

Order No. 127/20

**AN APPLICATION BY STITTCO UTILITIES MAN LTD.
NON-COMMODITY COSTS EFFECTIVE NOVEMBER 1, 2020
FINAL APPROVAL**

October 27, 2020

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
Michael Watson, Member

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1.0 EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (“Board”) approves revised commodity and non-commodity rates for Stittco Utilities Man Ltd. (“Stittco”) effective November 1, 2020. The Board also approves Stittco’s projected mid-year rate base for the year ending July 31, 2021 and confirms as final the commodity rates previously approved on an interim *ex parte* basis. The commodity rate for November 1, 2020 is approved on an interim *ex parte* basis and will be confirmed as final at a future date.

The Board approves Stittco’s application, on an interim *ex parte* basis, to increase the commodity rate from the current \$1.1883/m³ to \$1.2407/m³ for propane consumed on or after November 1, 2020. The increase is a result of Stittco’s higher costs for propane that it passes through to customers without markup. The increase in the commodity rate is expected to increase the average overall residential propane monthly bills by approximately 4.2%.

The Board approves, on a final basis, decreases in the non-commodity rates. The non-commodity rate decreases are expected to decrease the residential monthly bills by approximately 4.8% when compared to the previously approved propane rates. Actual customer impacts will depend on propane consumption. Combining the non-commodity rate decreases with the commodity rate increase, the average overall residential monthly bills are expected to decrease by approximately 0.6% when compared to the previously approved propane rates.

Non-commodity rates are set to recover non-commodity costs, which include costs incurred by Stittco for the distribution of propane to customers. The commodity rate is set to recover the costs of the propane as well as freight to deliver the propane to Thompson. 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. In contrast, Stittco’s propane commodity costs are reviewed on a quarterly basis pursuant to the Board-approved Quarterly Rate Setting process.

The Board approves Stittco's projected non-commodity revenue requirement, or costs, of \$2,261,954 for the year ending July 31, 2021. This represents a decrease of \$201,350 over the last annual non-commodity revenue requirement approved by the Board in Order 179/19, which was \$2,463,304 for the year ending July 31, 2020.

The Board approves Stittco's projected mid-year rate base of \$2,815,513 for the year ending July 31, 2021, which represents an increase of \$149,981 from the projected mid-year rate base of \$2,665,532 approved in Order 179/19. 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 results in a return to Stittco of \$281,551.

Pursuant to Section 11 of *The Gas Pipe Line Act*, the Board also directs Stittco to file with the Board, on a confidential basis, additional supporting information (as outlined in this Order) regarding its liability insurance coverage.

The table below compares the propane commodity and non-commodity rates approved over the last year and provides the revised non-commodity rates effective November 1, 2020:

Table 1 Non-commodity rates - 12 month history						
	Nov 1/19	Jan 1/20	Feb 1/20	May 1/20	Aug 1/20	Nov 1/20
Basic Monthly Charge	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
Volumetric Charges per m³						
Commodity Cost Recovery	\$0.8385	\$0.8385	\$0.8765	\$1.0031	\$1.1883	\$1.2407
Delivery Charge (Non-Commodity Cost Recovery)						
first 100 m ³	\$1.5102	\$1.6788	\$1.6788	\$1.6788	\$1.6788	\$1.5377
next 400 m ³	\$1.3469	\$1.4973	\$1.4973	\$1.4973	\$1.4973	\$1.3715
next 1000 m ³	\$1.2746	\$1.4169	\$1.4169	\$1.4169	\$1.4169	\$1.2978
next 2500 m ³	\$1.0326	\$1.1479	\$1.1479	\$1.1479	\$1.1479	\$1.0515
over 4000 m ³	\$0.7921	\$0.8805	\$0.8805	\$0.8805	\$0.8805	\$0.8065

- Notes to Table: 1/ The Delivery Charges shown for January, February, May, August, and November 2020 were approved in Board Order 179/19.
- 2/ The Commodity rate shown for November 2019 and January 2020 was approved in Board Order 159/19.
- 3/ The Commodity rates shown for February, May, and August 2020 were approved in Board Orders 7/20, 64/20, and 97/20, respectively.

This Order also finalizes interim *ex parte* commodity rates established in Board Orders 159/19, 7/20, 64/20, and 97/20.

2.0 INTRODUCTION

Stittco Utilities Man Ltd. distributes propane vapour through a pipeline distribution network to approximately 870 customers in Thompson, Flin Flon, and Snow Lake, Manitoba. Bulk propane is supplied from Edmonton and is shipped to Stittco's main storage facilities in Thompson. Stittco subsequently makes use of trucks to transport propane supplies from Thompson to additional propane storage facilities in both Flin Flon and Snow Lake. 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
2012	Customers	740	162	902	-
	Propane Volumes	1,663,000	5,207,000	6,870,000	-
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	Customers	682	155	837	7.3%
	Propane Volumes	1,521,175	5,234,768	6,748,943	2.8%
2020	Customers	739	130	869	3.8%
	Propane Volumes	1,460,449	5,024,728	6,485,178	-3.9%
2021	Customers	739	130	869	0%
Projected	Propane Volumes	1,525,531	5,182,770	6,708,301	3.4%

* 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.

Historically, residential customers have accounted for approximately 25% of the overall propane volumes sold by Stittco, with commercial customers accounting for the remaining 75%.

The three components of propane rates billed to Stittco's customers are:

- Basic Monthly Charge:

Recovers a portion of Stittco's administration costs and is reviewed annually as part of Stittco's non-commodity costs applications.

- Commodity Rate:

Recovers the cost of propane gas and the associated transportation costs to Thompson. 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. Variances between actual propane costs and estimated propane costs embedded in Stittco's commodity rates are tracked in a Purchased Propane Variance Account and are either collected from, or refunded to, customers by way of a commodity rate rider. Stittco's commodity price for propane is normally adjusted by the Board on August 1, November 1, February 1, and May 1 of each year per the Board's QRS process, on an interim *ex parte* basis (i.e. without further public consultations), subject to satisfactory information filed by Stittco. These interim commodity rates for propane are reviewed and finalized annually when Stittco files its non-commodity application.

- Delivery Charges (or non-commodity rates):

Recover Stittco's approved non-commodity revenue requirement for the upcoming fiscal year (less the revenue collected through the Basic Monthly Charge). Stittco's non-commodity revenue requirement consists of costs projected to be incurred by Stittco for the distribution of propane to its customers over an upcoming fiscal year. Stittco's non-commodity costs include operating expenses (e.g. salaries, materials, and supplies), depreciation, a provision for corporate income tax, and a return on Stittco's rate base for its owners. Stittco's delivery charges are assigned based on a customer's monthly consumption of propane and are reviewed annually as part of Stittco's non-commodity costs applications.

Board Order 97/20 (dated July 29, 20) is the most recent Order approving Stittco's propane commodity rate, effective August 1, 2020.

Since 2010, Stittco has filed, typically in July of every year, non-commodity costs applications seeking approval of its prior year rate base and the projected non-commodity revenue requirement for the upcoming fiscal year. The last Board review of Stittco's non-commodity costs was completed in 2019 and resulted in Order 179/19 (dated December 11, 2019), which approved the existing Basic Monthly Charge and Delivery charges, effective January 1, 2020.

In regards to the amount of liability insurance held by the owner of a gas pipeline, Section 11 of *The Gas Pipe Line Act* states:

"Every owner shall be insured, by an insurance company licensed to do business in the province, against liability that it may incur to others by reason of negligence on its part, or on the part of its servants or agents, in the construction or operation of a gas pipe line or for any other reason; and the insurance shall be to such an amount as is approved by the board."

On June 15, 2016, the Board approved the liability insurance amount held by Stittco's then-owner Gibson Energy ULC and directed Stittco to inform the Board if this coverage amount was modified or if Stittco experienced significant changes in its risk profile.

3.0 PROCEDURAL HISTORY

On July 10, 2020, Stittco applied to the Board seeking approval of its projected non-commodity cost revenue requirement for the year ending July 31, 2020 and its projected rate base as of July 31, 2020. On July 27, September 14, October 2, and October 5, 2020, Stittco filed revised Application materials that proposed new non-commodity rates for propane consumed after November 1, 2020, which ultimately reflected an 8.2% decrease in total non-commodity revenue from the level previously approved by the Board in Order 179/19.

In 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 without an oral hearing.

Stittco's customers were notified of the proposed non-commodity rate increase by including the Board's public notice in Stittco's July 2020 billings to customers for June 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 August 28, 2020, the Board submitted Information Requests to Stittco. Stittco provided its responses on September 14, 2020.

On September 18, 2020, the Board submitted a second round of Information Requests that sought further clarifications on Stittco's Application materials, to which Stittco responded on October 2, 2020.

On October 5, 2020, Stittco filed a revised Application to correct typographical errors.

4.0 APPLICATION

On July 10, 2020, 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, 2020. The following represents a summary of Stittco's application.

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, 2020;
- b) Approval of the projected rate base for Stittco as of July 31, 2020.

In response to Directive 3 of Order 169/18, Stittco also submitted its 2021-2025 capital expense plan as part of its Application materials. While Stittco's projected capital expenditures for 2021 are embedded in Stittco's proposed non-commodity rates, expenditures beyond the 2021 test year have not yet been finalized. Once determined to be a prudent investment by Stittco's management, each capital investment will subsequently be presented to the Board, in future non-commodity cost applications, in order to seek approval for cost recovery through rates.

The table below summarizes Stittco's projected non-commodity revenue requirement for the year ending July 31, 2021 and compares it to non-commodity costs approved in Board Order 179/19 for the year ending July 31, 2020.

Comparison of Stittco's Non-Commodity Revenue Requirement

	Revised 2020 Application (for FY2021)	Approved From Board Order 167/19 (for FY2020)	Increase / (Decrease)
Wages & Benefits	\$877,735	\$877,386	\$349
Materials and Supplies	\$47,000	\$54,700	(\$7,700)
Contract Services	\$143,576	\$145,098	(\$1,522)
Other Operating Costs	\$119,547	\$131,210	(\$11,663)
Automotive	\$83,775	\$71,219	\$12,556
Insurance	\$14,400	\$153,000*	(\$138,600)
Property Taxes	\$130,561	\$126,465	\$4,096
Administrative & General	\$259,100	\$271,500	(\$12,400)
Administration Fee	\$201,083	\$219,669	(\$18,586)
Sub-Total Direct Operating Costs	\$1,876,776	\$2,050,248	(\$173,472)
Other Cost of Sales	\$75,175	\$75,175	\$0
Depreciation	\$119,756	\$126,431	(\$6,675)
Accretion	\$10,277	\$35,979	(\$25,702)
Return on Rate Base	\$281,551	\$266,553	\$14,998
Income Tax Requirement	\$117,019	\$123,918	(\$6,899)
Other Income	-\$218,600	-\$215,000	(\$3,600)
Sub-Total Other Costs	\$385,178	\$413,056	(\$27,878)
Total Non-Commodity Revenue Requirement	\$2,261,954	\$2,463,304	(\$201,350)

Note *: The decrease in Insurance costs is due to the completion of repairs to the parking lot in FY2020.

The total non-commodity revenue requirement for fiscal year 2021 is projected to be \$2,261,954 which is a decrease of \$201,350 or 8.2% compared with the 2020 projected non-commodity revenue requirement approved in Order 179/19.

Operating Costs

In fiscal year 2019, Stittco incurred significant operating expenses as a result of a broken water main in January 2019 that caused flooding in Stittco's main office building in Thompson. In addition to the flood damage to the office's interior, which was subsequently remediated, the soil under the adjacent parking lot was disrupted and subsequently shifted from the freezing and thawing that occurred since January 2019, causing significant pavement cracks and surface shifting.

Stittco's projected and approved 2020 operating expenses of \$2,050,248 were 11% (or \$203,968) higher than those approved in Order 169/18 for fiscal year 2019. The majority of this increase was related to the projected \$140,000 in costs for the repair of the Thompson office parking lot, which was completed during the 2020 fiscal year. There are no further costs related to the repair of the parking lot expected to be incurred in 2021, therefore these costs have been removed from the revenue requirement. The resulting 2021 operating expenses are projected to be \$1,876,776, a decrease of 8.5% compared to the 2020 operating expenses approved in Order 179/19.

Other significant changes in Stittco's projected 2021 operating expenses compared with those approved for 2020 include:

- Lower employee benefit usage due to the COVID-19 pandemic, resulting in lower expenses, as well as lower employee pension costs due to changed assumptions of the amount employees are contributing to their pensions and the corresponding amounts contributed by Stittco. These are offset by increases to the Short-Term Incentive Plan.
- Automobile maintenance expenses are higher in part due to Stittco deferring the replacement of vehicles.

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. Rate base is the amount of investment made by Stittco, plus an allowance for working capital, less accumulated depreciation. Stittco's mid-year rate base projections for 2019 and 2020 are summarized in the table below.

STITTCO'S RATE BASE

	Order 179/19 (for 2020)	2020 Projected	2021 Projected
PLANT IN SERVICE:			
Beginning Year Balance	\$6,010,303	\$6,010,303	\$6,392,435
Additions, Net	\$643,479	\$643,479	\$203,395
End of Year Balance	<u>\$6,653,782</u>	<u>\$6,653,782</u>	<u>\$6,595,830</u>
Average, Mid-year	\$6,332,042	\$6,332,042	\$6,494,132
ACCUMULATED DEPRECIATION:			
Beginning Year Balance	\$4,410,245	\$4,410,245	\$4,325,654
Additions, Net	\$69,909	\$115,409	\$119,756
End of Year Balance	<u>\$4,480,154</u>	<u>\$4,325,654</u>	<u>\$4,445,410</u>
Average, Mid-year	\$4,445,200	\$4,367,950	\$4,385,532
AVERAGE MID-YEAR NET PLANT IN SERVICE:	\$1,886,843	\$1,833,419	\$2,108,600
WORKING CAPITAL	<u>\$778,691</u>	<u>\$598,001</u>	<u>\$706,913</u>
MID-YEAR RATE BASE	\$2,665,533	\$2,431,421	\$2,815,513

The Stittco projected mid-year rate base for fiscal year 2021 is \$2,815,513. This amount includes rate base additions of \$203,395 which are the capital expenditures planned for 2021 and are described below. Working capital of \$706,913 is lower than approved in Board Order 179/19, but higher than the working capital through 9 months of actual results and 3 months of projections in 2020 of \$598,001. The decreased working capital in 2020 was primarily the result of lower propane inventories and lower propane prices.

For fiscal year 2021, Stittco's rate base plant additions of \$203,395 are comprised of the following:

- \$125,000 for the replacement of a fifth rail tower which is used to unload propane from rail cars in Thompson. Four rail towers had previously been replaced due to age and safety concerns.
- \$30,000 for inspections of two of the six large storage tanks in Thompson, Snow Lake, and Flin Flon.
- \$18,395 to complete the replacement of two vapourizers in Thompson by replacing the pressure relief valves.
- \$30,000 to replace the Thompson town pump and compressor, which are used to unload the rail cars and feed propane into the vapourizers.

In Order 179/19, the Board approved a 10% rate of return for Stittco's fiscal year ending July 31, 2020. In its Application, Stittco continues to seek a 10% return on the projected rate base. This would result in a projected net income of \$281,551 for 2021. 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*
2019	\$2,329,073	\$197,232	8.47%	6.93%
2018**	\$2,377,585	\$149,533	6.29%	7.17%
2017**	\$2,324,873	(\$147,889)	(6.36%)	(4.35%)
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%

* Adjusted to eliminate variances due to weather fluctuations.

** Updated figures to reflect revised submissions per Directive 5 of Order 169/18.

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

Stittco's projected return (i.e. net income) for the year ending July 31, 2020 is \$347,742 for a return on a mid-year rate base of 14.3%. The return is higher than 10% because of favourable weather which resulted in lower consumption of propane in the vapourizers as well as a lower price for that propane, decreasing Stittco's own costs for propane. Stittco also incurred lower operating costs due to the COVID-19 pandemic due to the interruption of inter-office travel, reduced advertising expenses, and reduced employee usage of benefits. Finally, Stittco wrote down the amount of an asset retirement obligation.

Liability Insurance Coverage

In response to Directive 5 from Order 179/19, Stittco provided confidential information regarding the existing liability insurance coverage held by Superior Plus LP (Stittco's current owner), which would apply to both Stittco and the rest of Superior's business operations. The information provided included the certificate of insurance, description of how the insurance premium is allocated from Superior to Stittco, a description of how the insurance limits are set, and advice from Stittco's insurance provider.

Inter-Company Charges Between Stittco Utilities and Stittco Energy

Stittco Utilities, the utility regulated by the Board which distributes propane through underground pipelines, owns large storage tanks in Thompson, Snow Lake, and Flin Flon, as well as the rail unloading facilities and compressors in Thompson. Stittco Energy, the unregulated operation which distributes propane via tanks and trucks, uses these facilities and pays Stittco Utilities a product handling fee and a site rental fee totalling \$4,300 per month. The product handling fee, which is effectively the cost to Stittco Energy for the use of the regulated assets and property of Stittco Utilities, was set at the current level in or prior to 1994. Stittco provided a 1998 report that explains the basis for the fee. This report from Emerald Regulatory Services Inc. was previously filed in support of the fee in the proceeding that resulted in Board Order 158/98. The product handling fee is based on the notional full cost of Stittco Energy owning its own storage tanks, rail unloading facilities, and compressors. The full cost includes depreciation, return on capital, and income taxes.

Stittco Utilities does not have employees in Snow Lake or Flin Flon. Stittco Utilities pays Stittco Energy for contract services to operate and maintain the propane distribution system in those towns. These Stittco Energy contract services are forecasted to be \$70,576 in 2021.

Stittco Utilities also pays to Superior an administration fee equal to 12% of the direct operating costs. This administration fee is for back office support for functional areas such as human resources, finance, safety, and information systems. Stittco indicated that the 12% factor is a legacy percentage that is insufficient to cover the costs of all areas of back office support provided by Superior.

5.0 November 1, 2020 Commodity Rate Application

Background

The commodity portion of Stittco's overall propane rates is amended quarterly, in accordance with the Quarterly Rate Setting ("QRS") process. Commodity costs, including transportation to Thompson, are passed on to customers with no markup. Prices of the purchased commodity may vary because of market conditions; they may be higher or lower than price levels established by Board Order. The differences are tracked in a Purchased Propane 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 can help buffer large swings in propane commodity charges. Order 97/20, dated July 29, 2020, is the most recent Order setting Stittco's commodity rate.

Rates established by the QRS are set on an interim *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 fluctuations and the process minimizes regulatory costs while providing regular updated price signals to consumers. The quarterly interim commodity rates are reviewed and finalized annually when Stittco files its annual non-commodity costs application.

Application

On October 13, 2020, Stittco filed an application seeking an increase in the propane commodity rate from the current rate of \$1.1883/m³ to \$1.2407/m³ effective November 1, 2020. This new rate reflects the higher costs that Stittco pays for propane, which are passed on to customers without markup, as well as higher costs to deliver propane to Thompson. The commodity rate reflects Stittco's cost recovery of the forecasted propane commodity price of \$187/m³ for liquid propane, plus an additional \$89/m³ for delivery to Thompson. Stittco's application also included an updated PPVA balance of \$354,803 to

be collected from customers (a change from \$356,889 to be collected from customers reflected in current rates).

As described in the Section 5.0 “Background”, propane prices may vary because of market conditions. Propane prices may be higher or lower than price levels established by Board Order and the differences are tracked in a PPVA.

Stittco stated that it purchased propane in the first part of the winter of 2019/20 that was higher in price than more recent propane purchases. The PPVA balance increased because the cost to Stittco of these earlier propane purchases was higher than the price at which it ultimately sold the propane. Customers therefore paid less than Stittco’s costs for propane this past winter. Stittco does not earn a profit or markup on the sale of propane commodity, but neither does it suffer a loss. The PPVA is the mechanism that allows this to happen. The PPVA balance will be charged to customers and will serve to recover Stittco’s costs for propane commodity from this past winter. The PPVA balance is forecasted to be recovered over 12 months through rates.

6.0 BOARD FINDINGS

The Board accepts the information filed by Stittco on July 10, 2020, along with its subsequent submissions on July 27, September 14, October 2, and October 5 2020, to be Stittco's evidence in support of its Non-Commodity Rate Application. The Board accepts the information filed by Stittco on October 13 and 15, 2020 to be Stittco's evidence in support of its November 1, 2020 Commodity Rate Application.

Non-commodity Costs

The Board finds that Stittco's proposed non-commodity revenue requirement for the year ending July 31, 2021 is reasonable. As a result, the Board approves Stittco's non-commodity revenue requirement of \$2,261,954 for the year ending July 31, 2021. This approved amount represents an 8.2% decrease in Stittco's total non-commodity revenue requirement relative to the level previously approved by the Board in Order 179/19.

Because of Stittco's relatively small operational market and customer base, the Board also recommends that Stittco continue to make every effort to further control its operating costs so as to minimize future rates to customers.

Rate Base and Rate of Return

The Board agrees that Stittco should receive a reasonable return on its investment. The Board therefore approves Stittco's projected mid-year rate base of \$2,815,513 for the year ending July 31, 2021, and continues to approve a 10% return on rate base, which amounts to a \$281,551 return to Stittco for the year ending July 31, 2021. The Board remains of the view that Stittco's 10% return on rate base is reasonable given that Stittco operates in a small market area and faces competition from other service providers.

The Board further finds that Stittco's planned capital expenditures for 2021, which include the replacement of the rail tower, pressure relief valves, town pump and compressor, as

well as two tank inspections, are prudent and necessary in order to maintain the long-term safety and reliability of Stittco's propane distribution system.

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. As a result, the Board continues to recommend that Stittco carefully plan its capital expenditures and assess whether there are opportunities to spread these expenditures (or portions thereof) over a longer period of time so as to smooth out the annual impact on Stittco's ratepayers. The Board notes that Stittco has done this with the deferral of the replacement of two service trucks beyond 2021. This ongoing effort should continue to be reflected in Stittco's revised five-year capital plans included with future non-commodity costs applications per Directive 3 of Order 169/18.

Liability Insurance Coverage

Pursuant to Rule 13 of the Board's Rules of Practice and Procedure, the Board finds that it is in the public interest to maintain specific information regarding Stittco's liability insurance coverage in confidence. The Board is of the opinion that disclosure of the information could reasonably be expected to disadvantage Stittco and its customers in the event that liability claims are advanced by external parties in the future.

In 2014, the Board initiated a review of Stittco's liability insurance coverage pursuant to Section 11 of *The Gas Pipe Line Act*. At the time, the Board received details of the liability insurance coverage held by Stittco's owner, which also applied to Stittco's operations, as well as an independent opinion of Stittco's liability insurance limits relative to industry benchmarks and worse case scenarios for catastrophic accidents. On June 15, 2016, the Board approved the liability insurance coverage amount held by Stittco's then-owner Gibson Energy ULC.

In Order 179/19, the Board initiated another review of Stittco's liability insurance coverage given the change in Stittco's ownership to Superior Plus LP. The Board reviewed the materials provided by Stittco in confidence and approves the liability insurance coverage pursuant to Section 11 of *The Gas Pipe Line Act*. The Board also considers Directive 5 from Order 179/19 to be complete.

The Board has an additional question concerning Stittco Utilities' liability for propane shipments by rail that are in transit to Thompson, and will inquire outside of this proceeding.

Inter-Company Charges Between Stittco Utilities and Stittco Energy

In this proceeding, the Board inquired about the financial transfers between Stittco Utilities, the regulated entity, and Stittco Energy, the unregulated entity. As described in Section 4.0 above, Stittco Energy pays Stittco Utilities a product handling fee and a site rental fee, while Stittco Utilities pays Stittco Energy and Superior for contract services and for administrative support.

Stittco provided information that Stittco Energy's annual throughput volumes from Thompson, based on annual sales, are approximately 40 to 55% greater than the Stittco Utilities' annual throughput. The Board understands this to mean that Stittco Energy makes considerable use of the regulated assets of Stittco Utilities for which the product handling fee compensates Stittco Utilities.

The Board finds that it is appropriate to revisit the product handling fee and site rental fee that Stittco Utilities charges to Stittco Energy. The product handling fee has remained the same for over twenty-five years. While the original capital cost of the storage tanks and rail unloading facilities will now be mostly depreciated, Stittco Utilities has invested or plans to invest in new rail unloading facilities, a new pump and compressor, and storage tank inspections. The Board requests that Stittco Utilities justifies the product handling fee and site rental fee in its next application to the Board for non-commodity rates. The Board has not concluded what the most appropriate methodology for determining the

product handling fee is, and notes the methodology described in the Emerald report may continue to be appropriate with updated costs. The Board expects Stittco to consider and propose an appropriate methodology and how it could be updated to provide an appropriate fee to charge Stittco Energy for its use of Stittco Utilities' regulated facilities.

Commodity Rates

The Board finds that the commodity recovery rate sought by Stittco fairly reflects projected commodity and transportation costs. The Board will direct that the propane commodity rate be increased to \$1.2407/m³ for propane consumed on or after November 1, 2020. Propane rates will be reviewed again February 1, 2021.

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 159/19, 7/20, 64/20, and 97/20.

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.

7.0 IT IS THEREFORE ORDERED THAT:

1. Stittco Utilities Man Ltd's rates for the recovery of distribution costs, as per Schedule "A", for consumption on or after January 1, 2020, **BE AND ARE HEREBY APPROVED.**
2. Stittco Utilities Man Ltd's projected non-commodity revenue requirement of \$2,261,954 for the year ending July 31, 2021 **BE AND IS HEREBY APPROVED.**
3. Stittco Utilities Man Ltd's projected mid-year rate base of \$2,815,513 for the year ending July 31, 2021 **BE AND IS HEREBY APPROVED.**
4. Stittco Utilities Man Ltd's propane commodity rate per the attached Schedule "A" effective for propane consumption on or after November 1, 2020 **BE AND IS HEREBY APPROVED** on an interim basis.
5. Interim *ex parte* Board Orders 159/19, 7/20, 64/20, and 97/20 **BE AND ARE HEREBY APPROVED AS FINAL.**
6. Stittco Utilities Man Ltd shall file a non-commodity rate application by July 15, 2021.
7. In its next application to the Board for non-commodity rates, Stittco Utilities Man Ltd shall propose an updated product handling fee and site rental fee to charge to Stittco Energy for Stittco Energy's use of the regulated assets of Stittco Utilities.

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."

Assistant Associate Secretary

Certified a true copy of Order No. 12720
issued by The Public Utilities Board


Assistant Associate Secretary

SCHEDULE " A "**GENERAL SERVICE RATE STRUCTURE**

EFFECTIVE FOR CONSUMPTION ON OR AFTER NOVEMBER 1, 2020

Basic Monthly Charge	\$10.00 /month
Monthly Volumetric Charges per m³:	
Commodity Cost Recovery	\$1.2407
Delivery Charge (Non-Commodity Cost Recovery)	
first 100 m ³	\$1.5377
next 400 m ³	\$1.3715
next 1000 m ³	\$1.2978
next 2500 m ³	\$1.0515
over 4000 m ³	\$0.8065