Order No. 169/18

AN APPLICATION BY STITTCO UTILITIES MAN LTD.
NON-COMMODITY COSTS EFFECTIVE JANUARY 1, 2019
FINAL APPROVAL

December 20, 2018

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

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1.0 EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) approves the non-commodity rates for Stittco Utilities Man Ltd. (Stittco) effective January 1, 2019. The Board also approves the rate base for Stittco as of July 31, 2018 and confirms as final the commodity rates previously approved on an interim ex parte basis. As a result, the base delivery charges (or non-commodity rates) will be increased by 3.8% effective January 1, 2019.

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 2% 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.

The Board approves Stittco's projected annual non-commodity cost of $2,257,062 for the year ending July 31, 2019. This represents an increase of $142,932 over the last non-commodity costs approved by the Board in Order 116/17, which was $2,114,130. Additionally, the Board accepts that the implementation of new non-commodity rates on January 1, 2019 instead of November 1, 2018 as originally requested by Stittco, will lead to lost revenues for Stittco in November and December 2018. As such, the Board also approves the recovery of an additional $14,887 in non-commodity costs for the year ending July 31, 2019. 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, 2019, this despite the delayed rate implementation date of January 1, 2019.

The Board also approves Stittco's projected rate base of $2,377,168 as of July 31, 2018, which represents an increase of $56,584 from the July 31, 2017 projected rate base of $2,320,584 approved in Order 116/17. 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 $2,820,926 for 2019.

With the aim to achieve a more transparent capital expense planning process, the Board directs Stittco to file its five year capital expenditure plan with all future non-commodity rate applications. Each item included in Stittco's five year capital plan shall include a brief description of each capital project or expenditure, the anticipated cost, as well as the town site to which the expenditure applies to. In order to further demonstrate the need for specific capital expenditures and to more clearly explain how Stittco's capital budget totals were created, the Board also strongly recommends that Stittco provide asset condition assessments as well as more detailed budget explanations as part of future requests for approval of capital expenditures. Furthermore, the Board recommends that Stittco provide further information in future requests for capital expenditure approvals regarding the selected timing of a particular capital expenditure (e.g. justification for why a capital project is needed in a particular year as opposed to a future year).

For the period between the date of this Order and the date on which Stittco files its next non-commodity rate application, the Board further directs Stittco to immediately notify the Board if it becomes aware of anticipated or actual overages beyond current capital estimates in any of its 2019 capital expenditure projects, and to provide an explanation as to the reason(s) for the overages.

The Board also directs Stittco to complete, prior to the filing of its next non-commodity application, a review with Board staff and the Board's Advisors of the methodology used in the preparation of Stittco's 2017 (and beyond) normalization financial reconciliation report in order to identify and resolve any methodology discrepancies that may be present. Stittco shall subsequently re-file with the Board any updated annual reconciliation reports, update its list of historical earnings included in future non-commodity rate applications, and explain any methodology changes that may have been incorporated since the end of fiscal year 2017.

Propane commodity costs are set quarterly, pursuant to the Board approved Quarterly Rate Setting (QRS) process. Commodity costs, including transportation to Thompson, are passed on to customers with no mark-up. Variances are tracked in a Purchased Propane Variance Account (PPVA), and are either refunded to customers (when rates charged are higher than the actual cost of propane) or collected from customers (when rates charged are lower than the actual cost of propane). The PPVA is reviewed at each quarterly rate setting application.

The table below compares the propane commodity and non-commodity rates over the last year and provides the revised non-commodity rates effective January 1, 2019:

Table 1 Non-commodity rates - 12 month history							
		Jan 1/18	Feb 1/18	May 1/18	Aug 1/18	Nov 1/18	Jan 1/19
Basic Monthly Charge		$10.00	$10.00	$10.00	$10.00	$10.00	$10.00
Volumetric Charges per m^3							
Commodity Cost Recovery		$1.4454	$1.3945	$0.9725	$1.1191	$1.3444	$1.3444
Delivery Charge (Non-Commodity Cost Recovery)							
	first 100 m^3	$1.4553	$1.4553	$1.4553	$1.4553	$1.4553	$1.5102
	next 400 m^3	$1.2979	$1.2979	$1.2979	$1.2979	$1.2979	$1.3469
	next 1000 m^3	$1.2282	$1.2282	$1.2282	$1.2282	$1.2282	$1.2746
	next 2500 m^3	$0.9950	$0.9950	$0.9950	$0.9950	$0.9950	$1.0326
	over 4000 m^3	$0.7633	$0.7633	$0.7633	$0.7633	$0.7633	$0.7921

Notes to Table: 1/ The Delivery Charges shown for January, February, May, August, and November 2018 were approved in Board Order 144/17.

2/ The Commodity cost shown for November 2018 and January 2019 was approved in Board Order 144/18.

This Order also finalizes interim ex parte commodity rates established in Board Orders 115/17, 19/18, 57/18, and 94/18.

2.0 INTRODUCTION

On September 14, 2018, Stittco applied to the Board seeking approval of its projected non-commodity cost revenue requirement for the year ending July 31, 2019 and its projected rate base as of July 31, 2018. Stittco's initial application submission sought a 5.2% increase in non-commodity revenue (exclusive of basic monthly charge revenues), effective November 1, 2018. On November 30, 2018, Stittco filed revised Application materials, which proposed a 7.1% increase in non-commodity revenue (exclusive of basic monthly charge revenues) from the level previously approved by the Board in Order 116/17.

Non-commodity costs are costs incurred by Stittco for the distribution of propane to its customers. These costs include operating expenses (e.g. salaries, materials and supplies, administrative costs, etc), depreciation, a provision for corporate income tax, and a return on Stittco's rate base for its owners.

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 (or non-commodity recovery rates). Delivery charges are assigned based on a customer's monthly consumption of propane. The last annual review of Stittco's non-commodity costs was completed by the Board in 2017, which resulted in Order 116/17 (dated October 26, 2017). The Board last approved Stittco's non-commodity rates in Order 144/17, dated December 28, 2017.

In addition to non-commodity costs, Stittco also incurs commodity costs, which are the costs associated with the purchase of propane gas and its transportation to Manitoba. 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. The QRS adjusts Stittco's commodity price for propane on August 1, November 1, February 1, and May 1 of each year. Board Order

144/18 (dated October 23, 2018) approved the existing Stittco propane commodity rate of $1.3444/m^3$, effective November 1, 2018.

Variances between actual propane costs and estimated propane costs embedded in commodity rates are tracked in a Purchased Propane Variance Account (PPVA) and are either refunded to customers (when rates charged are higher than the actual cost of propane) or collected from customers (when rates charged are lower than the actual cost of propane). Use of the PPVA ensures that commodity costs are passed on to customers with no mark-up or discount. Regular adjustments to commodity prices help to minimize balances in this account.

Rates established by the QRS are approved on an ex parte basis, which means that they are established by the Board without further public consultation, subject to satisfactory information being filed by Stittco with the Board. This approach is considered to be the most reasonable and economical, as the changes are driven by commodity price changes and the process minimizes regulatory costs while providing regular updated price signals to consumers. These interim commodity rates for propane are reviewed and finalized annually when Stittco files its non-commodity application.

3.0 STITTCO OPERATIONS

Stittco Utilities Man Ltd. distributes propane gas through a pipeline distribution network to approximately 780 customers in Thompson, Flin Flon, and Snow Lake, Manitoba. Bulk propane is supplied from Edmonton and is shipped to Stittco's storage facilities by rail or by truck. 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
2009	Customers	784	166	950	
	Propane Volumes	2,161,828	6,468,853	8,630,681	
2010	Customers	770	164	934	-1.7%
	Propane Volumes	1,735,190	5,365,294	7,100,484	-17.7%
2011	Customers	749	163	912	-2.4%
	Propane Volumes	1,864,586	5,230,726	7,095,312	-0.1%
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 Projected	Customers	625	155	780	0%
	Propane Volumes	1,533,548	5,161,900	6,695,448	1.9%

* 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 commercial customer numbers 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%.

4.0 APPLICATION

<u>Non-Commodity Rates</u>

On September 14, 2018, 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, 2018.

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, 2019;

b) Approval of the projected rate base for Stittco as of July 31, 2018.

In the event that the Board was not able to complete its review of the Application prior to November 1, 2018, Stittco's Application also requested that the Board approve Stittco's proposed non-commodity rates on an interim basis, effective November 1, 2018. Stittco's request for interim rates was made in light of the fact that the Application was filed later than normal, largely as a result of the changeover of information and procedures to Stittco's new parent company, Superior Plus LP, and due to the unexpected departure of key Stittco staff members in 2018. Stittco also subsequently informed the Board that a delay in implementing Stittco's proposed delivery charges from November 1, 2018 to January 1, 2019 would result in a $14,887 shortfall in non-commodity revenue in 2019.

By way of letter to Stittco on October 25, 2018, the Board denied Stittco's request for interim non-commodity rates effective November 1, 2018. In its decision, the Board stated that the purpose of interim rates is to grant temporary relief to an applicant from financial instability that arises from unforeseen or emergency circumstances, and that in this case, Stittco had not demonstrated a prima facie case for an interim rate effective November 1, 2018.

In response to Directive 3 of Order 116/17, Stittco also submitted its 2019-2023 capital expense plan report as part of its Application materials. Through subsequent responses to the Board's information requests, Stittco advised that it was not in a position to provide detailed explanations regarding the justification and pacing of each future item included in its five year plan but clarified that decisions regarding its capital expenditures are thoroughly vetted by Superior Plus management and account for the age and condition of the assets, overall regional budget levels, and best available information. Once determined to be a prudent investment by Stittco's management, each capital investment is subsequently presented to the Board in order to seek approval for cost recovery through rates.

In Board 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 cost rate increase by including the Board's public notice in Stittco's October 2018 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 September 27, 2018, the Board submitted Information Requests to Stittco, to which Stittco responded on October 17, 2018.

On October 26, 2018 the Board submitted a second round of Information Requests that sought further clarifications on Stittco's Application materials. While Stittco provided its responses on November 9, 2018, the submissions were re-filed on November 30, 2018 in order to correct inadvertent errors included in Stittco's original materials.

The table below summarizes Stittco's projected non-commodity revenue requirement for the year ending July 31, 2018 and compares it to non-commodity costs approved in Board Order 116/17 for the year ending July 31, 2018.

Comparison of Stittco's Non-Commodity Revenue Requirement

	Stittco's Revised Application Nov-18	Approved From Board Order 116/17	Increase / Decrease
Wages & Benefits	$880,364	$806,610	$73,754
Materials and Supplies	$50,700	$50,700	$0
Contract Services	$119,000	$113,000	$6,000
Other Operating Costs	$129,000	$131,000	-$2,000
Automotive	$60,500	$78,400	-$17,900
Insurance	$13,000	$13,000	$0
Property Taxes	$132,600	$130,000	$2,600
Administrative & General	$263,300	$244,400	$18,900
Administration Fee	$197,816	$188,053	$9,763
Sub-Total Direct Operating Costs	**$1,846,280**	**$1,755,163**	**$91,117**
Other Cost of Sales	$75,175	$69,750	$5,425
Depreciation	$116,875	$115,110	$1,765
Accretion	$33,942	$27,000	$6,942
Return on Rate Base	$282,093	$245,877	$36,216
Income Tax Requirement	$117,698	$114,230	$3,468
Other Income	-$215,000	-$213,000	-$2,000
Sub-Total Other Costs	**$410,783**	**$358,967**	**$51,816**
Non-Commodity Revenue Requirement	**$2,257,062**	**$2,114,130**	**$142,932**

The total non-commodity revenue requirement for 2019 is expected to increase by $142,932 over the currently approved 2018 costs.

Operating Costs

A significant increase in the operating costs included in Stittco's projected non-commodity costs is for wages and benefits, which have risen from $806,610, as approved in Board Order 116/17, to $880,364 projected to July 31, 2019. Actual wage and benefit costs projected to July 31, 2018 are $872,587, or $65,977 higher than projected in Order 116/17 for the same year. Stittco explained that the projected increases in wages and benefits were, in part, associated with an increased focus on the appropriate management of the monitoring activities related to Stittco's safety and loss management system, which is mandated by CSA Z662 (a standard adopted by the Board in Order 15/16). Stittco's projected wages and benefits also include the removal of a senior manager and an accounting position, along with an expected 2.5% inflation salary increase and increased costs related to increases in the Canadian Employment Insurance rates. Going forward, Stittco expects to partially offset increases in its wages and benefits by transitioning to Superior Plus LP's employee pension plan and corporate bonus structure. The table below summarizes Stittco's projected costs for wages and benefits.

Stittco Wages and Benefits			
	PUB Order 116/17	**2018 Projected (9 Months Actual and 3 Months Budget)**	**2019 Projected (to July 31, 2019)**
Wages	$ 643,200	$ 699,504	$ 713,864
Benefits	$ 163,410	$ 173,083	$ 166,500
Total	**$ 806,610**	**$ 872,587**	**$ 880,364**

Additionally, automotive operating costs are projected to decrease by approximately $17,000 in both 2018 and 2019 as automotive leases are now treated as capital expenditures. These decreases appear to be offset by projected increases in Stittco's Administration & General operating costs for both 2018 and 2019. Furthermore, a 2% increase in property taxes is also expected 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 projected mid-year rate base for 2018 is $2,377,168 as summarized in table below.

Stittco's Rate Base

PLANT IN SERVICE	**PUB ORDER NO. 116/17**	**2018 PROJECTED**	**2019 PROJECTED**
Beginning Year Balance	$5,641,016	$5,641,016	$6,010,302
Additions, Net	$300,000	$369,287	$905,000
End of Year Balance	$5,941,016	$6,010,302	$6,915,302
Average, Mid-year	**$5,791,016**	**$5,825,659**	**$6,462,802**
ACCUMULATED DEPRECIATION			
Beginning Year Balance	$4,197,483	$4,197,483	$4,296,697
Additions, Net	$115,110	$99,214	$116,875
End of Year Balance	$4,312,593	$4,296,697	$4,413,572
Average, Mid-year	**$4,255,038**	**$4,247,090**	**$4,355,135**
AVERAGE MID-YEAR NET PLANT IN SERVICE	$1,535,978	$1,578,569	$2,107,668
WORKING CAPITAL	$922,793	$798,599	$713,259
MID-YEAR RATE BASE	**$2,458,771**	**$2,377,168**	**$2,820,926**

The Stittco projected mid-year rate base for 2018 approved in Board Order 116/17 was $2,458,771. Stittco's projected mid-year rate base for 2018 is now $2,377,168. The rate base for 2018 appears to be lower than the initial projections due to decreased levels of working capital, partially offset by increases in plant additions and lower accumulated depreciation. The decrease in working capital projected for 2018 appears to be largely attributed to a decrease in projected monthly customer arrears balances. For 2018, Stittco now projects the average monthly arrears balance to be $142,860, which is significantly below the initial 2018 projection of $358,333 included in Order 116/17.

Per Order 116/17, the total plant (or capital) additions approved for 2018 was $300,000. The actual capital additions incurred by Stittco in 2018 totalled $369,287. Stittco's responses to information requests suggested that while the Thompson backup generator replacement project was completed for slightly less than the amount approved in Order 116/17 (approximately $48,000 actual vs. $50,000 approved), increased capital spending was incurred in 2018 as a result of the Thompson storage tank farm piping and support replacement project. Specifically, Stittco incurred actual costs of approximately $325,500 on its Thompson storage tank farm piping and support replacement project, which was significantly above the $250,000 project amount included in Order 116/17. Stittco submitted that its increased capital addition costs in 2018 were due to a combination of factors, including project timing, actual market for goods and services, and available component pricing.

Going forward, Stittco advised that the transition to Superior Plus LP's rigorous capital process controls will ensure accurate and timely tracking of capital expenditures, which will in turn ensure that actual capital costs are closer to initial capital cost estimates.

Total plant additions to the rate base for 2019 are projected at $905,000. The majority of these projected rate base additions ($750,000) arise from the replacement of two aging propane vaporizers located in the town of Thompson. While one of the three Thompson vaporizers was replaced approximately 10 years ago, the remaining two units are 50 years old, which raises concerns regarding system reliability, safety, and efficiency going forward. Stittco's propane vaporizers are used to transform stored liquid propane into propane gas that is subsequently distributed to customers via the Thompson pipeline distribution system. Stittco has clarified that it has hired Sleegers Engineering to provide the full breakdown of the costs and work involved with the planned Thompson vaporizer replacements and that the timing of the project approval will depend on the outcome of Stittco's project approval process (scheduled for the first quarter of the 2019 fiscal year). Furthermore, Stittco clarified that the current project capital cost of $750,000 is based on the costs incurred during the replacement of the first Thompson vaporizer unit in 2009 and 2010, but that this estimate would be further informed by the ongoing work of Sleegers Engineering.

Additional rate base additions projected for 2019 include $90,000 for the replacement of two service trucks in Thompson (previously treated as operating expenses) and $25,000 for general site maintenance and repair for all of Stittco's town sites. Also projected for 2019 is a capital expenditure of $40,000 for the upgrade of the Thompson town meter building and related equipment. The existing Thompson meter building was constructed approximately 60 years ago and the existing components within it, according to Stittco, require updating to the latest technology to ensure appropriate readings of propane. The projected mid-year rate base for 2019, after considering accumulated depreciation and working capital, is $2,820,926.

In Order 116/17, the Board approved a 10% rate of return for Stittco's fiscal year ending July 31, 2018. In its Application, Stittco continues to seek a 10% return on the projected rate base. This would result in a projected net income of $282,093 for 2019. 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*
2017	$2,329,561	($218,134)	(9.36%)	(5.47%)
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%
2008	$2,138,168	($11,520)	(0.54%)	(1.99%)

* Adjusted to eliminate variances due to weather fluctuations.

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

Stittco's projected return (i.e. net income) for the year ending July 31, 2018 is a gain of $71,183 for a return on a mid-year rate base of 2.99%. One of the reasons for the lower than anticipated 2018 projected return is that Stittco projects to incur higher total expenses relative to the 2018 forecast included in Order 116/17.

5.0 BOARD FINDINGS

The Board considers the information filed by Stittco on September 14, 2018, along with its October 17, 2018 and November 30, 2018 responses to Board Information Requests, to be Stittco's evidence in support of its Application.

Non-commodity Costs

The Board has reviewed Stittco's Application for non-commodity costs for the fiscal year ending July 31, 2019, as well as Stittco's submissions in response to interrogatories posed by the Board.

The Board approves Stittco's non-commodity revenue requirement of $2,257,062 for the year ending July 31, 2019. Additionally, the Board approves the recovery of an additional $14,887 in non-commodity costs for the year ending July 31, 2019. The new non-commodity revenue requirement will cause non-commodity rates to be increased by 3.8% effective January 1, 2019. The Board finds Stittco's non-commodity revenue requirement to be reasonable.

Furthermore, the Board accepts the recovery of $14,887 in lost non-commodity revenue in November and December 2018, arising from the delay in implementing new rates on January 1, 2019 instead of November 1, 2018, due to the change in Stittco's parent company and the unexpected departure of key Stittco staff members in 2018, affecting the filing and review of Stittco's 2018 non-commodity costs application. However, going forward, the Board recommends that Stittco return to its prior non-commodity application filing timelines (e.g. file annual non-commodity applications in July of every year) in order to permit an adequate review period for the implementation of new non-commodity rates for November 1.

Additionally, the Board notes Stittco's projected increases in operating expenses compared to those previously approved in Order 116/17. Given the long-term decreasing trend in customer numbers and Stittco's five-year capital expense plan, the Board recommends that Stittco make every effort to further control its operating costs so as to minimize future rate increases to customers.

As part of its review of Stittco's Application, the Board has identified inconsistencies and potential normalization methodology changes in the actual financial results presented in Stittco's 2017 normalized financial reconciliation report. While these inconsistencies do not affect Stittco's 2019 non-commodity revenue requirement projections, the Board finds that Stittco's recent financial reconciliation reports must reviewed in order to verify the accuracy and consistency of the results.

As a result, the Board directs Stittco to complete, prior to the filing of its next non-commodity application, a review with Board staff and the Board's Advisors of the methodology used in the preparation of Stittco's 2017 (and beyond) normalization financial reconciliation report in order to identify and resolve any methodology discrepancies that may be present. Stittco shall subsequently re-file with the Board any updated annual reconciliation reports, update its list of historical earnings included in future non-commodity rate applications, and explain any methodology changes that may have been incorporated since the end of fiscal year 2017.

Return on Rate Base

The Board agrees that Stittco should receive a reasonable return on its investment. The Board therefore approves Stittco's projected rate base of $2,377,168 as of July 31, 2018, and a 10% return on rate base amounting to $282,093 in non-commodity cost revenue requirement for the year ending July 31, 2019.

The Board finds that Stittco's planned capital expenditures for 2019, which include the replacement of two Thompson vaporizer units, the upgrade of the Thompson town meter building (and related contents), the replacement of two Thompson service trucks, and general site maintenance and repair for all of Stittco's town sites, are necessary in order to maintain long-term system safety and reliability. However, as these planned 2019 capital expenditures total $905,000, an annual investment amount that is significantly higher than recent amounts requested by Stittco, the Board is mindful of the impact that these expenditures will have on Stittco's ratepayers.

Furthermore, Stittco has clarified that the costs of the Thompson vaporizer replacement project are based on a similar project completed in 2009/10 and that a consultant has been engaged to fully assess the project work and associated costs. Given the uncertainty associated with a major portion of Stittco's 2019 capital expenditures, and given that Stittco recently incurred material capital project cost increases beyond initial estimates approved by the Board, the Board is concerned that the impact on ratepayers may be higher than the currently projected impact once each 2019 capital project is completed. This, combined with future capital expenditures included in Stittco's five-year capital plan, as well as the soon to be implemented Federal Carbon Charge on propane consumption, could significantly impact both Stittco and its ratepayers going forward.

As a result, the Board recommends that Stittco carefully monitor its capital expenditures and to assess whether there are opportunities to spread out its expenditures (or a portion thereof) over a longer period of time so as to smooth out the annual impact on Stittco's ratepayers. Furthermore, for the period between the date of this Order and the date on which Stittco files its next non-commodity rate application, the Board directs Stittco to immediately notify the Board if it becomes aware of anticipated or actual overages beyond current capital expenditure estimates in any of its 2019 capital expenditure projects, and to provide an explanation as to the reason(s) for the overages.

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 finds 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.

While Stittco's response to Order 116/17 Directive 3 did not provide the Board with detailed explanations regarding the justification for, and relative pacing of, each capital expenditure included in Stittco's five-year capital plan, the Board accepts that such detail may not necessarily be immediately available upfront unless a detailed review of the placeholder capital items has been performed. With the aim to achieve a more transparent capital expense planning process, the Board finds that there is value in the inclusion of Stittco's five-year capital plan in future Stittco non-commodity rate applications. As such, the Board directs Stittco to file its five-year capital expenditure plan in all future non-commodity rate applications. Each item included in Stittco's five-year capital plan shall include a brief description of each capital project or expenditure, the anticipated cost, as well as the town site to which the expenditure applies to.

In order to further demonstrate the need for specific capital expenditures and to more clearly explain how Stittco's capital budget totals were created, the Board also strongly recommends that Stittco provide asset condition assessments as well as more detailed budget explanations as part of future requests for approval of capital expenditures. Furthermore, the Board recommends that Stittco provide further information in future requests for capital expenditure approvals regarding the selected timing of a particular capital expenditure (e.g. justification for why a capital project is needed in a particular year as opposed to a future year).

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 115/17, 19/18, 57/18, and 94/18.

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, 2019, **BE AND ARE HEREBY APPROVED**.

2. Stittco Utilities Man Ltd's projected rate base of $2,377,168 as of July 31, 2018 **BE AND IS HEREBY APPROVED**.

3. Stittco Utilities Man Ltd shall file its five-year capital expenditure plan with all future non-commodity rate applications. Each item included in Stittco's five-year capital plan shall include a brief description of each capital project or expenditure, the anticipated cost, as well as the town site to which the expenditure applies to.

4. Stittco Utilities Man Ltd shall, for the period between the date of this Order and the date on which Stittco files its next non-commodity rate application, immediately notify the Board if it becomes aware of anticipated or actual overages in any of its 2019 capital expenditure projects beyond the estimates included in its 2018 non-commodity application. When informing the Board of any anticipated or actual overages, Stittco shall also provide an explanation as to the reason(s) for the overages.

5. Stittco Utilities Man Ltd shall complete, prior to the filing of its next non-commodity application, a review with Board staff and the Board's Advisors of the methodology used in the preparation of Stittco's 2017 (and beyond) normalization financial reconciliation report in order to identify and resolve any methodology discrepancies that may be present. Stittco shall subsequently re-file with the Board any updated annual reconciliation reports, update its list of historical earnings included in future non-commodity rate applications, and explain any methodology changes that may have been incorporated since the end of fiscal year 2017.

6. All interim ex parte orders referenced in Board Orders 115/17, 19/18, 57/18, and 94/18 **BE AND ARE HEREBY APPROVED AS FINAL**.

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."
A/ Assistant Associate Secretary

Certified a true copy of Order No. 169/18
issued by The Public Utilities Board

R McMillin

A/Assistant Associate Secretary

SCHEDULE" A"

GENERAL SERVICE RATE STRUCTURE

EFFECTIVE FOR CONSUMPTION ON OR AFTER JANUARY 1, 2019

Basic Monthly Charge		$10.00 /month
Monthly Volumetric Charges per m³:		
Commodity Cost Recovery		$1.3444*
Delivery Charge (Non–Commodity Cost Recovery)		
	first 100 m³	$1.5102
	next 400 m³	$1.3469
	next 1000 m³	$1.2746
	next 2500 m³	$1.0326
	over 4000 m³	$0.7921

* Commodity Cost approved per Board Order 144/18