

February 14, 2013

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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 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.

By letter dated November 16, 2012, QEC applied to the Minister responsible for QEC, requesting approval for a fuel stabilization rider (FSR) of 4.13 cents per kWh, from December 1, 2012 to May 31, 2013. By letter dated November 16, 2012 the Minister requested advice from the URRC with respect to the Application.

2.0 PARTICULARS OF THE APPLICATION

The last Fuel Stabilization Rate (FSR) Rider application was filed by QEC on October 4, 2010 requesting to maintain a rider of 4.68 cents/kWh, which was originally implemented effective October 1, 2010, for the period of October 1, 2010 through March 31, 2011.

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 Petroleum Products Division (PPD).

For the past period since June 2010, QEC indicates it faced significant upward pressure in actual fuel prices, which led to an accumulation of charges within the FSR Fund. QEC indicates the accumulated FSR Fund balances to date have been offset by two contributions from the Government of Nunavut in the amount of \$2.741 million for the 2011/12 fiscal year and in the

amount of \$2.422 million for the period of April to November 2012. As a result, QEC indicates it did not file an FSR rider application during this time period.

QEC indicates, based on current forecasts, the fund is accumulating average monthly charges of approximately \$0.5 million and is forecast to reach a balance of approximately \$3.5 million by May 31, 2013. Taking the above items into consideration, QEC requested implementation of a Fuel Stabilization Rider of 4.13 cents/kWh for the period of December 1, 2012 through May 31, 2013 in order to bring the FSR fund balance to zero by May 31, 2013.

3.0 PROCESS

Under section 13.1. 1

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 the QEC's request, the URRC determined that the FSR is a minor application.

On the recommendation of the URRC, Minister responsible for URRC approved an FSR of 4.13 cents per kWh for implementation on an interim refundable basis effective December 1, 2012, pending full review by the URRC.

The URRC caused notice of the Application and approval of the interim rider to be published in News/North, Kivalliq News and Nunatsiaq News as well as through public service announcements between November 30, 2012 and January 11, 2013.

The URRC submitted information requests 1 and 2 to QEC on November 30, 2012 and December 23, 2012. QEC responded on December 14, 2012 and January 11, 2013.

There was no response from the public call for feedback on the Application.

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

4.0 CONSIDERATION OF THE APPLICATION

QEC states 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. For the past period since June 2010, QEC indicates it has faced significant upward pressure in actual fuel prices, which led to accumulation of charges to the FSR Fund.

QEC states it is important to note that with respect to fuel prices, the Corporation is a price taker. QEC does not set its own fuel prices. The Petroleum Products Division of the Department of Community and Government Services (C&GS) of the Government of Nunavut is responsible for the purchase, transportation, storage and distribution of all petroleum products in Nunavut. QEC states it prepares its FSR Application forecasts based on the most current information available from C&GS.

The URRC notes that the diesel prices, which are the subject of this Application, reflect significant increases for certain communities since the time of the last GRA. However, the prices in other communities have not changed and in some cases have decreased since the last GRA. A comparison of the diesel supply prices effective December 1, 2012 with the diesel prices approved in the last GRA, by community, are shown in Table 1.

Table 1				
Diesel Price Changes by Community				
Plant No.	Plant	GRA Fuel Price \$/L	Dec 2012 Fuel Price \$/L	Change
501	Cambridge Bay	0.7225	1.0975	51.9%
502	Gjoa Haven	1.1742	1.1742	0.0%
503	Taloyoak	0.7023	1.2718	81.1%
504	Kugaaruk	1.2243	1.2243	0.0%
505	Kugluktuk	1.3071	1.0814	-17.3%
601	Rankin Inlet	0.7965	1.0740	34.8%
602	Baker Lake	1.0563	1.0563	0.0%
603	Arviat	0.8881	1.0433	17.5%
604	Coral Harbour	1.0452	1.0452	0.0%
605	Chesterfield Inlet	1.1214	1.1271	0.5%
606	Whale Cove	1.0386	1.0310	-0.7%
607	Repulse Bay	1.0639	1.0666	0.2%
701	Iqaluit	0.8690	1.0423	19.9%
702	Pangnirtung	0.8903	0.8903	0.0%
703	Cape Dorset	0.8773	0.8773	0.0%
704	Resolute Bay	0.9653	0.9653	0.0%
705	Pond Inlet	0.8981	0.8981	0.0%
706	Igloolik	0.9202	0.9202	0.0%
707	Hall Beach	0.9215	0.9215	0.0%
708	Qikiqtarjuaq	0.8774	0.8773	0.0%
709	Kimmitut	0.8909	0.8911	0.0%
710	Arctic Bay	0.9024	0.9024	0.0%
711	Clyde River	0.8507	1.0565	24.2%
712	Grise Fiord	0.9464	0.9414	-0.5%
713	Saniqiluaq	1.0540	1.0536	0.0%

The above Table 1 shows diesel-price increases in the communities of Iqaluit (19.9%), Clyde River (24.2%), Rankin Inlet (34.8%), Cambridge Bay (51.9%) and Taloyoak(81.1%) since the last GRA. Conversely, the table also shows a decrease in Kugluktuk (-17.3%), Whale Cove (-0.7%) and Grise Fiord (-0.5%). Diesel prices remained unchanged in the other 14 Nunavut communities.

Given QEC's status as a price taker, the URRC has no means of testing the prudence of the above noted increases and decreases, particularly in the above noted communities, nor does it have the means to assess whether prudent commodity price management practices are being used.

QEC indicates it receives information, from time to time, by informal communications which gives QEC some indication of where the fuel prices are going; however, in the past these prices have been known to change without formal notice. QEC also states, presently, there are no written policies and procedures in place to improve communications with PPD. QEC is continuously requesting for something to be put in place, but to date have not been successful. [URRC QEC 2-9]

Approval of the FSR Rider results in the Domestic customer bills, after the Nunavut Electricity Subsidy program, increasing by 15.8% for the period of December 1, 2012 to May 31, 2013. The rate increases for Commercial customers range from 4.1% in Whale Cove to 9.1% in Iqaluit.

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 a greater understanding of and the means to assess the prudence of the prices at which diesel is purchased on its behalf.

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

5.0 URRC RECOMMENDATIONS

Section 13 (1) of the Act states:

Under section 13.1.

13. (1) 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.

(1.1) 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).

In accordance with the above the URRC recommends that a fuel stabilization rider of 4.13 cents per KWh be approved for QEC, for the period December 1, 2012 to May 31, 2013.

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 14, 2013

Raymond Mercer

Chair