



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 Fuel Stabilization Rider

**From
January 1, 2010 to September 30, 2010
Report 2010-02**

March 17, 2010

THE UTILITY RATES REVIEW COUNCIL

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ABBREVIATIONS

C&GS	Department of Community & Government Services
GN	Government of Nunavut
GRA	General Rate Application
FSR	Fuel Stabilization Rider
PPD	Petroleum Products Division, Government of Nunavut
QEC	Qulliq Energy Corporation
URRC	Utility Rates Review Council

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1. 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 December 18, 2009 QEC applied to the Minister responsible for QEC requesting approval for a fuel stabilization rider (FSR) of 4.68 cents per kwh, from January 1, 2010 to September 30, 2010. The existing FSR of 4.68 cents per kwh was approved by the Minister following URRRC Report 2009-02 for the period July 1, 2009 to December 31, 2009.

By letter dated December 18, 2009 the Minister requested advice from the URRRC with respect to the application.

2. Particulars of the Application

In its December 18, 2009 Application QEC indicated the Government of Nunavut has not yet made available the diesel fuel prices. Accordingly, an estimated diesel fuel price reduction of 9.16 cents per litre was projected effective January 1, 2010 for purposes of calculating the FSR account balances for the period January 1, 2010 to September 30, 2010. By letter dated January 28, 2010 QEC advised, based on recent discussions with C&GS and Finance, a diesel fuel price reduction of 10 cents per litre would apply to each community, effective February 1, 2010. QEC revised its FSR projections accordingly.

Based on the revised estimates of fuel price reduction, QEC forecast an FSR account surplus of \$86,000 as of September 30, 2010, with the 4.68 cents per Kwh fuel stabilization rider in place for the period January 1, 2010 to September 30, 2010. If approved, this rider would allow QEC to collect an estimated five (5) million dollars over the 9 month term of the FSR.

QEC indicates it purchases all its fuel from the Government of Nunavut, Petroleum Products Division (PPD);

As nominated sales during the sealift season, at the same prices as other customers pay; or

As bulk fuel, where PPD is the purchasing and delivery agent and QEC pays the price PPD incurs to make the purchase. These purchases occur throughout the year

QEC indicates, as the GN adjusts the bulk fuel price, QEC's direct costs and cash flow are immediately impacted.

QEC requests a fuel rider of 4.68 cents per kwh, effective January 1, 2010 be in place for a period of nine months to September 30, 2010.

3. Process

On the recommendation of the URRC, Cabinet approved an FSR of 4.68 cents per kwh for implementation on an interim refundable basis effective January 1, 2010 by way of Regulation number R 040-2009 pending full review by the URRC.

The URRC caused notice of the Application to be published in newspapers having general circulation in QEC's service area during the week of February 8, 2010 in Nunavut News/North, February 10, 2010 in the Kivalliq News and February 12, 2010 in the Nunatsiaq News.

QEC responded to information requests 1 and 2 from the URRC on February 12, 2010.

There were no comments respecting the application from interested parties.

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

4. Consideration of the Application

4.1 Inclusion of Street Lighting Sales

In accordance with the URRC's directions in report 2009-2, QEC included the sales to street lighting customers in the calculation of FSR recoveries commencing January 1, 2010.

QEC indicated the FSR is being applied to the streetlight customer accounts consistent with the streetlight rating formula reviewed in section 12.5, page 93 of QEC's last GRA submitted September 2004.

QEC indicated it is currently conducting a study to update streetlight consumption information. This study includes the installation of metering equipment in selected communities that will determine the street light consumption over a complete yearly cycle.

The URRC accepts QEC's calculation of the FSR revenues applicable to street lighting customers for purposes of this FSR application.

4.2 Reconciliation of FSR Account Components

Noting the variances in the loss percentages between the forecast provided at the time of the last FSR Application dated June 18, 2009 and the current one, the URRC questioned QEC concerning reconciliation of key components reflected in the current FSR Application to the financial records for the period April 1, 2009 to December 31, 2009. The URRC also requested reconciliation of the fuel costs as reflected in the FSR Application with the recorded fuel costs. [URRC QEC 2]

In response, QEC indicated actual recorded sales numbers were only available to end of September 2009. Further, QEC indicated, since the fuel costs used in the FSR calculations reflect approved fuel efficiencies, fuel volumes (litres) used to calculate the charges to the fuel stabilization funds will not reconcile to actual litres of fuel used. [URRC QEC 2]

The URRC believes it is important to carry out periodic reconciliations of the FSR components to the recorded results to ensure the former reflects the recorded results, and where available, the audited numbers, subject to adjustments for differences in the treatment of fuel efficiencies.

Accordingly, the URRC directs QEC to provide reconciliations of the following from April 1, 2009 to March 31, 2010 at the time of the next FSR application:

- Reconcile recorded Sales (and, if available, audited sales) in kwh to FSR application
- Reconcile recorded FSR revenue (and, if available, audited FSR revenue) to the FSR application
- Reconcile the recorded fuel costs (and, if available, audited fuel costs) to the FSR application subject to any adjustments to reflect differences in actual versus forecast fuel efficiencies.

5. Summary of Directions

1. The URRC directs QEC to provide reconciliations of the following from April 1, 2009 to March 31, 2010 at the time of the next FSR application:

- Reconcile recorded Sales (and, if available, audited sales) in kwh to FSR application
- Reconcile recorded FSR revenue (and, if available, audited FSR revenue) to the FSR application
- Reconcile the recorded fuel costs (and, if available, audited fuel costs) to the FSR application subject to any adjustments to reflect differences in actual versus forecast fuel efficiencies.

6. 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 4.68 cents per Kwh be approved for QEC, for the period January 1, 2010 to September 30, 2010.

ON BEHALF OF THE

UTILITY RATES REVIEW COUNCIL OF NUNAVUT

DATED: March 17, 2010
Raymond Mercer
Chairman