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## **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**

**December 1, 2013 to March 31, 2014  
Report 2014-01**

**February 20, 2014**

**THE UTILITY RATES REVIEW COUNCIL**

**PANEL MEMBERS**

Ray Mercer	Chairperson
Anthony Rose	Member
Jimmy Akavak	Member

**SUPPORT**

Laurie-Anne White	Executive Director
Raj Retnanandan	Consultant

## **LIST OF ABBREVIATIONS**

C&GS	Department of Community and Government Services, GN
GN	Government of Nunavut
GRA	General Rate Application
FSR	Fuel Stabilization Rider
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 December 4, 2013, QEC applied to the Minister responsible for QEC, requesting approval for a Fuel Stabilization Rate (FSR) Rider of 5.31 cents per kWh, from December 1, 2013 to March 31, 2014. By letter dated December 5, 2013 the Minister requested advice from the URRRC with respect to the Application.

## **2.0 BACKGROUND**

The existing base energy rates were approved effective April 1, 2011, in accordance with Ministerial Instruction dated March 28, 2011, as part of QEC's 2010/11 Phase I General Rate Application (GRA). The fuel price assumptions built into the existing base rates are based on actual June 2010 fuel prices charged to QEC by the Petroleum Products Division (PPD) of the Government of Nunavut (GN).

Following the GRA, an FSR Rider application was filed by QEC on November 16, 2012 requesting approval for a fuel stabilization rider of 4.13 cents per kWh, from December 1, 2012 to May 31, 2013. The URRRC recommended approval of that application in Report 2013-1 and an FSR Rider of 4.13 cents per kWh was implemented effective December 1, 2012.

A second FSR Rider application was filed by QEC on November 16, 2012 requesting approval for a fuel stabilization rider of 5.31 cents per kWh, from June 1, 2013 to November 30, 2013. The URRRC recommended approval of that application in Report 2013-3 and an FSR Rider of 5.31 cents per kWh was implemented effective June 1, 2013.

The current application is for an FSR Rider of 5.31 cents per kWh effective December 1, 2013 to March 31, 2014.

In QEC's application to the responsible Minister, the Corporation requested approval of the 5.31 cents/Kwh FSR Rider on an interim refundable basis, effective December 1, 2013.

The URRC met to discuss the application and, by letter dated December 13, 2013, recommended approval of an interim fuel stabilization rider of 3.92 cents per kWh from November 1, 2013 to March 31, 2014, based on a preliminary review of the application and pending full URRC review of the application. The URRC determined that implementation of the amended FSR 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 Rider of 3.92 cents per kWh effective December 1, 2013 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 all editions of Nunavut News North and in Nunatsiaq News between January 3, 2014 and January 22, 2013. It also ran online and was announced on CBC radio.

Interested parties were provided an opportunity to provide written submissions respecting the Application by January 17, 2014.

QEC responded to information requests submitted by the URRC with respect to the Application on January 10, 2014.

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

## **4.0 CONSIDERATION OF THE APPLICATION**

QEC purchases all its fuel from the Government of Nunavut, Petroleum Products Division (PPD) of the Department of Community and Government Services (DCGS). Such purchases are made directly from PPD or through its contracted agents. PPD is responsible for the purchase, transportation, storage and distribution of all petroleum products in Nunavut.

QEC proposed to maintain the existing fuel stabilization rider at 5.31 cents/kWh, until March 31, 2014. QEC states, any required adjustments to the fuel stabilization rider can be implemented concurrently with adjustments to base rates resulting from the Corporation's GRA and once more information about spring 2014 fuel prices are available. QEC states, maintaining the FSR Rider at the current rate of 5.31 cents/kWh will reduce the frequency of rate adjustments and result in better rate stability to the benefit of ratepayers.

A December 20, 2013 News Release put out by DCGS indicates that rising fuel prices on the worldwide market will mean the price of petroleum products in Nunavut will increase effective January 1, 2014. This price increase applies to all fuel deliveries from PPD to QEC on and after January 1, 2014. QEC indicated that PPD considers a number of factors in setting the fuel price, including fuel purchases and deliveries as well as other policy considerations.

QEC indicated its understanding that the price increase effective January 1, 2014 applies to nominated fuel supplies only. Nominated fuel supplies refers to fuel supplies that are procured outside the bulk fuel supply period. Bulk fuel supplies are purchased during non winter months when deliveries of bulk shipments are possible and usually start in the month of July. QEC states, bulk fuel supply prices are provided to QEC by PPD at the time of delivery.

In response to URRC QEC 1, the monthly weighted average fuel prices were updated for all forecast months (October 2013 through March 2014) based on QEC's latest fuel inventory information and fuel price increase announced by DCGS on December 20, 2013. Based on a 3.92 cents per kWh interim FSR Rider effective December 1, 2013 and continuing through March 31,



2014, and updated fuel price forecasts for the October 2013 to March 2014 period, the forecast FSR balance as of March 31, 2014 would be a shortfall of approximately \$0.131 million.

QEC states based on updated fuel price forecasts effective January 1, 2014, the required FSR Rider for the January to March 2014 period to bring the FSR balance to zero as of March 31, 2014 would be 4.22 cents per kWh. By letter dated January 10, 2014 QEC requested that the URRC consider recommending approval of an adjusted FSR Rider of 4.22 cents per kWh effective January 1, 2014.

The URRC notes the request for approval of an adjusted FSR Rider was not made by the responsible Minister as required under the Act. The response to URRC QEC 1c indicates there would be a deficiency of about \$131,000 in the FSR account as of March 31, 2014 without implementation of the adjusted FSR Rider requested by QEC.

In the URRC's view this deficiency is relatively small from the point of view of contributing to significant future rate increases. Adjusting the FSR Rider effective January 1, 2014 to recognize the deficiency would contribute to another change in rates which is not conducive to maintaining rate stability. In the interest of rate stability, the URRC recommends that the current 3.92 cents per kWh Rider continue until March 31, 2014

## **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 rider of 3.92 cents per KWh be approved for QEC, for the period December 1, 2013 to March 31, 2014.

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**



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**DATED: February 20, 2014**

**Raymond Mercer**

**Chair**