

April 30, 2013

MEMBERS

Ray Mercer	Chairperson
Jimmy Akavak	Member
Anthony Rose	Member

SUPPORT

Laurie-Anne White	Executive Director
Raj Retnanandan	Consultant

LIST OF ABBREVIATIONS

ACL	Arctic Co-operatives Limited
EUB	Alberta Energy and Utilities Board
CPI	Consumer Price Index
CRTC	Canadian Radio-television Telecommunications Commission
GN	Government of Nunavut
GRA	General Rate Application
NSUARB	Nova Scotia Utility and Review Board
OEB	Ontario Energy Board
QEC	Qulliq Energy Corporation
URRC	Utility Rates Review Council

TABLE OF CONTENTS

APPENDIX 1	1
1.0 INTRODUCTION.....	2
2.0 PARTICULARS OF THE APPLICATION.....	3
3.0 PROCESS	4
4.0 SUBMISSIONS BY INTERESTED PARTIES	4
4.1 SUBMISSION OF NORTHWESTEL	4
4.2 SUBMISSION OF ARCTIC CO-OPERATIVES LIMITED	5
4.3 SUBMISSION OF QEC	6
5.0 CONSIDERATION OF THE APPLICATION	7
5.1 PRICING APPROACH	7
5.2 JOINT USE RATE CALCULATION.....	9
5.3 RATE IMPACTS.....	12
6.0 URRC RECOMMENDATIONS	13

APPENDIX 1

1.0 INTRODUCTION

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 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.

QEC currently provides Joint Use services to Licensees, such as telecommunications and cable system owners and operators, where the Licensees attach lines, equipment or other devices to QEC's assets (primarily distribution poles). By letter dated February 7, 2013, QEC applied to the Minister responsible for QEC, requesting approval of new rates for Joint Use service, effective April 1, 2013 (Application). By letter dated February 11, 2013 the Minister requested advice from the URRC with respect to the Application.

Rates for joint use services are charged based on the number of contact points per distribution pole. Joint Use revenues are used to offset QEC's revenue requirement. As a result, electricity rates would be higher in the absence of Joint Use revenues. Joint Use revenues are therefore a benefit to electricity customers.

Rates for Joint Use services have not been adjusted since the creation of QEC in 2001. In 2012, QEC undertook a review of the costs to provide the Joint Use services and determined that adjustments to the existing rates were required.

2.0 PARTICULARS OF THE APPLICATION

QEC indicates it reviewed Joint Use calculations from other jurisdictions in Canada and developed an approach based on the methods described in Ontario Energy Board Decision RP-2003-0249. QEC's existing and proposed Joint Use rates are as follows:

	Number of Connections			
	Single	Double	Triple	Quadruple
Existing Rates	\$27.42	\$17.14	\$13.72	
Proposed Rates	\$63.42	\$32.06	\$21.60	\$16.37

The proposed Joint Use rates are forecast to increase Joint Use revenues based on the 2012 number of connections, from \$0.332 million to \$0.662 million (an increase of \$0.330 million). Schedule 2 of the Application provides the revenue forecast at existing and proposed rates.

QEC indicates, it established a Joint Use Committee with QEC staff and Joint Use customers. The committee met in 2011 and discussed the Joint Use Guidelines and rate issues. At that time it was discussed with customers that rates had not been adjusted for an extended period and that revised rates would be required.

In URRC QEC 3a), QEC identified the members of the Joint Use Committee to be as follows:

NorthwesTel: Joe Manoll

ACL: Roger Bouché

QEC:

- Dave Clark
- Andy Burns
- Alex Guilbeault
- Ryan Ramaglia
- Kelland Sewell / Eddie Rideout

QEC indicates the mandate of the Committee was to assist QEC in finalizing the revisions to its Joint Use Guidelines and Policy, as well as, to collaborate with QEC on relevant issues. QEC indicates the Joint Use Guidelines and Policy revisions were finalized and implemented in August 2012.

QEC indicates it is currently setting up a new Joint Use customer, the Government of Nunavut (GN) who is installing fibre optic communication cables on distribution poles within communities of Nunavut. With the GN connected as a Joint Use customer, the number of connections on those poles will increase, and therefore existing customers will see a rate benefit (since there will be one additional customer on those poles to share Joint Use costs).

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. By letter dated February 12, 2013, the responsible Minister for QEC notified Nunavut's Mayors and Members of the Legislative Assembly of the receipt of the Application from QEC.

QEC responded to information requests from the URRC on March 28, 2013 and April 15, 2013.

Submissions respecting the application were received from NorthwesTel and Arctic Co-operatives Limited (ACL) on April 15, 2013 and April 10, 2013 respectively. QEC responded to the Submissions of interested parties by letter dated April 17, 2013.

4.0 SUBMISSIONS BY INTERESTED PARTIES

4.1 SUBMISSION OF NORTHWESTEL

In their submission NorthwesTel stated "there is no doubt that the level of the proposed joint rate increases will put significant pressure on the overall telephony operations in Nunavut, forcing our company to re-assess the value of the current pricing model for its telecommunications services."

NorthwesTel recognized that rates have not been adjusted for an extended period of time. However, it questioned “...what new costs, other than the consumer price index or CPI, could come as a rationale to allow for such significant increases.” As well, NorthwesTel suggested that “QEC explore alternatives such as onetime and/or recurring cost saving measures, instead of passing on its high cost structure directly to pole attachment users. NorthwesTel also suggests considering the addition of GN as a new customer to the Joint Use Agreement which will increase the number of connections ...”, which in turn, would benefit Joint Use customers. NorthwesTel recommended the addition of the GN as a customer effective immediately rather than over the next fiscal period.

NorthwesTel recommends a phasing-in of rate increases as QEC continues to explore cost reduction strategies and, the addition of the GN, which has already deployed fibre optic cable across communities in Nunavut.

4.2 SUBMISSION OF ARCTIC CO-OPERATIVES LIMITED

ACL notes that one of the services that Co-operatives provide to Members in 21 Nunavut communities is cable television.

In their submission , ACL notes “the current proposed Joint Use rate increases will bring a significant cost increase to the overall cable operations in Nunavut, which will force Member Co-operatives to reassess the current pricing model to ensure that the business units remain viable. Today, 71% of the co-ops offering cable TV services serve fewer than 200 subscribers within their respective communities. The QEC proposal, at its current planned rates, puts immediate duress on many small community based cable operations, which in turn, will put their ongoing viability at risk.”

ACL notes the “Co-op Cable Operations compete with satellite providers that do not have the same cost structures. As a result, a competitive imbalance may be created that could result in an ultimate reduction in the Co-ops contribution to the local economy. Local investment is discouraged and growth of communities and services available slows.”

In ACL's view, QEC must continue to move towards long term stability in managing its operations. ACL stresses the importance of having fair and accurate pricing in place for QEC's customers. ACL submits the rates that are currently being proposed are very significant and do not allow for the Co-op owned cable systems to recover those cost increases from their subscribers without a similar rate increase being imposed. ACL submits a more gradual approach to this current situation should be considered to allow QEC and its customers to retain the level of service that is currently being provided.

4.3 SUBMISSION OF QEC

With respect to the proposed phase-in for rate increases, QEC submitted that it is currently preparing a General Rate Application for the 2014/15 test year. Any delay in implementing the full Joint Use Service rates beyond 2014/15 would result in higher electricity rates for other customers, since the full Joint Service Rate revenue would not be available to offset the electricity revenue requirement.

With respect to the suggestion that QEC explore one time or recurring cost saving measures, QEC submitted, it works consistently to identify and implement operational savings where they can be achieved while maintaining service levels. Despite these efforts, rate increases are necessary at times to ensure the utility can continue to provide safe and reliable service.

With respect to the suggestion of considering the addition of the GN as a new customer, QEC submitted it is prepared to review its proposed rates and modify billing to reflect these new connections when they arrive, to the benefit of existing Joint Use service customers.

In conclusion, QEC submitted that the proposed rate increases are reasonable and necessary. Joint Use service rates have not been updated for more than a decade and higher rates are necessary in order for QEC to continue to provide this service and to ensure other customers are not subsidizing Joint Use services through electricity rates.

5.0 CONSIDERATION OF THE APPLICATION

5.1 PRICING APPROACH

The URRC notes from QEC's evidence that the main pricing methods for joint use, adopted by Canadian jurisdictions break down into two categories:

- Direct costs plus a contribution to indirect costs approach; and
- Fully allocated or fully distributed costing approach

Both methods calculate pole rental charges on the basis of embedded cost of service.

Under the direct cost plus contribution approach, the Joint Use rates reflect the direct or incremental costs of pole attachments plus a contribution to indirect costs. The direct costs may include incremental administration costs as well as costs reflecting loss of productivity attributable to any additional time required for the utility to do its own work due to the presence of tenant equipment. The contribution to indirect costs may reflect capital related carrying costs of the pole as well as maintenance costs, allocated to joint use on the basis of usage or, on a per capita basis.

A direct costs plus contribution approach was first adopted by the Canadian Radio-television Telecommunications Commission (CRTC) in Decision 86-16. CRTC used this same pricing method in Decision CRTC 99-13. The Nova Scotia Utility and Review Board (NSUARB) adopted the CRTC pricing methodology, set out in Decision CRTC 99-13, in determining the pole rental rates of Nova Scotia Power Incorporated (NSPI) in Decision NSUARB-P-873, 2002 NSUARB 1. [URRC QEC 1a] The Ontario Energy Board (OEB) in Decision RP 2003-0249, also used the direct cost plus contribution approach but, instead of a usage based contribution approach, used a per capita approach to allocate indirect costs.

A fully allocated or fully distributed costing approach, on the other hand, is not focussed on the determination of incremental costs and a fair contribution to indirect costs. Rather, it is based on the fair allocation of the embedded costs to Joint Use service, among others. In Alberta Energy

and Utilities Board (EUB)¹ Decision 2000-86, TransAlta Utilities Corporation describes the embedded cost approach it used in its application to the EUB as follows:

"...the cost sharing for overhead facilities on a simplified hypothetical system where each utility constructs its own system without regard for existing facilities. Each utility's share of the combined cost of the three systems was applied to TransAlta's embedded pole cost to arrive at a preliminary share by utility." [Decision 2000-86; P17]

QEC states that, both CRTC and NSUARB rejected a fully allocated or fully distributed costing approach to the setting of pole rental rates on the basis that cable operators do not have the rights of ownership of the pole, and that joint use service can hardly be characterized as a core service provided by the utility.

Accordingly, based on the review of available joint use pricing methods in other jurisdictions, QEC indicates that it adopted a direct costs plus a usage-based contribution approach as it appeared to be the most commonly used approach.

QEC indicates it has not considered a fair-market value approach and cannot consider such an approach within the timeframe of this application process. [URRC QEC 8]

URRC Findings:

The URRC notes that the direct costs plus a usage-based contribution to indirect costs approach proposed by QEC is consistent with methods predominantly used in other jurisdictions and would provide a basis for the fair allocation of costs to Joint Use services. Accordingly the URRC accepts the method proposed by QEC.

The URRC notes QEC's calculations assume equal usage by all tenant attachments. In other words the QEC method appears to be a modified per capita approach used by the OEB. An equal usage assumption may or may not be appropriate for the Joint Use services contemplated by QEC. Accordingly, QEC is directed to address the appropriate allocation of indirect costs among joint use services at the time of the next GRA.

¹ Predecessor to the Alberta Utilities Commission

5.2 JOINT USE RATE CALCULATION

QEC set out the calculation of the proposed Joint Use rates in Schedule 1 of its Application. This Schedule is included herein as Appendix 1. QEC indicates the Joint Use rate calculation used the following steps:

1. Direct administration costs were estimated based on the amounts reflected in the OEB Decision RP 2003-0249 (line 1, Schedule 1).
2. Indirect costs per pole were then calculated. A sample of recent distribution pole installation costs in six communities was undertaken. The simple average of these costs across those six communities was calculated at approximately \$5,560 per pole. In order to provide an estimate of the average plant in service for each pole, this cost was deflated by the 25 year average CPI.
3. An estimate of the average accumulated depreciation for poles was calculated assuming 80% depreciation on average (line 3, Schedule 1). The net embedded cost per pole was then calculated to be \$615 (line 4, Schedule 1).
4. The annual amortization expense of the average estimated embedded cost per pole was calculated based on a 38 year asset life, consistent with QEC's 2010/11 GRA. This average annual amortization expense is approximately \$81/pole (line 5, Schedule 1).
5. The annual return on ratebase per pole was calculated based on the net embedded cost per pole and the 2010/11 GRA approved return on ratebase (line 6, Schedule 1). Total estimated annual indirect costs per pole (amortization expense plus return on ratebase) were calculated at approximately \$125/pole (line 7, Schedule 1). QEC included only capital costs in these estimates and not any allowances for ongoing annual maintenance.
6. Joint Use rates were developed to recover 50% of the estimated annual indirect costs of each distribution pole. Therefore the proposed rate for a single contact is $\$125 \times 50\%$. Where there is more than one Joint Use contact on each pole, this cost is recovered equally from each customer (lines 12 through 15 of Schedule 1).
7. Indirect costs per pole were added to the estimated direct administration costs to calculate the proposed Joint Use rates (lines 16-19 of Schedule 1 of the Application).

URRC Findings:

The URRC considers the pricing of Joint Use services should not result in any cross subsidies between electric customers and joint use customers. Further, since joint use service is not a core service it should provide a contribution towards indirect costs having regard to, among others, the value of such services. Accordingly, all incremental costs associated with Joint Use service should be identified and included in Joint Use rates. Further, the contribution to indirect costs should recognize all applicable indirect costs that are properly attributable to Joint Use service and a fair share of such costs should be allocated to Joint Use, based on the usage based contribution approach. With these considerations in mind, the URRC notes the following with respect to the proposed rate calculations.

First, the URRC notes the direct administration costs included in Schedule 1 were taken directly from the OEB Decision RP 2003-0249 which may not necessarily reflect the incremental administration costs of QEC in 2013. The incremental administration costs applicable to the current year should be included in direct costs in order to avoid cross subsidies. Second, the direct costs do not reflect any costs related to loss of productivity, included as a component of direct costs in the OEB Decision RP 2003-0249. If there is a cost element related to loss of productivity that cost should be estimated and included in the direct costs.

Third, the indirect costs in Schedule 1 do not include any costs related to pole maintenance. A share of pole maintenance costs should be included in indirect costs in order to reflect a fair allocation of indirect costs to joint use. Fourth, the indirect costs in Schedule 1 do not include any contribution towards overheads. Although contribution to overhead costs was not mentioned in the OEB Decision RP 2003-0249, in the URRC's view, the fair pricing of Joint Use Service may require allocation of overheads to that service.

Fifth Section 6.2.1 of the Joint Use Guidelines require payment by QEC to the pole tenants or Licensees all costs associated with transferring, rearranging, or removing the tenants' joint use attachments, where poles and associated support structures are substandard for use by QEC, (e.g. improper height for transformer mounting, spacing) and, the power poles require replacement. It is not evident to the URRC whether this cost is duly factored into the proposed rate calculations

in Schedule 1. In the URRC's view, the fair pricing of Joint Use service may require inclusion of a cost recovery for payments pursuant to Section 6.2.1 of the Guidelines, in the rate calculations.

In view of the significant increase in rates proposed in this Application, the URRC considers the inclusion of the above mentioned costs as part of the Joint Use rates should be addressed at the time of the next GRA. Accordingly the URRC directs QEC to address each of the above five issues at the time of the next GRA and reflect the appropriate changes in proposed joint use rates at that time. For the purposes of this Application the URRC accepts the rate calculations as set out in Schedule 1.

5.3 RATE IMPACTS

The URRC notes the comments of interested parties that the rate increases ought to be phased in. The URRC considers, had QEC come forward with proposed rate increases on a regular basis the increases proposed in this Application would have been more gradual. In the URRC's view, QEC must bear some responsibility for not coming forward with rate changes on a timely basis in order to avoid steep one time rate adjustments. The URRC also notes from Section 5.2 of this Report, if all indirect costs were to be factored into the rate calculations, the level of the rate increase would have been higher. Accordingly, there is an implicit phase in element reflected in the rates proposed by QEC.

The URRC notes that if a significant number of GN connection points were to be added in the near future, any rate increase to existing Joint Use customers would be mitigated. Having weighed the evidence in this proceeding the URRC recommends that the rate increases be phased in over two years with 50% of the increase for single connections taking effect from April 1, 2013 and the entire increase taking effect from April 1, 2014. The following shows the calculation of the rates effective April 1, 2013 giving effect to only half of the increase proposed for the single connection rate while proportionately adjusting all other rates:

Calculation of Rates Effective April 1, 2013			
Existing Single Connection Rate	\$27.42		
QEC Proposed Single Connection Rate	\$63.42		
Difference	\$36.00		
Single Connection rate increased by the 50% of Proposed Increase	\$45.42		
	QEC Proposed rates	Ratio	URRC April 1 2013 Rates
Single Connection	\$63.42	100.00%	45.42
Double Connections	\$32.06	50.55%	22.96
Triple Connections	\$21.60	34.06%	15.47
Quadruple Connections	\$16.37	25.81%	11.72

6.0 URRC RECOMMENDATIONS

Section 13. (1.1) Minor Application of the URRC Act states, “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).” And that 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 the following rates for Joint Use service be implemented effective April 1, 2013 and April 1, 2014 respectively:

Rates Effective April 1, 2013				
	Number of Connections			
	Single	Double	Triple	Quadruple
Existing Rates	\$27.42	\$17.14	\$13.72	
URRC Recommended Rates	\$45.42	\$22.96	\$15.47	\$11.72
Rates Effective April 1, 2014				
	Number of Connections			
	Single	Double	Triple	Quadruple
URRC Recommended Rates	\$63.42	\$32.06	\$21.60	\$16.37

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

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: April 30, 2013

Raymond Mercer

Chairperson

Appendix 1 to Report 2013-02			
Schedule 1			
Quilliq Energy Corporation			
2013 Joint Use Rate Application			
Alternative Rate Calculation using Ontario Method			
<i>Line</i>	<i>Price Component-Per Pole</i>	<i>\$</i>	<i>Notes</i>
	DIRECT COST		
1	Administration Costs	\$0.69	QEC Estimate based on OEB decision.
	INDIRECT COST		
2	Average Pole Cost	\$3,073	Average new pole cost of \$5,560 deflated over 25 years average CPI (2.4%).
3	Accumulated Depreciation Estimate	\$2,458	Forecast 2010/11 FERC 364 (Poles & Fixtures) Accumulated Depreciation ratio (80%).
4	Net Embedded Cost per pole	\$615	line 2 less line 3
5	Depreciation Expense	\$81	Based on FERC 364 approved life estimate as per 2010/11 GRA.
6	Return on Ratebase per pole	\$45	2010/11 approved return on ratebase applied to net embedded cost per pole.
7	Total Indirect Costs per Pole	\$125	line 5 + line 6
	Allocation Factor:		
8	Single	50%	
9	Double	25%	
10	Triple	17%	
11	Quadruple	13%	
	Indirect Costs Allocated:		
12	Single	\$62.73	line 7 x line 8
13	Double	\$31.37	line 7 x line 9
14	Triple	\$20.91	line 7 x line 10
15	Quadruple	\$15.68	line 7 x line 11
	Total Annual Pole Rental Charge		
16	Single	\$63.42	line 1 + line 12
17	Double	\$32.06	line 1 + line 13
18	Triple	\$21.60	line 1 + line 14
19	Quadruple	\$16.37	line 1 + line 15