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UTILITY RATES REVIEW COUNCIL OF NUNAVUT
IGLUIN AULATJUTITIGUN AKITUTILAANGINNUT KATIMAYIIT NUNAVUNMI
CONSEIL D'EXAMEN DES TAUX DES ENTREPRISES DE SERVICES DU NUNAVUT

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
June 1, 2013 to November 30, 2013
Report 2013-03

August 15, 2013

MEMBERS	Ray Mercer	Chairperson
	Graham Lock	Member
	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

TABLE OF CONTENTS

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 May 17, 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 June 1, 2013 to November 30, 2013. By letter dated May 17, 2013 the Minister requested advice from the URRC 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 approved 2010/11 GRA revenue requirement also adopted the new base fuel prices for the purpose of future FSR Rider calculations. 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).

The last FSR Rider application was filed by QEC on November 16, 2012 requesting approval for a fuel stabilization rider (FSR) of 4.13 cents per kWh, from December 1, 2013 to May 31, 2013. The URRC recommended approval of the last application in Report 2013-1 and an FSR Rider of 4.13 cents per kWh was implemented effective December 1, 2012. The current appplication is for an FSR Rider of 5.31 cents per kWh effective June 1, 2013. After consulting with the URRC, the Minister approved implementation of the 5.31 cents per kWh FSR Rider effective June 1, 2013 on an interim refundable basis pending full review of the application by the URRC.

QEC indicates the proposed FSR Rider is estimated to have the following bill impacts on non-government customers, compared to their May 2013 bill:

Rate Class/Sub-class	Estimated Bill Impact
Domestic Subsidized – Public Housing	0%
Domestic Subsidized – Nunavut Electricity Subsidy Program	3.9%
Domestic Non-subsidized	in the range of 1.1% to 2.0% by community
Commercial	in the range of 1.1% to 2.4% by community

3.0 PROCESS

The URRC caused notice of the Application to be published in all editions of Nunavut News/North, Kivalliq News, and in Nunatsiaq News between May 31 and July 5, 2013 .

Interested paries were provided an opportunity to provide written submissions respecting the Application by July 5, 2013.

As part of the written submission process, Mr. Jonathan Wright, a customer of QEC questioned by e-mail dated Jue 24, 2013 whether interest accrued by an FSR is returned to the customer if the interim rate is not accepted. In response, the URRC indicated by e-mail dated June 25, 2013, if the Minister does not accept the Application from the Corporation, then the (refundable) interim rider is returned to the customer.

QEC responded to information requests submitted by the URRC with respect to the Application on June 14, 2013.

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

4.0 CONSIDERATION OF THE APPLICATION

QEC indicates the main reason for the indicated fuel stabilization fund deficiency of $0.6 million as of May 31, 2013 is due to the purchase of nominated fuel at a higher cost than the last bulk purchase:

> QEC's current forecasts indicate that the fund is accumulating average monthly charges of approximately $0.6 million and forecast to reach a balance of approximately $4.1 million by November 30, 2013, assuming the current FSR rider expires at the end of May 2013. Compared to the November 15, 2012 Application, average monthly charges to the fund have increased by $0.1 million. The main driver for this increase is cost of nominated fuel in lqaluit. QEC purchases production fuel at nominated prices from Uqsuq Corporation, its fuel agent for lqaluit, when additional fuel is required in between the bulk delivery periods. The current nominated fuel price charged by Uqsuq Corporation is $1.1594 per litre, which is approximately 15% higher than QEC's last bulk purchase price. The higher price for fuel in lqaluit has a material impact on the fund's balance, given the city of lqaluit accounts for approximately 32 % of QEC's total generation.

The URRC notes, nominated fuel purchase in between bulk purchases resulted in higher fuel costs during the December 1, 2012 to May 31, 2013 period. When questioned as to the need for additional nominated fuel purchase, in between the bulk fuel purchases, QEC indicates it had to make the nominated fuel purchases because of capacity limitations of the fuel tank in Iqaluit:

> The volume of the bulk fuel purchase by the Corporation is determined by the capacity of the fuel tanks it owns. The effective capacity of the fuel tank in Iqaluit is 5.3 million liters. Monthly average fuel consumption is approximately 1.2 million liters. The Corporation maintains a safety level approximately equal to the monthly average fuel consumption in Iqaluit for emergency situations, and starts nominated fuel purchases at that point. The Corporation always has to purchase additional fuel once the October bulk fuel delivery is used up to the emergency safety level.
>
> Usually, the Corporation makes two bulk fuel purchases during the sealift season – in the months of July and October. The last bulk fuel delivery was made on October 31, 2012. The total fuel consumption during the November to January period was approximately 4.1 million liters and as of February 2013 the Corporation started using nominated fuel deliveries. [URRC QEC 1a) b)]

URRC Findings:

The URRC notes the significant increase in fuel costs resulted from fuel tank capacity limitations. It is not clear whether any cost benefit analysis was carried out to determine whether expanding the fuel tank capacity would be cost effective in the long run.

QEC disclaims responsibility for effectively managing the fuel costs including storage stating it is the responsibility of the Petroleum Products Division of the Department of Community and Government Services (C&GS) of Government of Nunavut. QEC indicates C&GS is responsible for the purchase, transportation, storage and distribution of all petroleum products in Nunavut

In the previous FSR Report 2013-1 the URRC commented as follows:

> In the URRC's view these are significant increases in rates since the last GRA. The URRC is concerned that QEC, as a price taker, does not appear to have the means, to assess the prudence of the price at which diesel is procured on its behalf nor is it able to exercise any degree of oversight with respect to the forecasting or the management of the price of diesel supply during the Summer delivery months. Given that the cost of diesel constitutes about 40% of the electricity rates in Nunavut, the URRC considers that it would be highly desirable for QEC to have greater visibility and the means to assess the prudence of the prices at which diesel is purchased on its behalf.

The URRC recognizes that under the existing structure, responsibility for procurement and management of fuel resides with C&GS. Any changes may potentially require legislative and/or policy changes. However, in the URRC's view, the initiative could come from QEC to give effect to required changes in the best interest of QEC's customers. Given the significance of fuel costs as a component of QEC's customer rates, the URRC considers it important for QEC to commence a process that would result in an appropriate level of coordination and coopreration with C&GS so that there is greater visibility, transparency and accountability for the effective, efficient and economic management of fuel costs.

With regard to the costs and benefits of making nominated purchases possibly at higher costs versus expenditure on expanded fuel storage capacity, the URRC considers that QEC must be acccountable for the prudence of any capital versus fuel purchase decisions.

Accordingly QEC is directed to provide the following at the next GRA:

- A detailed chronology of all actions taken by QEC to establish procedures and practices that would allow greater visibility, transparency and accountability for the effective, efficient and economic management of fuel costs.

- Provide the costs and benefits of making nominated purchases, possibly at higher costs, versus expenditure on expanded fuel storage capacity at Iqaluit and any other community where there are limitations of fuel storage capacity.

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

5.0 URRC RECOMMENDATIONS

1. Section 13 (1) of the Act states:
The Review Council, within 90 days of receiving the responsible Minister's request for advice under section 12, 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 5.31 cents per KWh be approved for QEC, for the period June 1, 2013 to November 30, 2013.

2. The URRC recommends that QEC be directed to comply with the directions contained in this Report.

3. 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: August , 2013

Raymond Mercer

Chairman