Public Utilities Board / Régie des services publics

Order No. 122/21

AN APPLICATION BY STITTCO UTILITIES MAN LTD.
COMMODITY AND NON-COMMODITY RATES EFFECTIVE NOVEMBER 1, 2021
FINAL APPROVAL

October 28, 2021

BEFORE: Larry Ring, Q.C., Panel Chair
Marilyn Kapitany, B.Sc., (Hon), M.Sc., 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, 2021. The Board also approves Stittco's projected mid-year rate base for the year ending July 31, 2022 and confirms as final the commodity rates previously approved on an interim *ex parte* basis. The commodity rate for November 1, 2021 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 $1.7836/m^3 to $2.2550/m^3 for propane consumed on or after November 1, 2021. The increase is a result of Stittco's higher costs for propane that it passes through to customers without markup. This rate also incorporates a refund of $9,047 on account of overearning by Stittco due to planned capital expenditures factored into the November 1, 2020 rates which were not undertaken. The increase in the commodity rate is expected to increase the average overall residential propane monthly bills by approximately 13.3%. The $9,047 refund arises because Stittco planned to complete capital expenditures in 2021 totalling $155,000. These expenditures were expected to be recovered in rates charged to Stittco's customers beginning November 1, 2020. Stittco earns a return on its capital investments through a return on its rate base. As Stittco ultimately did not proceed with these capital expenditures, it earned a return on investments in rate base which it never made. The $9,047 refund returns this overearning to customers.

The Board approves, on a final basis, increases in the non-commodity rates, also known as delivery rates. The non-commodity rate increases are expected to increase the residential monthly bills by approximately 1.1% when compared to the previously approved propane rates. Actual customer impacts will depend on propane consumption. Combining the non-commodity rate increases with the commodity rate increase, the average overall residential monthly bills are expected to increase by approximately 14.4% when compared to the previously approved propane rates. The bills of higher consuming residential customers (those consuming on average 100 m^3 per month) are expected to increase by 14.9%.

Non-commodity rates are set to recover non-commodity costs, which include costs incurred by Stittco for the delivery of propane to customers through Stittco's system of underground pipelines. 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 does not regulate the prices or rates for propane sold in tanks or delivered by truck directly to a customer's premises.

The Board approves Stittco's projected non-commodity revenue requirement, or costs, of $2,237,481 for the year ending July 31, 2022. This represents a decrease of $24,474 over the last annual non-commodity revenue requirement approved by the Board in Order 127/20, which was $2,261,954 for the year ending July 31, 2021. Despite the decrease in non-commodity costs, non-commodity rates are increasing because the consumption by Stittco's customers is forecasted to decrease. In order to recover the non-commodity costs over fewer volumes, the non-commodity rates must increase by 2.5%.

The Board approves Stittco's projected mid-year rate base of $2,824,998 for the year ending July 31, 2022, which represents an increase of $9,486 from the projected mid-year rate base of $2,815,513 approved in Order 127/20. 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 $282,500.

The Board finds that the product handling fee and site rental fee paid by Stittco Energy, an unregulated affiliate of Superior Propane, to Stittco Utilities remains appropriate.

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, 2021:

Table 1 Stittco Rates - 12 month history

		Nov 1/20	Feb 1/21	May 1/21	Aug 1/21	Nov 1/21
Basic Monthly Charge		$10.00	$10.00	$10.00	$10.00	$10.00
Volumetric Charges per m³						
Commodity Cost Recovery		$1.2407	$1.4253	$1.3976	$1.7836	$2.2550
Delivery Charge (Non-Commodity Cost Recovery)						
	first 100 m³	$1.5377	$1.5377	$1.5377	$1.5377	$1.5760
	next 400 m³	$1.3715	$1.3715	$1.3715	$1.3715	$1.4056
	next 1000 m³	$1.2978	$1.2978	$1.2978	$1.2978	$1.3301
	next 2500 m³	$1.0515	$1.0515	$1.0515	$1.0515	$1.0777
	over 4000 m³	$0.8065	$0.8065	$0.8065	$0.8065	$0.8266

Notes to Table: 1/ The Delivery Charges shown for November 2020 and February, May, and August, were approved in Board Order 127/20.

2/ The Commodity rates shown for November 2020 and for February, May, and August 2021 were approved in Board Orders 127/20, 12/21, 48/21, and 84/21 respectively.

This Order also finalizes interim *ex parte* commodity rates established in Board Orders 127/20, 12/21, 48/21, and 84/21.

2.0 INTRODUCTION

Stittco Utilities Man Ltd. distributes propane vapour through a pipeline distribution network to approximately 907 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**
2013	Customers	732	163	895	-
	Propane Volumes	1,750,339	5,409,688	7,160,027	-
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	746	161	907	4.4%
	Propane Volumes	1,536,530	5,333,159	6,869,689	5.9%
2022	Customers	746	161	907	0.0%
Projected	Propane Volumes	1,463,019	4,996,083	6,459,103	-6.0%

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 rate 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 markup 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 rates application.

- Delivery Charges (also known as 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 rates applications.

Board Order 84/21 (dated July 28, 21) is the most recent Order approving Stittco's propane commodity rate, effective August 1, 2021.

Since 2010, Stittco has filed, typically in July of every year, non-commodity rates 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 2020 and resulted in Order 127/20 (dated October 27, 2020), which approved Basic Monthly Charge and Delivery charges effective November 1, 2020.

3.0 PROCEDURAL HISTORY

On July 15, 2021, Stittco applied to the Board seeking approval of its projected non-commodity revenue requirement for the year ending July 31, 2021 and its projected rate base as of July 31, 2021. On September 10 and October 4, 2021, Stittco filed revised Application materials that proposed new non-commodity rates for propane consumed after November 1, 2021, which ultimately reflected a 1.1% decrease in total non-commodity revenue from the level previously approved by the Board in Order 127/20. Stittco proposed an increase in delivery rates to recover the non-commodity revenues of 2.5%, due to the decline in forecast propane volumes.

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 rates 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 2021 bills 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 16, 2021, the Board submitted information requests to Stittco. Stittco provided its responses on September 10, 2021.

On September 23, 2021, the Board submitted a second round of information requests that sought further clarifications on Stittco's application materials, to which Stittco responded on October 4, 2021.

4.0 APPLICATION

On July 15, 2021, Stittco applied to the Board for an Order fixing non-commodity delivery rates for all gas customers served by Stittco for propane consumed on or after November 1, 2021. 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, 2021;

b) Approval of the projected rate base for Stittco as of July 31, 2021.

In response to Directive 3 of Order 169/18, Stittco also submitted its 2022-2026 capital expense plan as part of its Application materials. While Stittco's projected capital expenditures for 2022 are embedded in Stittco's proposed non-commodity rates, expenditures beyond the 2022 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 rates 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, 2022 and compares it to the non-commodity revenue requirement approved in Board Order 127/20 for the year ending July 31, 2021.

Comparison of Stittco's Non-Commodity Revenue Requirement

	Revised 2021 Application (for FY2022)	Approved From Board Order 127/20 (for FY2021)	Increase / (Decrease)
Wages & Benefits	$854,556	$877,735	($23,179)
Materials and Supplies	$45,500	$47,000	$1,500
Contract Services	$126,753	$143,576	($16,826)
Other Operating Costs	$126,237	$119,547	$6,690
Automotive	$86,957	$83,775	$3,182
Insurance	$17,460	$14,400	$3,060
Property Taxes	$142,837	$130,561	$12,276
Administrative & General	$237,500	$259,100	($21,600)
Administration Fee	$196,536	$201,083	($4,547)
Sub-Total Direct Operating Costs	**$1,834,336**	**$1,876,776**	**($42,444)**
Other Cost of Sales	$75,175	$75,175	$0
Depreciation	$130,070	$119,756	$10,314
Accretion	$10,534	$10,277	$257
Return on Rate Base	$282,500	$281,551	$949
Income Tax Requirement	$123,466	$117,019	$6,447
Other Income	-$218,600	-$218,600	$0
Sub-Total Other Costs	**$403,145**	**$385,178**	**$17,967**
Total Non-Commodity Revenue Requirement	**$2,237,481**	**$2,261,954**	**($24,474)**

The total non-commodity revenue requirement for fiscal year 2022 is projected to be $2,237,481 which is a decrease of $24,474 or 1.1% compared with the 2021 projected non-commodity revenue requirement approved in Order 127/20.

Operating Costs

Stittco's projected and approved 2022 operating expenses of $1,834,336 are $42,444 lower than the 2021 approved operating expenses, due to decreases in wages and benefits, decreases in legal costs and bad debt expenses, as well as due to the capitalization of meter replacement costs and pipeline construction costs. Previously, these latter two costs were expensed. These decreases are offset by increases in property taxes, the cost of propane used in the vapourizers, automotive expenses, insurance, and regulatory costs.

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 2020 and 2021 are summarized in the table below.

STITTCO'S RATE BASE

PLANT IN SERVICE:	**Order 127/20 (for 2021)**	**2022 Projected**
Beginning Year Balance	$6,392,435	$6,461,058
Additions, Net	$203,395	$101,270
End of Year Balance	$6,595,830	$6,562,328
Average, Mid-year	**$6,494,132**	**$6,511,693**
ACCUMULATED DEPRECIATION:		
Beginning Year Balance	$4,325,654	$4,443,122
Additions, Net	$119,756	$130,070
End of Year Balance	$4,445,410	$4,573,192
Average, Mid-year	**$4,385,532**	**$4,508,157**
AVERAGE MID-YEAR NET PLANT IN SERVICE:	$2,108,600	$2,00,536
WORKING CAPITAL	$706,913	$821,462
MID-YEAR RATE BASE	**$2,815,513**	**$2,824,998**

The projected mid-year rate base for fiscal year 2022 is $2,824,998. This amount includes net rate base additions of $101,270 which are the capital expenditures planned for 2022 and are described below. Working capital of $821,462 is higher than approved in Board Order 127/20, primarily the result of higher propane inventories and higher propane prices.

In 2021, Stittco deferred the planned capital expenditure of $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. Stittco determined that with improved rail service to Thompson offered by Arctic Gateway, it was no longer necessary to replace the fifth rail tower in order to ensure a secure supply of propane in the winter. In addition, inspections of two large storage tanks were deferred from 2021 to 2022 due to Covid-19 restrictions.

As explained above, Stittco earns returns on its investment in rate base. Stittco's rates are set based on a forecast of its mid-year rate base for the test year. In the case of rates approved for November 1, 2020 in Order 127/20, the mid-year rate base was calculated assuming the capital expenditures for the fifth rail tower and the tank inspections were to be made in the 2020/21 fiscal year. Because Stittco did not make these investments, its mid-year rate base used in the calculation of its rates was higher than it would have been had these investments not been included in its rate base. Accordingly, Stittco's return on rate base was higher than it otherwise would have been, resulting in a higher revenue requirement and higher rates. From these higher rates, Stittco earned additional revenue from customers. Stittco estimated that had the rates been set based on a lower rate base (reflecting no investment in the rail tower or tank inspections), it would have collected $9,047 less from ratepayers and reduced its earnings by the same amount.

For fiscal year 2022, Stittco's net plant additions of $101,270 are comprised of $100,000 for the replacement of two service trucks, less $68,730 related to the disposal of service trucks, plus $5,000 for the construction of propane mains, $50,000 for inspections of two large storage tanks, and $15,000 to complete the Thompson vapourizer upgrade by replacing two pressure relief valves.

In Order 127/20, the Board approved a 10% rate of return on Stittco's rate base for the fiscal year ending July 31, 2021. In its Application, Stittco continues to seek a 10% return on the projected rate base. This results in a projected return of $282,500 for 2022. 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 provisioned in rates, although in 2020 the realized rate of return on rate base was 22.55%. The higher-than-allowed return was due to a significant reduction in income tax payable and operating expenses that were lower than expected due primarily to impacts from the Covid-19 pandemic. 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*
2020	$2,347,109	$529,390	22.55%	24.42%
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%

* 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, 2021 is $222,973 for a return on a mid-year rate base of 7.8%. The return is lower than 10% because of a reduction in propane volumes sold of 457,000 litres due to warmer temperatures as well as Covid-19 pandemic impacts on businesses.

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 was 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.

In the current proceeding, the Board asked Stittco to update the calculation of the fully allocated cost of the storage tanks and propane unloading facilities. Stittco calculated the annual fully allocated cost of the facilities that are also used by Stittco Energy to be $82,160. The fully allocated cost includes depreciation, return on capital, and income taxes, and is based on Stittco Energy’s use of 59% of the annual volumes. This compares with the annual product handling and site rental fee of $51,600. While recognizing the difference in the fully allocated cost and the current fees paid by Stittco Energy, Stittco justified the level of the current fees:

- Stittco Energy pays the monthly fee on a “dedicated capacity” basis, regardless of the volume of propane stored. This provides a fixed revenue stream to Stittco Utilities, along with the flexibility to use that capacity notionally dedicated to Stittco Energy when not required by Stittco Energy.

- There are no other marketable uses for the storage capacity used by Stittco Energy which, in many months, would otherwise be idle. The fixed fee paid by Stittco Energy, therefore, assists Stittco Utilities in recovering its fixed costs.
- Stittco Utilities captures the full Capital Cost Allowance benefit which reduces taxes payable by Stittco Utilities totaling $2,728.
- Increasing the fee charged to Stittco Energy by $30,560 would have no material impact on the non-commodity rates.

Stittco concludes that the product handling fee and the site rental fee of $51,600 per year remain appropriate.

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, 2021 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 periods. Regular adjustments to commodity prices help to minimize balances in this account and can help buffer large swings in propane commodity charges. Order 84/21, dated July 28, 2021, 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 rates application.

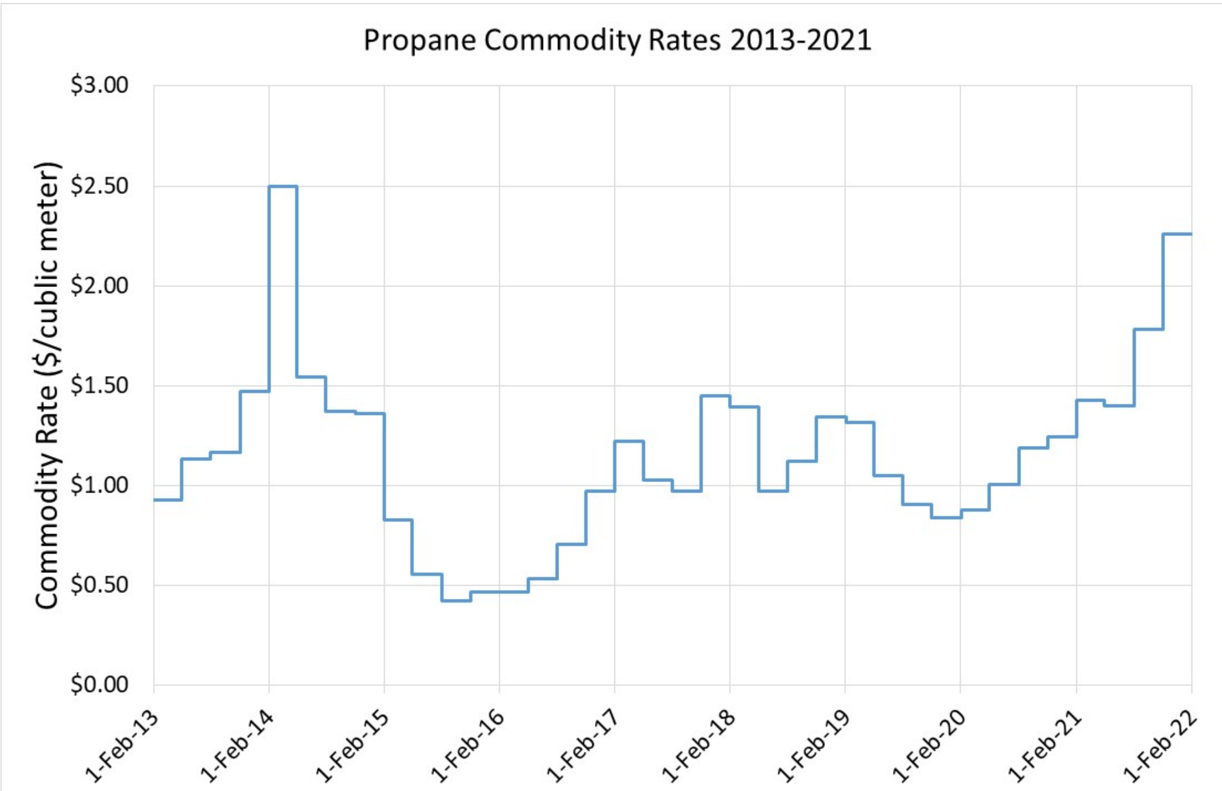
Application

On October 15, 2021, Stittco filed an application seeking an increase in the propane commodity rate from the current rate of \$1.7836/m^3 to \$2.2620/m^3 effective November 1, 2021. This new rate reflects the higher costs that Stittco pays for propane, which are passed on to customers without markup, as well as the costs to deliver propane to Thompson. The commodity rate reflects Stittco's cost recovery of the forecasted propane commodity price of \$485/m^3 for liquid propane, plus an additional \$89/m^3 for delivery to Thompson. Stittco's application also included an updated PPVA balance of \$163,923 to be collected from customers.

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 the market price for propane has increased in 2021 due to several factors. Propane has been following the trajectory of crude oil prices. North American inventories of propane are lower than they were one year ago, due to increased demand and economic activity from the loosening of Covid-19 pandemic restrictions as well as increased propane exports from North America to Europe and Asia. In addition, the forecast prices for propane in the winter are usually higher than in the summer.

The following graph shows the historical propane commodity rates approved by the Board, as well as the proposed commodity rate for November 1, 2021.



6.0 BOARD FINDINGS

The Board accepts the information filed by Stittco on July 15, 2021, along with its subsequent submissions on September 10 and October 4, 2021, to be Stittco's evidence in support of its Non-Commodity Rates Application. The Board accepts the information filed by Stittco on October 15, 2020 to be Stittco's evidence in support of its November 1, 2021 Commodity Rate Application.

Non-commodity Costs

The Board finds that Stittco's proposed non-commodity revenue requirement for the year ending July 31, 2022 is reasonable. As a result, the Board approves Stittco's non-commodity revenue requirement of $2,237,480 for the year ending July 31, 2022. This approved amount represents a 1.1% decrease in Stittco's total non-commodity revenue requirement relative to the level previously approved by the Board in Order 127/20.

The Board approves a 2.5% increase to Stittco's Delivery rates on account of a decrease in the forecast volumes, which means that the approved non-commodity revenue requirement is recovered from customers over fewer volumes. The approved rates are shown in Schedule A attached to this Order.

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 $2,824,998 for the year ending July 31, 2022, and continues to approve a 10% return on rate base, which amounts to a $282,500 return to Stittco for the year ending July 31, 2022. 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 2022, which include the replacement of two service trucks, pressure relief valves, and pipeline work are prudent and necessary in order to maintain the long-term safety and reliability of Stittco's propane distribution system. The Board notes that the replacement of the service trucks was proposed for 2019 and has been deferred by several years to 2022.

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 cancellation of the planned replacement of the fifth rail tower and replacement of the Thompson meter building. This ongoing effort should continue to be reflected in Stittco's revised five-year capital plans included with future non-commodity rates applications per Directive 3 of Order 169/18.

While the Board supports Stittco's reconsideration of the replacement of the fifth rail tower, the Board notes that by including this capital expenditure in its calculation of rates for November 1, 2020 Stittco's rates were higher than they otherwise would have been. The Board approved the November 1, 2020 delivery rates based on Stittco's forecast of its revenue requirement, which included a return on Stittco's investment in the fifth rail tower and propane storage tank inspections. This also follows Stittco forecasting capital expenditures for 2019 of $905,000. Stittco did not proceed with any of these expenditures.

The Board does not want Stittco proceeding with capital expenditures that it has included in its non-commodity rates applications if, following additional review, they are not necessary or prudent. But the Board does not want Stittco's ratepayers to be funding a return on investments that Stittco does not make. The Board, in the interrogatory process, requested that Stittco provide the amount of overearning related to the fifth rail tower and tank inspections which were not completed in 2021, which Stittco estimates to be $9,047. The Board directs that this amount be included in the Propane Purchase Variance Account in order that these funds be refunded to ratepayers. By including this amount in the PPVA, the Board follows its approach in Order 144/17 to refund a prior overearning to Stittco's customers.

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 volumes, based on annual sales, are approximately 59% of the annual throughput of the storage facilities. 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 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 previously invested or plans to invest in new rail unloading facilities, a new pump and compressor, and storage tank inspections. The Board requested that Stittco Utilities calculate the fully allocated cost of the storage facility in order to justify the product handling fee and site rental fee. The resulting fully allocated annual cost of $82,160 is higher than the current fees of $51,600. The Board accepts Stittco’s justification for maintaining the product handling fee and site rental fee at $51,600.

An alternative method for determining the appropriate cost responsibility for intercompany use of regulated assets is to determine the market value of the assets. This is challenging in Thompson as there is no comparators to establish a market value of the storage and propane unloading facilities. However, the Board accepts that if Stittco Energy did not use and pay for the capacity in Stittco Utilities’ storage tanks, and instead acquired its own facilities, that Stittco Utilities would lose this revenue stream. The Board is satisfied with the product handling and site rental fee of $51,600 at this time.

Commodity Rates

The Board finds that the commodity rate sought by Stittco fairly reflects projected commodity and transportation costs. However, as stated above the Board directs that $9,047 be added to the Purchased Propane Variance Account on account of the overearning of the return based on capital expenditures included in the November 1, 2020 rates but which were not actually expended.

Factoring in the $9,047 into the PPVA, the Board calculates the propane commodity rate to be $2.255/m^3. The Board will direct that the propane commodity rate be increased to $2.255/m^3 for propane consumed on or after November 1, 2021 from the current $1.7836/m^3. If Stittco calculates a different rate than $2.255/m^3 after incorporating the $9,047 refund, Stittco is to provide the Board with a compliance filing showing its calculations and proposed commodity rate. Propane rates will be reviewed again February 1, 2022.

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 127/20, 12/21, 48/21, and 84/21.

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 Delivery Charges for the recovery of non-commodity costs, as per Schedule "A", for consumption on or after November 1, 2021, **BE AND ARE HEREBY APPROVED**.

2. Stittco Utilities Man Ltd's projected non-commodity revenue requirement of $2,237,480 for the year ending July 31, 2022 **BE AND IS HEREBY APPROVED**.

3. Stittco Utilities Man Ltd's projected mid-year rate base of $2,824,998 for the year ending July 31, 2022 **BE AND IS HEREBY APPROVED**.

4. Stittco add $9,047 to the Purchased Propane Variance Account to its customers' benefit in order to refund this amount to customers on account of capital expenditures factored into the November 1, 2020 rates but which were not completed in the year ending July 31, 2021.

5. Stittco Utilities Man Ltd's propane commodity rate per the attached Schedule "A" effective for propane consumption on or after November 1, 2021 **BE AND IS HEREBY APPROVED** on an interim basis.

6. If Stittco calculates a different commodity rate than $2.255/m^3 after incorporating the $9,047 refund from Directive 4, Stittco is to provide the Board with a compliance filing showing its calculations and a revised commodity rate.

7. Interim *ex parte* Board Orders 127/20, 12/21, 48/21, and 84/21 **BE AND ARE HEREBY APPROVED AS FINAL**.

8. Stittco Utilities Man Ltd shall file a non-commodity rate application by July 15, 2022.

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/Associate Secretary

Certified a true copy of Order No. 122/21
issued by The Public Utilities Board

R McMillin
A/Associate Secretary

SCHEDULE" A"

GENERAL SERVICE RATE STRUCTURE

EFFECTIVE FOR CONSUMPTION ON OR AFTER NOVEMBER 1, 2021

Basic Monthly Charge		$10.00 /month
Monthly Volumetric Charges per m³:		
Commodity Cost Recovery		$2.2550
Delivery Charge (Non–Commodity Cost Recovery)		
	first 100 m³	$1.5760
	next 400 m³	$1.4056
	next 1000 m³	$1.3301
	next 2500 m³	$1.0777
	over 4000 m³	$0.8266