Order No. 123/23

AN APPLICATION BY STITTCO UTILITIES MAN LTD.
COMMODITY AND NON-COMMODITY RATES EFFECTIVE NOVEMBER 1, 2023
FINAL APPROVAL

October 26, 2023

BEFORE: Marilyn Kapitany, B.Sc.(Hon), M.Sc., Panel Chair
Shawn McCutcheon, Member
Susan Nemec, FCPA, FCA, Member
Hamah Sy, B.Sc., M.Sc, Member
Jack Winram, B.A. (Econ), 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, 2023. The Board also approves Stittco's projected mid-year rate base for the year ending July 31, 2024 and confirms as final the commodity rates previously approved on an interim *ex parte* basis. The commodity rate for November 1, 2023 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 $1.2496/m^3 to $1.3764/m^3 for propane consumed on or after November 1, 2023. The increase is a result of Stittco's higher forecast costs for propane that it passes through to customers without markup. Pursuant to Directive 6 of Order 115/22, the calculation of the commodity rate approved for November 1, 2023 includes a credit to customers of $18,728.58 to reflect the difference between the estimated cost of a 2019 gas leak claim settlement approved in Order 115/22 and the actual settlement amount finalized in 2022/23. On its own, the increase in the commodity rate is expected to increase the average overall residential propane monthly bills (assuming a consumption of 39.6 m^3 per month) by approximately 3.9%, or $60 per year.

The Board approves, on a final basis, a 6.0% decrease in the non-commodity rates effective November 1, 2023. On their own, the non-commodity rate decreases are expected to decrease the residential monthly bills by approximately 3.2%, or $50 per year (assuming a consumption of 39.6 m^3 per month), when compared to the previously approved propane rates.

Combining the non-commodity rate decreases with the commodity rate increase, the average overall residential monthly bills are expected to increase by approximately 0.6% (or $10 per year) when compared to the previously approved propane rates (assuming a consumption of 39.6 m^3 per month). The bills of higher consuming residential customers (those consuming on average 100 m^3 per month) are expected to increase by 0.7%, or $25 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 $2,294,087 for the year ending July 31, 2024. This represents a decrease of $171,911 over the last annual non-commodity revenue requirement approved by the Board in Order 115/22, which was $2,465,998 for the year ending July 31, 2023. 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 6.0% decrease to Stittco's Delivery rates.

The Board approves Stittco's projected mid-year rate base of $3,030,800 for the year ending July 31, 2024, which represents a decrease of $89,121 from the projected mid-year rate base of $3,119,921 approved in Order 115/22. 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 $303,080 for the year ending July 31, 2024.

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, 2023:

Table 1 Non-commodity rates - 12 month history						
		Nov 1/22	Feb 1/23	May 1/23	Aug 1/23	Nov 1/23
Basic Monthly Charge		$10.00	$10.00	$10.00	$10.00	$10.00
Volumetric Charges per m³						
Commodity Cost Recovery		$1.5336	$1.3434	$1.5100	$1.2496	$1.3764
Delivery Charge (Non-Commodity Cost Recovery)						
	first 100 m³	$1.7798	$1.7798	$1.7798	$1.7798	$1.6735
	next 400 m³	$1.5874	$1.5874	$1.5874	$1.5874	$1.4926
	next 1000 m³	$1.5021	$1.5021	$1.5021	$1.5021	$1.4124
	next 2500 m³	$1.2171	$1.2171	$1.2171	$1.2171	$1.1444
	over 4000 m³	$0.9335	$0.9335	$0.9335	$0.9335	$0.8777

Notes to Table: 1/ The Delivery Charges shown for November 2022 through to August 2023 were approved in Board Order 115/22.
2/ The Commodity rate shown for November 2022 was approved in Board Order 115/22.
3/ The Commodity rates shown for February, May, and August 2023 were approved in Board Orders 13/23, 51/23, and 86/23 respectively.

The Board directs Stittco to file, together with its next non-commodity rate application, a report that provides the Board with a better understanding of the existing and emerging risks and challenges faced by Stittco and the long-term economics of maintaining or replacing Stittco's distribution assets. The contents of this report is further outlined in this Order.

Further, the Board directs Stittco to provide additional breakdown of its insurance-related expenses in the supporting schedules included in future Board submissions regarding non-commodity costs.

The Board 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 and claim settlement information included in Stittco's non-commodity rate application submissions in confidence.

This Order also finalizes interim *ex parte* commodity rates established in Board Orders 115/22, 13/23, 51/23, and 86/23.

2.0 INTRODUCTION

Stittco Utilities Man Ltd. distributes propane vapour through a pipeline distribution network to approximately 856 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. Since 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**
2015 (Actual)	Customers	690	153	843	0.0%
	Propane Volumes	1,596,044	4,977,692	6,573,736	-7.3%
2016 (Actual)	Customers	641	138	779	-7.6%
	Propane Volumes	1,398,347	4,506,262	5,904,609	-10.2%
2017 (Actual)	Customers	646	138	784	0.6%
	Propane Volumes	1,450,476	4,811,334	6,261,810	6.0%
2018 (Actual)	Customers	625	155	780	-0.5%
	Propane Volumes	1,521,090	5,047,209	6,568,299	4.9%
2019 (Actual)	Customers	682	155	837	7.3%
	Propane Volumes	1,514,175	5,234,768	6,748,943	2.8%
2020 (Actual)	Customers	739	130	869	3.8%
	Propane Volumes	1,460,449	5,024,728	6,485,178	-3.9%
2021 (Actual)	Customers	746	161	907	4.4%
	Propane Volumes	1,536,530	5,333,159	6,869,689	5.9%
2022 (Actual)	Customers	755	154	909	0.2%
	Propane Volumes	1,378,149	5,022,639	6,400,788	-6.8%
2023 Projected *	Customers	755	154	909	N/A
	Propane Volumes	1,401,000	4,927,000	6,328,000	N/A
2023 (Actual)	Customers	708	148	856	-5.8%
	Propane Volumes	1,268,420	4,660,004	5,928,424	-7.4%
2024 Projected	Customers	750	157	907	5.9%
	Propane Volumes	1,343,642	4,936,358	6,280,000	5.9%
* As projected in the 2022 non-commodity rate application and used to set rates in Order 115/22					

Historically, residential customers have accounted for approximately 25% of the overall propane volumes sold by Stittco, with commercial customers accounting for the remaining 75%. Given the above annual propane sales volumes, this trend has generally continued.

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 rate application.

Board Order 86/23 (dated July 25, 2023) is the most recent Order approving Stittco's propane commodity rate, effective August 1, 2023.

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 2022 and resulted in Order 115/22 (dated October 25, 2022), which approved the existing Basic Monthly Charge and Delivery rates, effective November 1, 2022.

3.0 PROCEDURAL HISTORY

On July 14, 2023, Stittco applied to the Board seeking approval of its projected non-commodity revenue requirement for the year ending July 31, 2023 and its projected rate base as of July 31, 2023. On August 26 and October 2, 2023, Stittco filed revised application materials that propose revised non-commodity rates for propane consumed on and after November 1, 2023, which ultimately reflect a 7.0% decrease in total non-commodity revenue requirement from the level previously approved by the Board in Order 115/22. To recover its non-commodity costs over a declining forecast of propane sales volumes for the year ending July 31, 2024, Stittco proposes to decrease delivery rates by 6.0%.

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 2023 non-commodity rate application using a paper-based process without an oral hearing.

Stittco notified its customers of the proposed non-commodity rate decrease by including a notice in Stittco's September 2023 billings to customers for August 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 July 26, 2023, the Board submitted information requests to Stittco. Stittco provided its responses on August 26, 2023.

On September 14, 2023, 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, 2023.

4.0 NON-COMMODITY RATE APPLICATION

On July 14, 2023, Stittco applied to the Board for an Order fixing non-commodity delivery rates for all customers served by Stittco for propane consumed on or after November 1, 2023. Stittco's application was further revised on August 26 and October 2, 2023. The following represents a summary of Stittco's non-commodity rate 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, 2023;

b) Approval of the projected rate base for Stittco as of July 31, 2023.

In response to Directive 3 of Order 169/18, Stittco also submitted its 2024-2028 capital expense plan as part of its application materials. While Stittco's projected capital expenditures for 2024 are embedded in Stittco's proposed non-commodity rates, expenditures beyond the 2024 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, 2024 and compares it to non-commodity costs approved in Board Order 115/22 for the year ending July 31, 2023.

Comparison of Stittco's Non-Commodity Revenue Requirement

	Revised 2023 Application (for FY2024)	Approved From Board Order 115/22 (for FY2023)	Increase / (Decrease)
Other Cost of Sales	$75,175	$75,175	$0
Operating Expenses	$1,927,808	$2,013,105	-$85,297
Depreciation	$140,251	$134,255	$5,996
Accretion	-$25,434	$15,110	-$40,544
Return on Rate Base	$303,080	$311,992	-$8,912
Income Tax Requirement	$91,807	$134,961	-$43,154
Other Income	-$218,600	-$218,600	$0
Total Non-Commodity Revenue Requirement	**$2,294,087**	**$2,465,998**	**-$171,911**

The total non-commodity revenue requirement for fiscal year 2024 is projected to be $2,294,087, which is a decrease of $171,911 or 7.0% compared with the 2023 projected non-commodity revenue requirement approved in Order 115/22.

Operating Costs

Stittco's projected 2024 operating expenses of $1,927,808 are $85,297 lower than the 2023 approved operating expenses. This is mainly as a result of changes to Stittco's projected insurance-related costs for 2024, partially offset by inflation-related increases (e.g., projected increases in staff wages, leak survey contractor costs, property taxes, and administration-related expenses). The decrease in insurance-related expenses in 2024 is attributed to the removal of a one-time expense associated with a 2019 gas leak claim settlement that was included in Stittco's approved expenses for fiscal year 2023 but no longer applies to the forecast expenses for fiscal year 2024. This decrease in insurance expense is partially offset by an increase in the 2024 projected insurance premium costs allocated to Stittco by its parent Superior Plus for enterprise-wide insurance coverage.

Historically, the supporting schedules provided by Stittco in support of its non-commodity rate applications presented insurance-related expenses as a single summary line item.

In response to the Board's information requests, Stittco provided additional breakdowns of its insurance premium payments and non-covered claim costs. In this proceeding, Stittco also indicated that this additional breakdown could be included in the supporting schedules of future non-commodity rate applications.

Pursuant to Rule 13 of the Board's Rules of Practice and Procedures, Stittco requests that the Board receive specific information related to Stittco's insurance policy details and the 2019 gas leak claim settlement agreement as confidential. Stittco notes that this information could potentially be used to undermine Stittco's, as well as Superior Plus Ltd.'s, negotiation position in the event of a future claim settlement, to the detriment of Stittco and its ratepayers.

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 2023 and 2024 are summarized in the table below.

STITTCO'S RATE BASE

PLANT IN SERVICE:	Order 115/22 (for 2023)	2024 Projected
Beginning Year Balance	$6,585,912	$6,731,532
Additions, Net	$45,489	$204,000
End of Year Balance	$6,631,402	$6,935,532
Average, Mid-year	**$6,608,657**	**$6,833,532**
ACCUMULATED DEPRECIATION:		
Beginning Year Balance	$4,556,086	$4,698,263
Additions, Net	$65,745	$140,251
End of Year Balance	$4,621,830	$4,838,514
Average, Mid-year	**$4,588,958**	**$4,768,388**
AVERAGE MID-YEAR NET PLANT IN SERVICE:	$2,019,699	$2,065,144
WORKING CAPITAL	$1,100,222	$965,656
MID-YEAR RATE BASE	**$3,119,921**	**$3,030,800**

The Stittco projected mid-year rate base for fiscal year 2024 is $3,030,800. This amount includes net rate base additions of $204,000 which are the capital expenditures planned for 2024 (described further below). Working capital of $965,656 projected for 2024 is lower than approved in Board Order 115/22, primarily as a result of lower projected propane inventories and propane prices, partially offset by higher balances of arrears projected for 2024.

Per Order 115/22, the net plant (or capital) additions approved for 2023 were $45,489 ($114,000 in plant additions less $68,511 for the disposal of service trucks). The latest net capital additions completed by Stittco for 2023 are projected to total $145,620. Stittco's responses to information requests suggest that the planned vaporizer replacements in Flin Flon (estimated at $100,000 for Order 115/22) were completed for $86,310 and that the planned refurbishment of customer sales meters was completed for $10,408 in 2023 (estimated at $14,000 for Order 115/22).

Stittco indicated that it incurred $90,000 of unplanned capital costs in fiscal year 2023 to investigate, and partially repair, propane leaks identified in its distribution system in

Thompson in April 2023. The remainder of the propane system leak repairs are projected to be completed in fiscal year 2024, as described below.

For fiscal year 2024, Stittco projects $204,000 of capital expenditures. Of these planned capital expenditures, $120,000 relate to the proposed pipeline repairs to three general sections of Stittco's distribution pipeline system in Thompson to address the remaining issues associated with Stittco's gas leak investigations completed in the spring and summer of 2023. The proposed main and service pipe repairs affect sections of piping serving residential and commercial customers, and were grouped under one capital project to minimize the related contractor site mobilization costs. While the replacement of a main and service pipes in one of the three sites included in the proposed capital project would not be economical to complete on its own given the existing number of connected customers, Stittco maintains that the proposed pipeline repair project is economic to complete as a whole. Stittco further advises that the proposed pipeline replacements allow Stittco to continue to serve its existing customers and also maximizes the potential for future additional customers to connect to Stittco's system in Thompson.

Stittco notes that $70,000 of its proposed capital expenditures for 2024 relate to the replacement of a service truck initially procured in 2013 and $14,000 relate 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 115/22, the Board approved a 10% rate of return for Stittco's fiscal year ending July 31, 2023. In its application, Stittco continues to seek a 10% return on the projected rate base. This would result in a projected return of $303,080 for 2024. 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 the actual rate of return on rate base was 22.55% in 2020. The higher-than-approved 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*
2013	$1,733,284	$258,248	14.90%	13.78%
2014**	$1,745,302	$150,468	8.62%	3.05%
2015**	$1,556,473	$107,523	6.91%	5.91%
2016**	$1,808,243	$157,230	8.70%	13.99%
2017***	$2,324,873	($147,889)	(6.36%)	(4.35%)
2018***	$2,377,585	$149,533	6.29%	7.17%
2019	$2,329,073	$197,232	8.47%	6.93%
2020	$2,347,109	$529,390	22.55%	24.42%
2021	$2,706,809	$211,710	7.82%	9.40%
2022	$3,049,085	$226,076	7.41%	7.33%

* Adjusted to eliminate variances due to weather fluctuations.
** Revised figures to remove overcharge (per Order 158/16).
*** Updated figures to reflect revised submissions per Directive 5 of Order 169/18.

Stittco’s projected return (i.e., net income) for the year ending July 31, 2023 is $412,558 for a return on a mid-year rate base of 13.94%. The projected return is higher than 10% mainly because of lower-than expected operating expenses (e.g., lower wages and benefits due to two staff vacancies in fiscal year 2023, lower vaporizer own-use consumption costs due to lower propane commodity costs, and lower insurance-related costs than initially projected for 2023 as a portion of these costs was actually incurred in fiscal year 2022). A credit adjustment to Stittco’s accretion expense, partially offset by increased depreciation and income tax expenses, further contributes to Stittco’s projected return on rate base for fiscal year 2023.

5.0 NOVEMBER 1, 2023 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. As such, 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. Regular adjustments to commodity prices help to minimize balances in this account and can help buffer large swings in propane commodity charges. Order 86/23, dated July 25, 2023, 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 regularly updated price signals to consumers. The quarterly interim commodity rates are reviewed and finalized annually when Stittco files its annual non-commodity costs application.

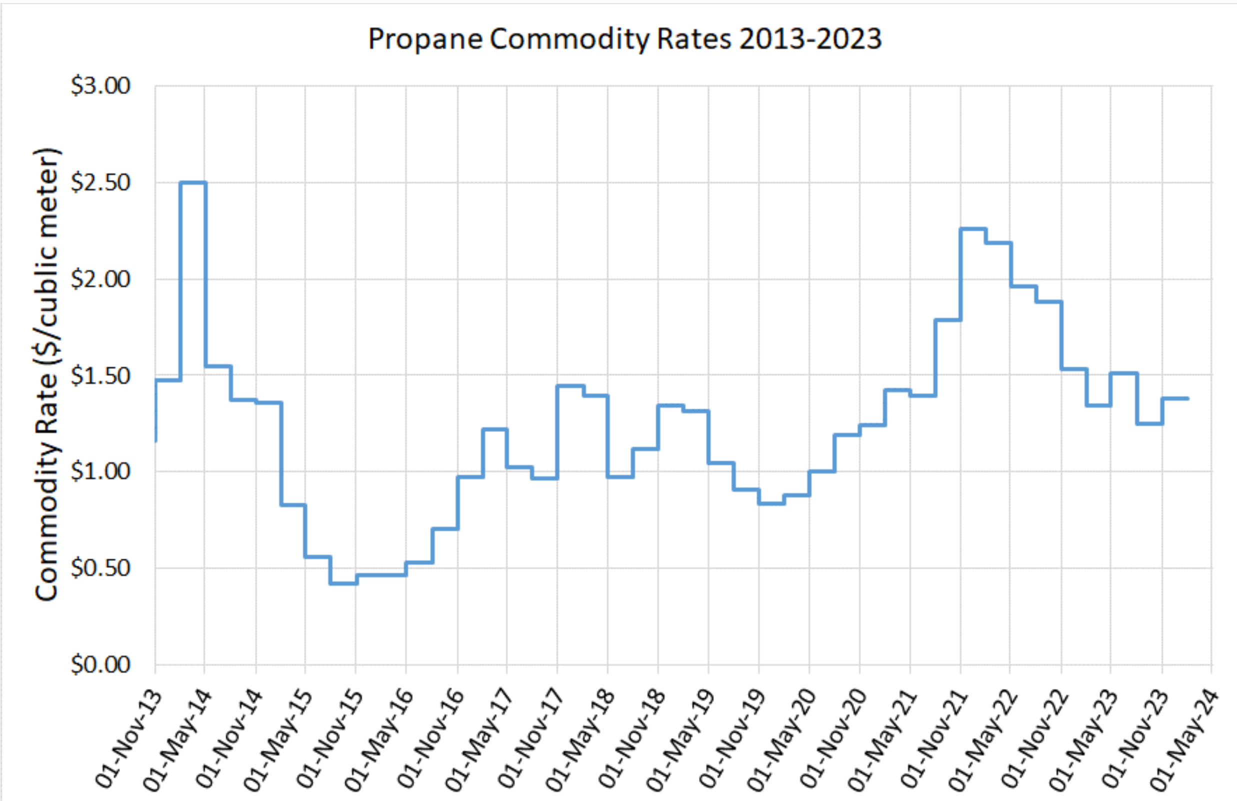
Application

On October 13, 2023, Stittco filed an application seeking to increase the propane commodity rate from the current rate of $1.2496/m^3 to $1.3764/m^3 effective November 1, 2023. The new rate proposed by Stittco reflects the higher costs that Stittco pays for propane commodity, which are passed on to customers without markup.

The proposed commodity rate includes Stittco's cost recovery of the forecasted propane commodity price of $254/m^3$ for bulk propane, plus an additional $91/m^3$ for transportation to Thompson. Stittco's application also includes an updated PPVA cumulative balance of $126,018 owing to Stittco, which represents a change from the cumulative balance of $122,004 owing to Stittco included in the August 1, 2023 commodity rate application. In accordance with the Board-approved methodology, the PPVA balance is forecasted to be collected over 12 months through rates, although subsequent additions to the PPVA may change this recovery period.

Pursuant to Directive 6 of Order 115/22, the PPVA balance included in Stittco's proposed commodity rate for November 1, 2023 incorporates a one-time credit to customers of $18,728.58 to reflect the difference between the estimated cost of a 2019 gas leak claim settlement approved in Order 115/22 and the actual settlement amount finalized in fiscal year 2023. This PPVA adjustment was allocated 25% to the domestic PPVA and 75% to the commercial PPVA, consistent with the methodology approved in Order 179/19 for a similar PPVA adjustment and also consistent with the historical volumetric consumption breakdown between residential and commercial customers.

The following graph shows the historical propane commodity rates approved by the Board, as well as the proposed commodity rate for November 1, 2023.


Propane Commodity Rates 2013-2023
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
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01-May-23
01-Nov-23
01-May-24

6.0 BOARD FINDINGS

The Board accepts the information filed by Stittco on July 14, 2023, along with its subsequent submissions on August 26 and October 2, 2023, to be Stittco's evidence in support of its non-commodity rate application. The Board also accepts the information filed by Stittco on October 13, 2023 to be Stittco's evidence in support of its November 1, 2023 commodity rate application.

Non-Commodity Costs

The Board finds that Stittco's proposed non-commodity revenue requirement for the year ending July 31, 2024 is reasonable. As a result, the Board approves Stittco's non-commodity revenue requirement of $2,294,087 for the year ending July 31, 2024. This approved amount represents a 7.0% decrease in Stittco's total non-commodity revenue requirement relative to the level previously approved by the Board in Order 115/22.

As a consequence of the decreased revenue requirement for fiscal year 2024, 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 6.0% decrease 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 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.

For added clarity in regards to Stittco's insurance-related expenses, the Board directs Stittco to provide a breakdown of its insurance-related expenses in the supporting schedules included for both future non-commodity rate applications as well as for Stittco's normalized financial reconciliation reports filed annually with the Board. The insurance-related expenses are to be broken down into amounts for insurance premium payments and amounts for non-covered claim costs.

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 and the 2019 gas leak claim settlement agreement filed with Stittco's non-commodity rate application as confidential.

Rate Base and Rate of Return

The Board accepts that Stittco should realize a reasonable return on its investment. The Board therefore approves Stittco's projected mid-year rate base of $3,030,800 for the year ending July 31, 2024, and continues to approve a 10% return on rate base, which amounts to a $303,080 return to Stittco for the year ending July 31, 2024. 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 approves Stittco's planned capital expenditures for 2024, which include the replacement of a service truck and the refurbishment of a portion of Stittco's sales meters. The Board also approves the remaining repairs to Stittco's distribution system in Thompson to address propane leak-related issues identified in April 2023.

However, the Board is aware about the long-term impacts of future rate increases required to fund capital upgrades given the ongoing economic conditions on Stittco's ratepayers. The Board continues to find 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.

Accordingly, the Board directs Stittco to file, together with its next non-commodity rate application, a report that provides the Board with a better understanding of existing and emerging risks and challenges faced by Stittco including the long-term economics of maintaining or replacing Stittco's distribution assets.

Specifically, the report shall identify Stittco's distribution assets and highlight specific assets which have a long historical operational life. Assets which may not be economic to replace on their own (i.e., the expected revenues exceed the costs of a capital investment over a set time period) shall also be identified. Further, the report shall summarize Stittco's risk assessments, which are separately undertaken, in compliance with the Oil and Gas Pipeline Systems Standard CSA Z662 and the Board's gas safety Order 90/16, for the above distribution assets, as well as describe Stittco's short and long-term capital investment management strategies that maximize value for Stittco's ratepayers.

The Board is interested in gaining a better understanding of Stittco's integrity management of its distribution system as well as the long-term economics of maintaining or replacing Stittco's distribution assets. The Board is also interested in understanding the lessons learned from past leak repairs and additional mitigation actions that may be required based on risk analysis. The requested report is therefore expected to supplement Stittco's ongoing gas safety compliance submissions and provide additional background for assessing Stittco's future capital investment proposals and ongoing operational expense projections.

Separate from the above report, Stittco should continue to file its five-year capital plans 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, as well as the collection of the cumulative PPVA balance. The Board directs that the propane commodity rate be increased to $1.3764/m^3 for propane consumed on or after November 1, 2023. Stittco's propane commodity rate will be reviewed again for February 1, 2024.

The Board further finds that the $18,728.58 credit to customers included in the overall PPVA balance used to calculate Stittco's proposed commodity rate for November 1, 2023 properly reflects the difference between the estimated cost of a 2019 gas leak claim settlement approved in Order 115/22 and the actual settlement amount finalized in fiscal year 2023. The allocation of the $18,728.58 credit to customers 25% to the domestic PPVA and 75% to the commercial PPVA is consistent with a similar PPVA adjustment approved in Order 179/19 and maintains historical continuity of each customer group's responsibility of the ongoing PPVA combined balance. The Board also accepts Stittco's submissions regarding the specifics of the actual claim settlement finalized in fiscal year 2023. Accordingly, Directives 4, 5, and 6 of Order 115/22 are deemed complete.

In the absence of further evidence received in regards to the interim commodity rates approved in the last year, the Board also finalizes the interim *ex parte* commodity rates established in Board Orders 115/22, 13/23, 51/23, and 86/23.

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, 2023, **BE AND ARE HEREBY APPROVED**.

2. Stittco Utilities Man Ltd.'s projected non-commodity revenue requirement of $2,294,087 for the year ending July 31, 2024 **BE AND IS HEREBY APPROVED**.

3. Stittco Utilities Man Ltd.'s projected mid-year rate base of $3,030,800 for the year ending July 31, 2024 **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, 2023 **BE AND IS HEREBY APPROVED** on an interim basis.

5. Interim *ex parte* Board Orders 115/22, 13/23, 51/23, and 86/23 **BE AND ARE HEREBY APPROVED AS FINAL**.

6. Stittco Utilities Man Ltd. is to provide a breakdown of its insurance premium payments and non-covered claim costs in the supporting schedules included for both future non-commodity rate applications as well as in Stittco’s normalized financial reconciliation reports filed annually with the Board.

7. Stittco Utilities Man Ltd. shall file, together with its next non-commodity rate application, a report that provides the Board with a better understanding of the existing and emerging risks and challenges faced by Stittco and the long-term economics of maintaining or replacing Stittco’s distribution assets. The contents of this report is further set out in this Order.

8. Stittco Utilities Man Ltd. shall file a non-commodity rate application by July 15, 2024.

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., MPA"
Associate Secretary

Certified a true copy of Order No. 123/23
issued by The Public Utilities Board

R McMillin
Associate Secretary

SCHEDULE" A"

STITTCO UTILITIES MAN LTD.

GENERAL SERVICE RATE STRUCTURE

EFFECTIVE FOR CONSUMPTION ON OR AFTER NOVEMBER 1, 2023

Basic Monthly Charge		$10.00 /month
Monthly Volumetric Charges per m³:		
Commodity Cost Recovery		$1.3764
Delivery Charge (Non–Commodity Cost Recovery)		
	first 100 m³	$1.6735
	next 400 m³	$1.4926
	next 1000 m³	$1.4124
	next 2500 m³	$1.1444
	over 4000 m³	$0.8777