



2011
ANNUAL REPORT
UTILITY RATES REVIEW COUNCIL
OF NUNAVUT

UTILITY RATES REVIEW COUNCIL OF NUNAVUT

ANNUAL REPORT

For the year ending March 31, 2011

Members of the Nunavut Legislative Assembly:

I take pleasure in submitting the Annual Report of the Nunavut Utility Rates Review Council for the calendar year ending March 31, 2011.

Original Signed By:

Hon James Arreak
Minister Responsible for the Utility
Rates Review Council

The Honourable James Arreak
Minister responsible for the
Utility Rates Review Council
Of Nunavut

Dear Minister:

I have the honour presenting the Annual Report of the Utility Rates Review Council of Nunavut for the calendar year ending March 31, 2011.

Respectfully submitted,



Raymond Mercer
Chair, Utility Rates Review Council
Of Nunavut

The Utility Rates Review Council

1. MANDATE

The *Utility Rates Review Council Act*, created in the spring of 2001, and amended in the summer of 2010, gives the power to the URRC to provide advice to Ministers regarding rates and tariffs to be charged by designated utilities and any other matters as requested and directed by the Minister Responsible for the URRC.

Under the Act, a designated utility is defined as; *a utility or a member of class of utilities designated in the regulations:*

A utility is defined as:

Any of the following that provides goods or services to the public:

- (a) a corporation that is owned or controlled by the Government of Nunavut, and to which this Act applies either by legislation or a regulation made under paragraph 20(1)(a):*
- (b) a department or administrative division of the Government of Nunavut to which this Act applies either by legislation or a regulation made under paragraph 20(1)(a):*
- (c) a person or organisation not mentioned in paragraph (a) or (b) to which this Act applies either by legislation or a regulation made under paragraph 20(1)(a)*

The Qulliq Energy Corporation and as a consequence Nunavut Power Corporation, as Designated Utilities, are subject to the URRC through the *Utility Rates Review Council Act*.

2. PURPOSE

The purpose of the Review Council as outlined in section 7 of the URRC Act:

The purposes of the Review Council are to:

- (a) advise the Responsible Minister of a designated utility concerning the imposition of rates and tariffs in accordance with sections 11 to 18.*
- (b) advise the Responsible Minister of a utility other than a designated utility with regard to any questions that the Responsible Minister refers to it concerning rates, tariffs and rate structures,*
- (c) advise the Responsible Minister for any utility concerning any matter related to the utility that is referred to it by the Responsible Minister on the advice of the Executive Council,*
- (d) advise any Minister concerning any matter related to charges for the provision of goods and services that is referred to it by the Minister on the advice of the Executive Council,*
- (e) advise the Minister Responsible for the Qulliq Energy Corporation, concerning applications for permission for major capital projects under section 18.1 of the Qulliq Energy Corporation Act.*

3. ORGANISATION

The Review Council consisted of three part time appointed members for a term of three years and expired July 31, 2010. The Minister Responsible for the URRC appoints members of the Review Council and designates one member of the Review Council as

a Chair. In June of 2010 the Minister Responsible for the URRC re-appointed its three members as follows:

Raymond Mercer	Chair
Vivienne Aknavigak	Member
Gordon Rennie	Member

Changes were made to the URRC Act that passed through the legislative assembly in September 2010 which increased the members to a total of five. The Responsible Minister for the URRC then appointed the two new members and also appointed a vice chair from among the members. The five members have a term of three years. The current make-up of the URRC members are as follows:

Raymond Mercer	Chair
Vivienne Aknavigak	Vice Chair
Gordon Rennie	Member
Louie Qingnatuq	Member
Graham Lock	Member

In addition, the Minister for the URRC, on the request of the council, may appoint, in addition to the members appointed under Subsection (1) no more than two temporary members of the Review Council for the purpose of dealing with a particular matter before the Review Council and may specify the terms and duties of the temporary members.

Changes made to the URRC Act in September 2010 as also made changes to the administrator position for the Review Council.

The position of secretary was removed from the act and replaced with an executive director position.

Under Section 3 (9) general provision, the Review Council may appoint an executive director and fix the terms and conditions of the appointment. In October 2010, Laurie-Anne White accepted a one year transfer assignment as executive director for the URRC and carries out the duties as outlined in the URRC Act as amended.

Mr. Raj Retnanandan has been retained on contract as per Section 8(1)(b) of the URRC Act as an advisor to the URRC. Mr. Retnanandan comes to the URRC with extensive knowledge and expertise in energy management and regulatory consultations.

Mr. John Donihee has been retained as per Section 8(1)(b) of the URRC Act as Legal Counsel to the URRC. Mr. Donihee comes to the URRC with extensive knowledge and expertise in energy law and regulatory consultations.

4. BUDGET

In 2010-2011 the Review Council operating and maintenance budget was \$736,900. The Review Council remained within its' budget for the year.

5. SUMMARY OF 2010-2011 RECOMMENDATIONS:

The following recommendations were made with respect to a major capital project permit application to upgrade the Iqaluit distribution system from 5KV to 25 KV made by Qulliq Energy Corporation Report 2010-03.

Qulliq Energy Corporation (QEC), as a designated utility, is required pursuant to Section 18.1 of the Qulliq Energy Corporation Act (QEC Act), to seek approval from the responsible Minister prior to undertaking a major capital project. In this regard, Section 18.1 of the QEC Act provides as follows:

"Definition

(1) In this section, "major capital project" means a capital project that has a total cost that exceeds \$5,000,000.

Major capital project

(2) The Corporation shall not undertake, nor permit any of its subsidiaries to undertake, a major capital project unless it applies in advance to the Minister for an order giving permission for the project.

Minister may seek advice

(3) Before responding to an application for permission made under subsection (2), the Minister may seek the advice of the Utility Rates Review Council established under the *Utility Rates Review Council Act*.

Corporation to provide information

(4) The Corporation shall provide the Minister and the Utility Rates Review Council with any information necessary for the Minister to decide whether permission should be granted.

What Minister may do

(5) The Minister may

- (a) grant permission for undertaking the major capital project, with or without conditions; or
- (b) refuse permission.

Order

(6) Permission granted by the Minister under paragraph (5)(a) shall be in the form of an order."

In accordance with the above the URRC recommends:

1. Having considered the foregoing matters, the URRC recommends that the major capital project permit approval be granted for upgrading the Iqaluit distribution system from the voltage level of 5 kV to 25 kV.

2. URRC directs QEC to engage the community and affected customers in consultations for planning the switch over to the new system thereby ensuring minimal disruption to customers and a smooth transition to the new system

The following recommendations were made with respect to rates in regards to the Application for a Fuel Stabilization Rider in October of 2010 by Qulliq Energy Corporation - Report 2010-04:

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.

By Letter dated October 4, 2010 QEC applied to the Minister responsible for QEC requesting approval for a fuel stabilization rider (FSR) of 4.68 cents per kWh, from October 1, 2010 to March 31, 2011. The existing FSR of 4.68 cents per kWh was approved by the Minister following URRC Report 2010-02 for the period January 1, 2010 to September 30, 2010.

By letter dated October 4, 2010 the Minister requested advice from the URRC with respect to the Application.

In accordance with the above the URRC recommends:

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 4.68 cents per KWh be approved for QEC, for the period October 1, 2010 to March 31, 2011.

2. The URRC also recommends that QEC comply with the summary of directions as outlined in section 5 of this report.

The following recommendations were made with respect to rates in regards to the Application for a General Rate Application Phase I in October 2010 by Qulliq Energy Corporation – Report 2011-01

In its letter dated October 4, 2010, QEC requests the following approvals:

Base Rate Changes: QEC requests base rates that would recover a revenue requirement of \$101.173 million as summarised in Schedules 1.1.1 to 1.1.5 of the Application. The forecast revenue at existing rates is \$76.282 million and revenue deficiency at existing rates is \$22.745 million. This translates to an average increase in base energy rates of 31.27%.

If the annualised revenues from the existing FSR of \$4.68¢/kWh were considered as part of the revenues, the revenue deficiency at existing rates would be reduced to \$15.478 million. This equates to an average energy rate increase of 19.3%. The calculation of QEC's request for rate increase is shown in the following table:

the full 2010/11 period. QEC states following approval of base rate changes, QEC would provide the responsible Minister with a compliance filing detailing the calculation of the shortfall amount, any transfers between the Fuel Stabilization Fund and the shortfall account that may be necessary and a proposal for a shortfall rider to collect that amount.

In accordance with the above the URRC recommends:

The following recommendations are made to the Responsible Minister:

It is the URRC's finding that the Government of Nunavut has a basis for legitimate discussions to occur with the Government of Canada with a view to finding financial assistance for the upgrade and expansion of QEC's generating assets. The URRC recommends the GN, in conjunction with QEC, and perhaps NTI, consider this approach to addressing some of the legacy issues impacting the current infrastructure requirements of QEC.

Noting QEC did not file its general rate application on a timely basis, prior to commencement of the test year, as required by legislation, and noting the 2010/11 test year period has almost expired, URRC considers revenue recoveries from current base rates, the current FSR and the approved interim rates should be made final for that year. To retroactively attempt to recover the 2010/11 shortfall, in addition to imposing increased rates commencing April 1, 2011, for the 2011/12 year, would result in extreme rate shock to current electricity customers. Accordingly, the URRC recommends any revenue deficiency in 2010/11 resulting from delay in implementation of rate increases be recovered from the GN, rather than from customers of QEC.

URRC has directed QEC to maintain the FSR as a separate cost recovery item until the approval of final rates for 2010/11 following the Phase II proceedings. In addition, the

URRC recommends the 6% interim increase be rolled into the current base energy rates and the base energy rate so determined be increased by a further 4.5% on April 1, 2011, as part of the phase-in of base energy rate increases. For the year 2012/13, the URRC recommends the 2011/12 base energy rates, as noted above, be increased by a further 4.43%, effective April 1, 2012. The calculation of the phased in increase effective April 1, 2012, is shown in Appendix 1.

To avoid extreme hardship to customers, the URRC recommends any revenue deficiency in 2011/12 resulting from the delay in implementation of rate increases due to the phasing-in of such increases be recovered from the GN, rather than from the customers of QEC.

The URRC recommends QEC be directed to comply with the directions contained in this Report and as summarised in Section 13.

The following recommendations were made with respect to a Major Capital Project Application respecting the Iqaluit main plant upgrade made by QEC Report 2011-02:

Qulliq Energy Corporation (QEC), as a designated utility, is required pursuant to Section 18.1 of the Qulliq Energy Corporation Act (QEC Act), to seek approval from the responsible Minister prior to undertaking a major capital project. In this regard, Section 18.1 of the QEC Act provides as follows:

Definition

(1) In this section, "major capital project" means a capital project that has a total cost that exceeds \$5,000,000.

Major capital project

(2) The Corporation shall not undertake, nor permit any of its subsidiaries to undertake, a major capital project unless it applies in advance to the Minister for an order giving permission for the project.

Minister may seek advice

(3) Before responding to an application for permission made under subsection (2), the Minister may seek the advice of the Utility Rates Review Council established under the *Utility Rates Review Council Act*.

Corporation to provide information

(4) The Corporation shall provide the Minister and the Utility Rates Review Council with any information necessary for the Minister to decide whether permission should be granted.

What Minister may do

(5) The Minister may

- (a) grant permission for undertaking the major capital project, with or without conditions; or
- (b) refuse permission.

Order

(6) Permission granted by the Minister under paragraph (5)(a) shall be in the form of an order."

On November 8, 2010 QEC applied to the Responsible Minister for approval of a project permit for the Iqaluit main power plant upgrade and capacity increase. QEC indicates the preliminary budget for the project is \$29.7 million. This cost estimate was later amended to \$28.2 million in URRC QEC 4c.

By letter dated November 9, 2010 the Responsible Minister, in turn, requested advice from the URRC with respect to QEC's Application.

In accordance with the above the URRC recommends:

1. Having considered the foregoing matters, the URRC recommends that the major capital project permit approval be granted for the Iqaluit main power plant upgrade and capacity increase.

6. CANADIAN ASSOCIATION OF MEMBERS OF PUBLIC UTILITY TRIBUNAL (CAMPUT)

The URRC continued its ongoing association with CAMPUT in 2010-2011. The membership of CAMPUT is made up of all the Boards and Councils from the ten provinces and three territories plus the National Energy Board. CAMPUT also admitted a number of quasi-judicial boards as associate members to CAMPUT, as part of their ongoing goal of improving all types of regulation in Canada. A full list of CAMPUT Membership can be found at the end of this report.

The Chair, one council member and Secretary for the URRC attended the CAMPUT Annual Educational Conference as part of the Council's continuing education. This year the conference was held in Montreal Quebec from May 2 to 5, 2010. This conference brings together regulators, utilities from Canada, U.S. and Mexico to discuss emerging issues in electricity and gas markets. This is always a very informative and well attended conference; a must for regulators, utilities and their staff to participate in.

The URRC attended the CAMPUT Annual General Meeting (AGM) in August 2010. This conference brings together the member boards from across Canada to discuss events and issues that affect the regulatory community. Representatives were present from all boards at the meetings in Whitehorse, Yukon. The URRC was represented by the Chair.

The URRC continues to be actively involved in various committees of CAMPUT. Raymond Mercer continued his role with the Chairs Policy Committee that provides direction to CAMPUT on Major policy issues and is the voice of the national body whenever presenting to the F/P/T Ministers of Energy. He also is a member of the Organising Committee for the 2011 CAMPUT Educational Conference in Vancouver B.C. This group develops the agenda, retains the moderators and presenters for conference. Please see *Appendix I* for a list of CAMPUT members and its committee.

7. A LOOK AHEAD AT 2011-2012

The changes made to the URRC Act in September 2010 were to better prepare for the 2010-2011 General Rate Application Phase I and Phase II in addition to the many Major Capital Project Applications.

Phase I of the QEC's General rate Application Revenue Requirements for the Test year 2010-2011 is completed. As a result, it is now expected that by the end of August or early September, QEC will apply for a General Rate Application for Phase II containing rate structure and terms and conditions of service issues.

Three major project permit applications were received on March 18 2011 for the construction of three new diesel power plants in Cape Dorset, Qikiqtarjuaq, and Taloyoak. The details of each one is described below.

1. In a letter dated March 18, 2011 the Minister Responsible for the Qulliq Energy Corporation, Honourable Lorne Kusugak, requested that the URRC review and make recommendations on QECs Application for a major capital project permit application to replace the Qikiqtarjuaq plant. In the Application, QEC indicates that it will cost 7.7 million to complete the Project. The URRC will treat this as a

ON BEHALF OF THE NUNAVUT UTILITY RATES REVIEW COUNCIL



DATED March 31, 2011
Ray Mercer, Chair

Appendix I

CAMPUT Member Boards

The current CAMPUT membership includes the following federal, provincial and territorial boards and commissions:

- Alberta Utilities Commission
- British Columbia Utilities Commission
- Manitoba Public Utilities Board
- National Energy Board
- New Brunswick Energy and Utilities Board
- Newfoundland & Labrador Board of Commissioners of Public Utilities
- Northwest Territories Public Utilities Board
- Nova Scotia Utility and Review Board
- Nunavut Utility Rates Review Council
- Ontario Energy Board
- Prince Edward Island - Island Regulatory and Appeals Commission
- Régie de l'énergie du Québec
- Saskatchewan Rate Review Panel
- Yukon Utilities Board

CAMPUT Associate Members

- Canadian Nuclear Safety Commission (CSNC)
- Canadian Environmental Assessment Agency (CEAA)
- Oil and Gas Commission (OGC), British Columbia
- Energy Resources Conservation Board (ERCB), Alberta
- Bureau d'audiences publiques sur l'environnement (BAPE), Québec
- Canada - Nova Scotia Offshore Petroleum Board (CNSOPB)
- Canada - Newfoundland and Labrador Offshore Petroleum Board (CNLOPB)
- Comisión Reguladora de Energía (CRE), Mexico
- Efficiency NB, New Brunswick

CAMPUT Executive Committee:

The affairs of CAMPUT are directed and managed by its Executive Committee which is elected annually from the Association's membership. The Committee comprises the Chair, Vice-Chair, Past Chair, Secretary-Treasurer, Chair of the Education Committee, and the Chair of the Regulatory Affairs Committee. The Executive Director of CAMPUT provides support to the Executive Committee and manages the day-to-day operations of the Association.

Executive Director: Terry Rochefort

Name	CAMPUT Position	Board
Maurice Rodgerson	Chair	Island Regulatory and Appeals Commission
Lise Duquette	Vice Chair	Régie de l'énergie
Carolyn Dahl Rees	Secretary-Treasurer	Alberta Utilities Commission
Raymond Gorman, Q.C.	Chair, Regulatory Affairs	New Brunswick Energy and Utilities Board
Roland George	Chair, Education	National Energy Board
Cynthia Chaplin	Past Chair	Ontario Energy Board