



Report to the Minister Responsible for the Qulliq Energy Corporation

Respecting:

**An Application by the Qulliq Energy Corporation
 For Approval of a Fuel Stabilization Rider**

**From
 October 1, 2016 to March 31, 2017
 Report 2016-02**

December 9, 2016

PANEL MEMBERS

Anthony Rose	Chairperson
Graham Lock	Vice Chair
Jimmy Akavak	Member
Robbin Sinclair	Member
Nadia Ciccone	Member

SUPPORT

Laurie-Anne White	Executive Director
Raj Retnanandan	Consultant

LIST OF ABBREVIATIONS

CGS	Department of Community and Government Services, GN
CBC	Canadian Broadcasting Corporation
GN	Government of Nunavut
GRA	General Rate Application
FSR	Fuel Stabilization Rate
PPD	Petroleum Products Division, GN
QEC	Qulliq Energy Corporation
URRC	Utility Rates Review Council

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1.0 THE APPLICATION

Qulliq Energy Corporation (QEC), as a designated utility, is required pursuant to Section 12. (1) of the *Utility Rates Review Council Act* (Act), to seek approval from the responsible Minister for the QEC (Minister), prior to imposing a rate or tariff. The responsible Minister in turn is required pursuant to Section 12. (2) of the Act, to seek the advice of the Utility Rates Review Council (URRC) on the utility's request to impose a rate or tariff.

By Letter dated October 7, 2016, QEC applied to the Minister responsible for QEC, requesting approval for a Fuel Stabilization Rate (FSR) refund rider of 5.26 cents per kWh, from October 1, 2016 to March 31, 2017. By letter dated October 7, 2016, the Minister requested advice from the URRRC with respect to the Application.

2.0 BACKGROUND

The existing base energy rates were approved effective May 1, 2014, in accordance with Ministerial Instruction dated May 30, 2014, as part of QEC's 2014/15 Phase I General Rate Application (GRA). The weighted average fuel price assumption of \$1.10 per litre (weighted average across all communities) built into the existing base rates reflects the December 30, 2014 communication from the Department of Community and Government Services (CGS) respecting fuel cost changes to QEC.

The current application is for an FSR refund rider of 5.26 cents per kWh effective October 1, 2016 to March 31, 2017. The fuel cost reconciliation filed as part of the Application compares the GRA forecast average fuel cost of \$1.10 per litre with the actual to date and forecast fuel costs, for the period October 1, 2016 to March 31, 2017; QEC has requested to refund any difference between fuel costs collected through rates on a forecast basis and actual fuel costs, to customers through an FSR refund rider. The FSR refund rider of 5.26 cents per kWh replaces the

FSR refund rider of 3.07 cents per kWh which was in effect from April 1, 2016 to September 30, 2016.

In its application, the Corporation requested approval of the 5.26 cents per kWh FSR refund rider on an interim refundable basis, effective October 1, 2016.

The URRC met to discuss the Application and, by letter dated October 7, 2016 recommended approval of an interim FSR refund rider of 5.26 cents per kWh from October 1, 2016 to March 31, 2017, based on a preliminary review of the Application and pending full URRC review of the application. The URRC determined that implementation of the FSR refund rider was in the best interest of the public and was consistent with maintaining rate stability for all consumers.

Upon the recommendation of the URRC as above, the Minister responsible for the URRC approved an FSR refund rider of 5.26 cents per kWh effective October 1, 2016 on an interim refundable basis pursuant to Section 12.1. (1) of the URRC Act which states: “Where the advice of the Review Council is requested under subsection 12. (2), the Review Council may recommend the imposition of an interim rate or tariff until an instruction is given under Section 16, and the Minister for the Review Council may authorize the designated utility to impose the recommended interim rate or tariff.”

3.0 PROCESS

Section 13. (1.1) of the Act provides that:

Where, in the opinion of the Review Council, the Application for the proposed rate or tariff is a minor application, the Review Council shall report to the responsible Minister within 90 days of receiving the responsible Minister's request for advice under subsection 12 (2).

Upon review of QEC’s application, the URRC has decided to treat the FSR application as a minor application.

The URRC caused notice of the Application to be published in the Nunavut News/North, Nunatsiaq News and Nunatsiaq online during the month of October 2016. There were also CBC public service announcements in October 2016.

Interested parties were provided an opportunity to provide written submissions respecting the Application by November 10, 2016. No submissions were received.

QEC responded to information requests submitted by the URRC with respect to the Application on November 17, 2016.

The URRC's consideration of the matter is set out in this report.

4.0 CONSIDERATION OF THE APPLICATION

QEC provided, as part of the Application, schedules summarizing the forecast monthly balances in the Fuel Stabilization Fund through March 31, 2017 detailing the calculation of the proposed refund rider. QEC states the schedules are based on the following information and assumptions:

1. Bulk Fuel Prices: Preliminary actual bulk fuel deliveries and prices from the 2016 resupply season. Forecast bulk fuel deliveries for the remainder of the 2016 resupply season assumed at the same prices as the preliminary actuals.
2. Nominated Fuel Prices: Actual nominated fuel prices up to July 2016. Nominated fuel prices for the forecast period assumed at the same prices as the preliminary actuals.
3. Fuel Inventory: Forecast fuel prices reflect weighted average fuel prices based on fuel inventory and a mixture of bulk fuel and nominated fuel deliveries.
4. Sales and Generation: QEC's most recent generation and sales forecasts.

QEC stated it is normal practice to purchase its fuel from the Government of Nunavut (GN), Petroleum Products Division (PPD) or its contracted agents; PPD does not apply any markup to bulk fuel purchases it provides to QEC and is able to negotiate the best price for the fuel considering the volume it purchases.

QEC stated in preparing its responses, the Corporation identified some minor updates to the filing schedules that were required to address the following:

- In reviewing the sales information QEC noticed that the 2015/16 actual sales information provided in the schedules were not updated from the preliminary actuals included in the March 2016 application.
- Forecast line loss and station service percentages for the forecast months incorrectly used percentages based on a percentage of sales instead of as a percentage of generation.
- The interest expense calculation was not adjusted to reflect changes in the Bank of Canada's Prime Business Rate.

QEC stated, using the updated information would indicate an FSR refund rider of 5.22 cents per kWh compared to 5.26 cents per kWh proposed in the October 7, 2016 application. However, QEC indicated it does not propose to change the interim refund rider of 5.26 cents per kWh considering that the difference between the two estimates is immaterial (less than 1% different). Further, the proposed rider refund may not necessarily match the actual forecast rider refund amount and any variance in the rider refund will be reflected in the FSR account balance and will be included in the next FSR update submission.

The URRC has examined QEC's calculation of the FSR refund rider and is satisfied that the methods and calculations used are appropriate and consistent with past practice.

On review of the Application and the QEC Information Responses, URRC concludes that the refund rider as proposed for the period October 1, 2016 to March 31, 2017 is appropriate and in the public interest.

5.0 URRC RECOMMENDATIONS

1. Section 13. (1) of the Act states:

The Review Council, shall report to the responsible Minister its recommendation that:

- a) the imposition of the proposed rate or tariff should be allowed;
- b) the imposition of the proposed rate or tariff should not be allowed; or
- c) another rate or tariff specified by the Review Council should be imposed.

In accordance with the above, the URRC recommends that a fuel stabilization refund rider of 5.26 cents per KWh be approved for QEC, for the period October 1, 2016 to March 31, 2017.

2. Nothing in this Report shall prejudice the URRC in its consideration of any other matters respecting QEC.

ON BEHALF OF THE UTILITY RATES REVIEW COUNCIL OF NUNAVUT

DATED: December 9, 2016
Anthony Rose
Chairperson