Order No. 115/22

AN APPLICATION BY STITTCO UTILITIES MAN LTD.
COMMODITY AND NON-COMMODITY RATES EFFECTIVE NOVEMBER 1, 2022
FINAL APPROVAL

October 25, 2022

BEFORE: Marilyn Kapitany, B.Sc., (Hon), M.Sc., Panel Chair
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, 2022. The Board also approves Stittco's projected mid-year rate base for the year ending July 31, 2023 and confirms as final the commodity rates previously approved on an interim *ex parte* basis. The commodity rate for November 1, 2022 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 decrease the commodity rate from the current $1.8835/m^3 to $1.5336/m^3 for propane consumed on or after November 1, 2022. The decrease is a result of Stittco's lower costs for propane that it passes through to customers without markup as well as due to a new weighted average methodology approved by the Board to determine Stittco's cost estimates for propane transportation to Thompson. On its own, the decrease in the commodity rate is expected to decrease the average overall residential propane monthly bills (assuming a consumption of 40.9 m^3 per month) by approximately 9.4%, or $172 per year.

The Board approves, on a final basis, increases in the non-commodity rates. On their own, the non-commodity rate increases are expected to increase the residential monthly bills by approximately 5.5%, or $100 per year, when compared to the previously approved propane rates. Combining the non-commodity rate increases with the commodity rate decrease, the average overall residential monthly bills are expected to decrease by approximately 3.9% (or $72 per year) when compared to the previously approved propane rates (assuming a consumption of 40.9 m^3 per month). The bills of higher consuming residential customers (those consuming on average 100 m^3 per month) are expected to decrease by 4.1%, or $175 per year. Actual customer impacts will depend on propane consumption.

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, which was initially established in Orders 141/08 and 45/09.

The Board approves Stittco's projected non-commodity revenue requirement, or costs, of $2,465,998 for the year ending July 31, 2023. This represents an increase of $228,518 over the last annual non-commodity revenue requirement approved by the Board in Order 122/21, which was $2,237,480 for the year ending July 31, 2022. In addition to the increase in non-commodity costs, non-commodity rates are further 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 12.9%.

A significant portion of the approved increase in non-commodity costs for the 2023 fiscal year is due to a potential claim settlement attributed to a Stittco gas leak incident in 2019. The Board approves Stittco's request to include the current claim settlement cost estimate in the 2023 revenue requirement, which will be recovered in non-commodity rates starting November 1, 2022. However, as described further in this order, the Board directs Stittco inform the Board if and when the claim settlement is actually incurred, to specify any difference between the estimated and actual costs of the settlement, and a proposal to recover or refund this cost difference through the Purchased Propane Variance Account.

The Board approves Stittco's projected mid-year rate base of $3,119,921 for the year ending July 31, 2023, which represents an increase of $294,923 from the projected mid-year rate base of $2,824,998 approved in Order 122/21. 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 forecast return to Stittco of $311,992 for the year ending July 31, 2023.

The Board finds that, going forward, the cost forecast for propane transportation to Thompson included in Stittco's quarterly commodity rates is to be estimated using a weighted average methodology that is based on a trailing three-year average of volumes transported by rail and trucks. Further, Stittco is to file the underlying data supporting its transportation cost estimate in each quarterly commodity rate application, similar to the propane commodity forward price estimates currently included in Stittco's quarterly rate applications.

The Board also finds that, pursuant to Rule 13 of the Board's Rules of Practice and Procedures, it is in the public interest to maintain certain claim settlement-related information in Stittco's non-commodity rate application in confidence.

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, 2022:

Table 1 Non-commodity rates - 12 month history						
		Nov 1/21	Feb 1/22	May 1/22	Aug 1/22	Nov 1/22
Basic Monthly Charge		$10.00	$10.00	$10.00	$10.00	$10.00
Volumetric Charges per m³						
Commodity Cost Recovery		$2.2550	$2.1834	$1.9618	$1.8835	$1.5336
Delivery Charge (Non-Commodity Cost Recovery)						
	first 100 m³	$1.5760	$1.5760	$1.5760	$1.5760	$1.7798
	next 400 m³	$1.4056	$1.4056	$1.4056	$1.4056	$1.5874
	next 1000 m³	$1.3301	$1.3301	$1.3301	$1.3301	$1.5021
	next 2500 m³	$1.0777	$1.0777	$1.0777	$1.0777	$1.2171
	over 4000 m³	$0.8266	$0.8266	$0.8266	$0.8266	$0.9335

Notes to Table: 1/ The Delivery Charges shown for November 2021 and February, May, and August, were approved in Board Order 122/21.
2/ The Commodity rate shown for November 2021 was approved in Board Order 122/21.
3/ The Commodity rates shown for February, May, and August 2022 were approved in Board Orders 7/22, 45/22, and 80/22 respectively.

This Order also finalizes interim *ex parte* commodity rates established in Board Orders 122/21, 7/22, 45/22, and 80/22.

2.0 INTRODUCTION

Stittco Utilities Man Ltd. distributes propane vapour through a pipeline distribution network to approximately 909 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**
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	755	154	909	0.2%
	Propane Volumes	1,378,149	5,022,639	6,400,788	-6.8%
2023	Customers	755	154	909	0.0%
Projected	Propane Volumes	1,401,000	4,927,000	6,328,000	-1.1%

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 (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 costs applications.

Board Order 80/22 (dated July 26, 2022) is the most recent Order approving Stittco's propane commodity rate, effective August 1, 2022.

Since 2010, Stittco has filed, typically in July of every year, non-commodity rate 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 rates was completed in 2021 and resulted in Order 122/21 (dated October 28, 2021), which approved the existing Basic Monthly Charge and Delivery rates, effective November 1, 2021.

3.0 PROCEDURAL HISTORY

On July 15, 2022, Stittco applied to the Board seeking approval of its projected non-commodity cost revenue requirement for the year ending July 31, 2022 and its projected rate base as of July 31, 2022. On September 16 and October 6, 2022, Stittco filed revised application materials that proposed new non-commodity rates for propane consumed on and after November 1, 2022, which ultimately reflected a 10.2% increase in total non-commodity revenue from the level previously approved by the Board in Order 122/21. Stittco further proposed an increase in delivery rates of 12.9% to recover these increased non-commodity costs over a declining forecast propane sales volume for the year ending July 31, 2023.

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 rate 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 August 2022 billings to customers for July 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 22, 2022, the Board submitted information requests to Stittco. Stittco provided its responses on September 16, 2022.

On September 28, 2022, the Board submitted a second round of information requests that sought further clarifications on Stittco's application materials, to which Stittco responded on October 6, 2022.

4.0 NON-COMMODITY RATE APPLICATION

On July 15, 2022, 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, 2022. 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, 2022;

b) Approval of the projected rate base for Stittco as of July 31, 2022.

In response to Directive 3 of Order 169/18, Stittco also submitted its 2023-2027 capital expense plan as part of its application materials. While Stittco's projected capital expenditures for 2023 are embedded in Stittco's proposed non-commodity rates, expenditures beyond the 2023 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 rate 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, 2023 and compares it to non-commodity costs approved in Board Order 122/21 for the year ending July 31, 2022.

Comparison of Stittco's Non-Commodity Revenue Requirement

	Revised 2022 Application (for FY2023)	Approved From Board Order 122/21 (for FY2022)	Increase / (Decrease)
Other Cost of Sales	$75,175	$75,175	$0
Operating Expenses	$2,013,105	$1,834,336	$178,769
Depreciation	$134,255	$130,070	$4,185
Accretion	$15,110	$10,534	$4,576
Return on Rate Base	$311,992	$282,500	$29,492
Income Tax Requirement	$134,961	$123,466	$11,496
Other Income	-$218,600	-$218,600	$0
Total Non-Commodity Revenue Requirement	**$2,465,998**	**$2,237,480**	**$228,518**

The total non-commodity revenue requirement for fiscal year 2023 is projected to be $2,465,998 which is an increase of $228,518 or 10.2% compared with the 2022 projected non-commodity revenue requirement approved in Order 122/21.

Operating Costs

Stittco's projected 2023 operating expenses of $2,013,105 are $178,769 higher than the 2022 approved operating expenses. This is as a result of projected increases in wages and benefits, insurance costs, leak survey contractor costs, the cost of propane used in the vapourizers, bank charges, and utility costs for Stittco's operational facilities. These increases are partially offset by decreases in property taxes, automotive expenses, contract services, and consumption of internal supplies and materials.

Anticipated Settlement Claim Expense for Fiscal Year 2023

A portion of the increased operating expenses projected for fiscal year 2023 is due to an expense attributed to an anticipated settlement with a property owner affected by a Stittco gas leak incident in 2019. This projected insurance settlement expense is in addition to the $80,527 expense previously approved in Order 179/19 for the recovery of costs incurred by Stittco in 2019 to repair the damaged pipeline segment following the same gas leak incident. At the time, Stittco had indicated to the Board that there may be additional claims made in relation to the 2019 gas leak incident but that the claims review process was still ongoing.

Because the anticipated claim settlement could have a material negative impact on Stittco's earnings for the year ending July 31, 2023, Stittco proposes to include an estimate of the anticipated settlement in its proposed non-commodity revenue requirement, which would be recovered starting November 1, 2022. Should the estimated cost of the insurance-related settlement materially differ from the actual settlement cost, Stittco proposes to communicate the difference to the Board in a timely manner and seek Board-approval to subsequently recover or refund this difference through the Purchased Propane Variance Account. As part of its responses to information requests, Stittco also indicated being open to the establishment of a regulatory deferral account to recover from ratepayers the actual settlement amount if and when it is finalized, with a preference to begin recovery of any deferral account balance starting in the month following the settlement actually being incurred. Given that regulatory deferral accounts have not recently been applied to Stittco's non-commodity costs, Stittco requested that the Board provide direction on the functioning of any deferral account should one ultimately be approved in this case.

Pursuant to Rule 13 of the Board's Rules of Practice and Procedures, Stittco also requested that the Board receive specific information related to Stittco's estimated insurance settlement as confidential given that confidential settlement negotiations are ongoing and are subject to settlement privilege.

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 2022 and 2023 are summarized in the table below.

STITTCO'S RATE BASE

	Order 122/21 (for 2022)	2023 Projected
PLANT IN SERVICE:		
Beginning Year Balance	$6,461,058	$6,585,912
Additions, Net	$101,270	$45,489
End of Year Balance	$6,562,328	$6,631,402
Average, Mid-year	**$6,511,693**	**$6,608,657**
ACCUMULATED DEPRECIATION:		
Beginning Year Balance	$4,443,122	$4,556,086
Additions, Net	$130,070	$65,745
End of Year Balance	$4,473,192	$4,621,830
Average, Mid-year	**$4,508,157**	**$4,588,958**
AVERAGE MID-YEAR NET PLANT IN SERVICE:	$2,003,536	$2,019,699
WORKING CAPITAL	$821,462	$1,100,222
MID-YEAR RATE BASE	**$2,824,998**	**$3,119,921**

The Stittco projected mid-year rate base for fiscal year 2023 is $3,119,921. This amount includes net rate base additions of $45,489 which are the capital expenditures planned for 2023 (described below), less $68,511 for the disposal of recently replaced Stittco service trucks. Working capital of $1,100,222 is higher than approved in Board Order 122/21, primarily as a result of higher propane inventories and higher propane prices.

Per Order 122/21, the net plant (or capital) additions approved for 2022 were $101,270 ($170,000 in plant additions less $68,730 for the projected disposal of service trucks). The actual net capital additions incurred by Stittco in 2022 totalled $120,547. Stittco's responses to information requests suggested that the planned pressure relief valve replacements in Thompson (estimated at $15,000 for Order 122/21) were completed for $14,313 and that two replacement trucks were leased for $94,484 in 2022 (estimated at $100,000 for Order 122/21). However, the previously planned asset disposal of $68,730 in fiscal year 2022 was deferred to fiscal year 2023 due to the timing of the actual retirement of the original trucks. Furthermore, Stittco indicated that it successfully completed the planned $5,000 pipeline relocation capital work in 2022 at the significantly lower cost of $884. Stittco explained that the material difference was as a result of the initial cost estimate being based on historical averages of similar repair work and actual costs ultimately being much lower in that case.

Stittco also indicated that the previously planned $50,000 capital expenditure for five-year propane tank inspections was completed in 2022 using expensed labour as opposed to any of the approved capital funding in 2022. Stittco indicated that these inspections did not extend the life of the tanks and should therefore have been projected to be expensed instead of capitalized in its last non-commodity rate application per the requirements of the accounting standards applicable to Stittco.

Furthermore, Stittco incurred $14,790 in previously unplanned capital expenditures in 2022 for the refurbishment of a portion of its sales meters. While this item was not initially included as a capital item for fiscal year 2022, it was included as an operating expense in Order 122/21. Stittco explained that meter refurbishments should be capitalized, as opposed to expensed, based on the applicable accounting standards and a review of the specific nature of this expenditure.

For fiscal year 2023, Stittco projects $114,000 of capital expenditures. Of these planned capital expenditures, $100,000 relate to the proposed replacement of five aging distribution system vapourizers in Flin Flon. The existing vapourizers were installed in the early 2000s and their manufacturers suggest a 10-year service life. Consequently, Stittco proposes to replace the five vapourizers in Stittco's utility system in Flin Flon to mitigate the potential of equipment breakdown that could cause customer interruptions.

Stittco also proposes $14,000 of capital expenditures in fiscal year 2023 for the refurbishment of sales meters. The proposed capital work, which used to be expensed every year, is related to the refurbishment and calibration of a portion of Stittco's customer sales meters in compliance with requirements from Weights and Measures Canada.

In Order 122/21, the Board approved a 10% rate of return for Stittco's fiscal year ending July 31, 2022. In its application, Stittco continues to seek a 10% return on the projected rate base. This would result in a projected return of $311,992 for 2023. 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, although in 2020 the rate of return on rate base was 22.55%. The higher-than-allowed return in that year 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*
2021	$2,706,809	$211,710	7.82%	9.40%
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%

* 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, 2022 is $120,829 for a return on a mid-year rate base of 3.81%. The return is lower than 10% because of increased inflation-related operating costs in fiscal year 2022, as well as some impacts on businesses from the COVID-19 pandemic. Higher-than planned electric utility expenses were also incurred in fiscal year 2022 for Stittco's operational facilities due to a prior billing issue that was not incorporated in Stittco's forecast expenses for 2022.

5.0 NOVEMBER 1, 2022 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 80/22, dated July 26, 2022, 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.

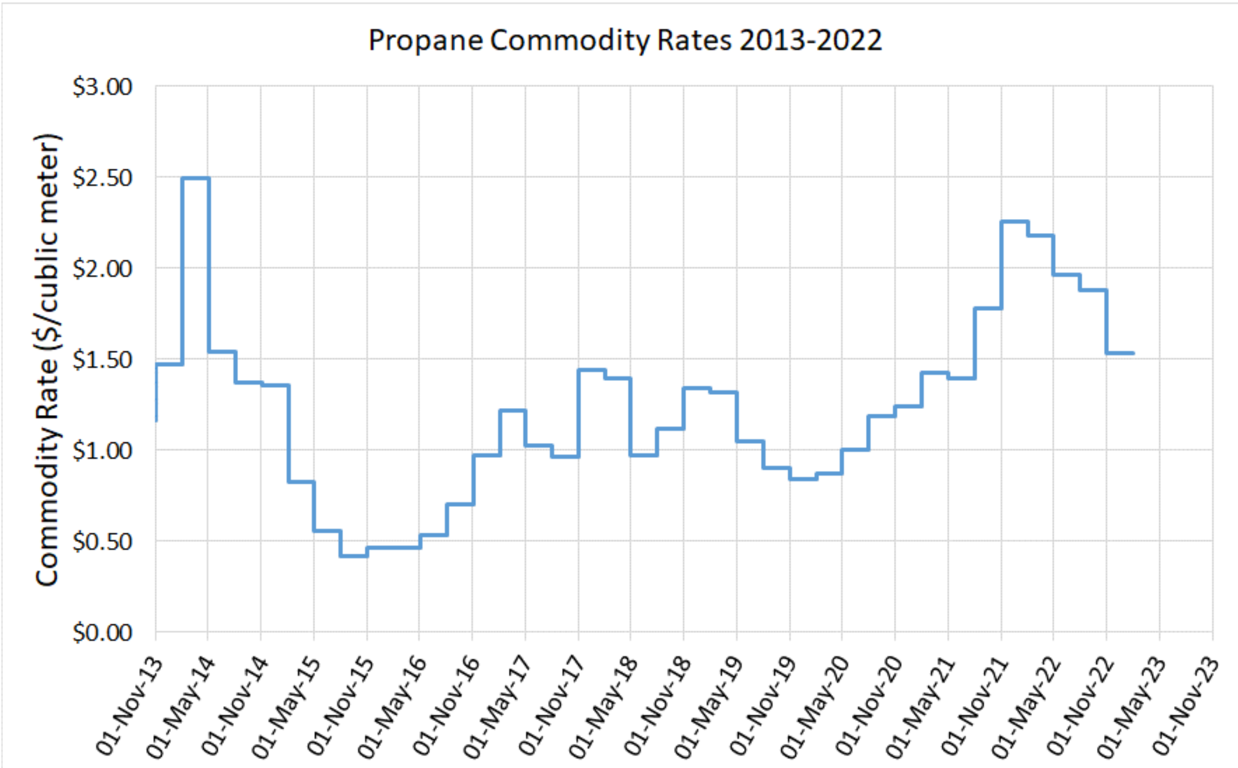
Application

On October 12, 2022, Stittco filed an application seeking a change to the propane commodity rate effective November 1, 2022. On October 17, 2022, Stittco filed a revised version of its application requesting to decrease the propane commodity rate from the current rate of $1.8835/m^3 to $1.5336/m^3 effective November 1, 2022. This new rate reflects the lower costs that Stittco pays for propane, which are passed on to customers without markup. The proposed rate decrease is also due to Stittco's proposal to use a new weighted average method to determine Stittco's propane transportation cost estimate included in the quarterly commodity rate. This is because Stittco primarily transports its Western Canadian propane purchases to Thompson using rail cars as opposed to truck transportation, which may have a higher unit cost but may occasionally be used, for example, to overcome unexpected delays in rail shipments. Accordingly, using the simple average of the unit costs for rail and truck transportation to Thompson, as was done for the August 1, 2022 commodity rate approved in Order 80/22, could lead to excessive PPVA variances over time. Consequently, Stittco proposes to use a weighted average methodology, based on a trailing three-year average of volumes transported by rail versus truck, to determine the transportation cost forecast included in quarterly commodity rates going forward.

Stittco's proposed commodity rate reflects Stittco's cost recovery of the forecasted propane commodity price of $338/m^3 for liquid propane, plus an additional $83/m^3 for transportation to Thompson. Stittco's application also included an updated PPVA balance of $95,183 owing to customers, which represents a change from the August 2022 cumulative balance of $90,631 owing to 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 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 is forecasted to be refunded over 12 months through rates, although subsequent additions to the PPVA may change this recovery period.

The following graph shows the historical propane commodity rates approved by the Board, as well as the proposed commodity rate for November 1, 2022.


Propane Commodity Rates 2013-2022
Commodity Rate ($/cublic meter)
$3.00
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
01-Nov-13
01-May-14
01-Nov-14
01-May-15
01-Nov-15
01-May-16
01-Nov-16
01-May-17
01-Nov-17
01-May-18
01-Nov-18
01-May-19
01-Nov-19
01-May-20
01-Nov-20
01-May-21
01-Nov-21
01-May-22
01-Nov-22
01-May-23
01-Nov-23

6.0 BOARD FINDINGS

The Board accepts the information filed by Stittco on July 15, 2022, along with its subsequent submissions on September 16 and October 6, 2022, to be Stittco's evidence in support of its non-commodity rate application. The Board accepts the information filed by Stittco on October 12 and 17, 2022 to be Stittco's evidence in support of its November 1, 2022 commodity rate application.

Non-commodity Costs

The Board finds that Stittco's proposed non-commodity revenue requirement for the year ending July 31, 2023 is reasonable. As a result, the Board approves Stittco's non-commodity revenue requirement of $2,465,998 for the year ending July 31, 2023. This approved amount represents a 10.2% increase in Stittco's total non-commodity revenue requirement relative to the level previously approved by the Board in Order 122/21.

The Board accepts Stittco's evidence that a portion of the approved increase in non-commodity costs for the 2023 fiscal year is due to a forecast claim settlement related to a Stittco gas leak incident in 2019. The Board finds that while the projected settlement expense is an estimate, recovery of this expense should be included in the 2023 revenue requirement and recovered in non-commodity rates starting November 1, 2022. Any difference between the current estimate and the actual settlement cost shall be captured in a regulatory deferral account. At that time, Stittco is also to provide the Board with details of the settlement. Stittco shall include in its 2023 non-commodity rate application, for rates applicable to the 2024 fiscal year, a proposal to transfer the difference captured in the above regulatory deferral account to the Purchased Propane Variance Account, starting November 1, 2023, for refund or recovery from customers. Should the settlement expense not be incurred in fiscal year 2023, Stittco is to provide the Board an update at the next non-commodity rate application, along with a proposal to refund the settlement expense to customers.

The Board finds that this cost treatment balances the impacts on Stittco's earnings in the 2023 fiscal year with the needs for ratepayers to contribute to the anticipated settlement costs incurred by the utility. Further, this treatment is simple to implement and follows the approach of Orders 144/17 and 122/21 regarding the refund of excessive non-commodity earnings in a prior year via the PPVA. However, the Board expects that Stittco will minimize any settlement expense incurred in order to protect the interests of Stittco's ratepayers.

As a consequence of the increased revenue requirement for fiscal year 2023, and due to a decrease in the forecast sales volumes (i.e. the approved non-commodity revenue requirement is recovered from customers over fewer volumes), the Board approves a 12.9% increase to Stittco's Delivery rates. 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 and capital spending so as to minimize future non-commodity rate increases to customers.

The Board also finds that, pursuant to Rule 13 of the Board's Rules of Practice and Procedures, it is in the public interest to maintain certain insurance-related information in Stittco's non-commodity rate application in confidence.

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 $3,119,921 for the year ending July 31, 2023, and continues to approve a 10% return on rate base, which amounts to a $311,992 return to Stittco for the year ending July 31, 2023. 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 2023, which include the replacement of five aging distribution system vapourizers in Flin Flon is prudent and necessary in order to maintain the long-term safety and reliability of Stittco's propane distribution system. Further, the Board accepts Stittco's evidence in regards to the capitalization of annual costs incurred related to the refurbishment of a portion of Stittco's sales meters per the requirements of Weights and Measures Canada.

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 non-commodity rate increase approved in this Order is significant and, combined with ongoing economic conditions, the Board is mindful of the long-term impacts on this increase on Stittco's ratepayers. Accordingly, the Board finds that further investments in Stittco's distribution system 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 defer or 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 in recent non-commodity rate applications (e.g. the cancellation of the replacement a fifth rail tower in fiscal year 2020). This ongoing effort should continue to be reflected in Stittco's revised five-year capital plans included with future non-commodity rate applications per Directive 3 of Order 169/18.

Commodity Rates

The Board finds that the commodity recovery rate sought by Stittco fairly reflects projected commodity and transportation costs. The Board further finds that, going forward, the cost forecast for propane transportation to Thompson included in Stittco's quarterly commodity rates is to be estimated using a weighted average methodology that is based on a trailing three-year average of volumes transported by rail and trucks. Stittco is to file the underlying data supporting its transportation cost estimate in future quarterly commodity rate applications, similar to the propane commodity forward price estimates currently included those applications.

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 122/21, 7/22, 45/22, and 80/22.

The quarterly rate setting process for commodity costs appears to continue to serve customers well, with the periodic commodity rate adjustments 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, 2022, **BE AND ARE HEREBY APPROVED**.

2. Stittco Utilities Man Ltd.'s projected non-commodity revenue requirement of $2,465,998 for the year ending July 31, 2023 **BE AND IS HEREBY APPROVED**.

3. Stittco Utilities Man Ltd.'s projected mid-year rate base of $3,119,921 for the year ending July 31, 2023 **BE AND IS HEREBY APPROVED**.

4. Stittco Utilities Man Ltd. is to inform the Board within 30 days after incurring the actual insurance-related settlement costs. As part of this communication, Stittco is to provide details of the settlement and specify the difference between the estimated insurance-related settlement cost included in non-commodity rates starting November 1, 2022 and the actual settlement cost.

5. Stittco Utilities Man Ltd. is to capture the difference between the estimated claim settlement cost included in non-commodity rates starting November 1, 2022 and any actual settlement cost in a regulatory deferral account.

6. Stittco Utilities Man Ltd. shall include in its 2023 non-commodity rate application a proposal to transfer any difference between the estimated and actual claim settlement costs from the regulatory deferral account approved in Directive 5 above to the Purchased Propane Variance Account, starting November 1, 2023 for refund or recovery from customers. Should the settlement expense not be incurred in fiscal year 2023, Stittco is to provide the Board an update at the next non-commodity rate application, along with a proposal to refund the settlement expense to customers.

7. Stittco Utilities Man Ltd.’s future commodity rate applications shall determine the forecast costs for propane transportation to Thompson using a weighted average methodology based on a trailing three-year average of volumes transported by rail and trucks. Stittco is also to file the underlying data supporting this transportation cost forecast in each of its quarterly commodity rate applications.

8. Stittco Utilities Man Ltd.'s propane commodity rate per the attached Schedule “A” effective for propane consumption on or after November 1, 2022 **BE AND IS HEREBY APPROVED** on an interim basis.

9. Interim *ex parte* Board Orders 122/21, 7/22, 45/22, and 80/22 **BE AND ARE HEREBY APPROVED AS FINAL**.

10. Stittco Utilities Man Ltd. shall file a non-commodity rate application by July 15, 2023.

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

“Marilyn Kapitany, B.Sc. (Hon), M. Sc.”,
Panel Chair

"Rachel McMillin, B.Sc.”
Associate Secretary

Certified a true copy of Order No. 115/22
issued by The Public Utilities Board

R McMillin
Associate Secretary

Public Utilities Board — Régie des services publics

SCHEDULE" A"

STITTCO UTILITIES MAN LTD.

GENERAL SERVICE RATE STRUCTURE

EFFECTIVE FOR CONSUMPTION ON OR AFTER NOVEMBER 1, 2022

Basic Monthly Charge		\$10.00 /month
Monthly Volumetric Charges per m³:		
Commodity Cost Recovery		\$1.5336
Delivery Charge (Non–Commodity Cost Recovery)		
	first 100 m³	\$1.7798
	next 400 m³	\$1.5874
	next 1000 m³	\$1.5021
	next 2500 m³	\$1.2171
	over 4000 m³	\$0.9335