy Board Reasons for Decision, TransCanada PipeLines Limited, NOVA Gas Transmission Ltd. and Foothills Pipelines Ltd., RH-003-2011, Tolls and Tariff, March 2013, Chapter 9: Mainline Fair Return and Business Risk, ages 147ff.





## STITTCO UTILITIES MAN LTD.

## Customer Notification

Stittco Utilities Man Ltd. has filed an application with the Manitoba Public Utilities Board requesting a rate increase for the yearly non-commodity costs as established in Board Order 106/15. The overall requested increase in non-commodity costs is 3.8%. Stittco is not requesting any change to the rate of return on rate base.

Should additional information be required, please contact your local office at (204) 677-2304, or customers may contact The Public Utilities Board at:

400 – 330 Portage Avenue

Winnipeg, MB R3C 0C4

Telephone: (204) 945-2638

Facsimile: (204) 945-2643

Toll Free: 1-866-854-3698

Email: [publicutilities@gov.mb.ca](mailto:publicutilities@gov.mb.ca)