



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
November 1, 2015 to March 31, 2016**

Report 2016-01

February 1, 2016

PANEL MEMBERS

Ray Mercer	Chairperson
Graham Lock	Member
Anthony Rose	Member
Jimmy Akavak	Member

SUPPORT

Rod Stockley	Executive Director
Raj Retnanandan	Consultant

LIST OF ABBREVIATIONS

CGS	Department of Community and Government Services, GN
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 November 6, 2015, QEC applied to the Minister responsible for QEC, requesting approval for a Fuel Stabilization Rate (FSR) refund rider of 1.80 cents per kWh, from November 1, 2015 to March 31, 2016. By letter dated November 6, 2015 the Minister requested advice from the URRC 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 1.80 cents per kWh effective November 1, 2015 to March 31, 2016. The fuel cost reconciliations 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 April 1, 2014 to March 31, 2016.

In its application, the Corporation requested approval of the 1.80 cents per kWh FSR refund rider on an interim refundable basis, effective November 1, 2015.

The URRC met to discuss the application and, by letter dated November 16, 2015 recommended approval of an interim FSR refund rider of 1.80 cents per kWh from November 1, 2015 to March 31, 2016, 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 1.80 cents per kWh effective November 1, 2015 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 December 2015. There were also CBC public service announcements in December 2015.

Interested parties were given the opportunity to provide written submissions to the URRC respecting the Application by January 5, 2016. No submissions were received.

QEC responded to information requests submitted by the URRC with respect to the application on December 15, 2015.

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

4.0 CONSIDERATION OF THE APPLICATION

The following table sets out the fuel costs forecast at the time of the 2014/15 GRA as well as the components of costs that resulted in the proposed refund of \$1.4 million under the FSR refund rider of 1.80 cents per kWh:

	2014/15	
	\$m	
GRA Forecast Fuel Costs	54.5	
GRA Forecast non fuel Costs	76.7	
Total Revenue Requirement	131.2	
	2014/15	2015/16
	\$m	\$m
Actual Fuel Use at GRA Forecast Prices	54.7	56.3
Actual Fuel Use at Actual Prices	55.7	54.9
Increase/Decrease	1.0	-1.4
Cumulative Difference 2014/15 and 2015/16		-0.4
Over Recoveries from prior period		-1.0
Amount proposed to be refunded under FSR Rider		-1.4

The above information provides a perspective on the scale of fuel costs as a component of the rates charged by QEC. QEC purchases all its fuel from the Government of Nunavut (GN), Petroleum Products Division (PPD) of the Department of Community and Government Services (CGS). Such purchases are made directly from PPD or through its contracted agents.

With respect to fuel prices QEC states it is a price taker (ie has no control over price of fuel purchases) and states every year it starts making nominated fuel purchases in Iqaluit in February/March, and switches back to bulk fuel consumption in July/August. Nominated fuel purchases typically occur when additional fuel is required in between bulk delivery periods. In QEC's view this explains the average fuel price increases for the period of February to June 2015 and March 2016, as well as the price decreases for the period of July 2015 to February 2016.

The URRC notes that QEC has been requested in URRC Report 2013-03 to assess the fuel cost saving that might be achieved if the Corporation invested in additional storage to avoid the higher cost of nominated fuel. This matter was further discussed in the 2014/15 GRA Report 2014-04 at pages 39 to 41. QEC has indicated that it will include such an economic analysis at the time of its next Phase 1 General Rate Application.

The URRC further notes the weighted average cost of fuel purchased by QEC did not reduce materially in 2015. The following table shows the weighted average cost of fuel purchased by QEC in 2014/15 and that forecast for 2015/16, by month:

	Weighted Average Cost of Fuel per Litre	
	2014/15	2015/16
April	1.123	1.150
May	1.125	1.149
June	1.135	1.161
July	1.106	1.092
August	1.116	1.041
September	1.113	1.027
October	1.110	1.017
November	1.112	1.017
December	1.112	1.017
January	1.112	1.056
February	1.147	1.089
March	1.147	1.116

The above table indicates the lowest weighted average cost of \$1.017 per litre was achieved in the months of October, November and December 2015. This is a reduction of about 7.5% in the weighted average cost per litre of fuel in comparison to the GRA forecast of \$1.10 per litre. These prices when combined with the amount of electricity produced has resulted in the over recovery of costs in the FSR and for which QEC has applied for refund to customers.

An issue which remains relates to the reconciliation of the fuel costs reported by QEC in its financial statement and those reported in the FSR filing. QEC states it could not provide a

reconciliation since the the FSR is maintained outside of the Corporation's financial reporting. [URRC QEC 1b)] The URRC notes the financial statements are subject to external audit whereas the costs reflected in the FSR application are not subject to such audit scrutiny. Therefore, in order to validate the numbers reflected in the FSR, a reconciliation of fuel costs recorded in the most recent audited financial statements to the numbers reflected in the FSR application should be provided. The URRC directs QEC to provide this information at the time of the next FSR application.

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 November 1, 2015 to March 31, 2016 is appropriate and in the public interest.

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 1.80 cents per KWh be approved for QEC, for the period November 1, 2015 to March 31, 2016.

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: February 1, 2016
Raymond Mercer
Chairperson