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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 October 1, 2010 to March 31, 2011
Report 2010-04

December 31, 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 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.

2. Particulars of the Application

In its October 4, 2010 Application QEC indicates the current fuel stabilization rider is expiring September 30, 2010. QEC is faced with having to file without knowing the resupply fuel price and this application is based on projections resulting from discussions with the Department of Community and Government Services (C&GS) of the Government of Nunavut (GN). QEC indicates it is filing a General Rate Application (GRA) for the 2010/11 test year in September 2010 and will be requesting increased rates together with a request to collect shortfalls arising from existing rates.

Taking the foregoing into consideration, QEC proposes to hold the current fuel stabilization rider at 4.68 cents/kWh, with a true up calculation adjustment after the 2010 re-supply price is known and the GRA requests are addressed. QEC states holding the current fuel stabilization rider at 4.68 cents/kWh will greatly reduce the burden on ratepayers and smooth the impact of rate/rider increases.

In its October 4, 2010 Application QEC states continuation of the 4.68 cents/kWh FSR rider for the period October 1, 2010 to March 31, 2011 would result in a fuel stabilization fund deficiency of $597,000 as of March 31, 2011. This was later updated on November 5, 2010. The response to information request URRC QEC 5 filed on November 5, 2010 indicates the updated forecast fuel stabilization fund balance as of March 31, 2011 is forecast to be a deficiency of $2.318 million.

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 October 1, 2010 be in place for a period of six months to March 31, 2011.

3. Process

On the recommendation of the URRC, the Minister responsible for the URRC approved an FSR of 4.68 cents per kWh for implementation on an interim refundable basis effective October 1, 2010, pending full review by the URRC.

The URRC caused notice of the Application to be published in all editions in November 2010 of Nunavut News/North, Kivalliq News, and in Nunatsiaq News.

QEC responded to information requests from the URRC on November 5, 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 Fuel Stabilization Fund Balance March 31, 2010

In the attachment to information request URRC QEC-5(a), QEC provided an updated continuity schedule of the fuel stabilization fund calculations, by month and by community from April 2009 to March 31, 2011 which incorporates final audited figures for the 2009/10 fiscal year.

QEC indicates based on the updated continuity schedule provided in the attachment to information request URRC QEC-5 (a) the actual audited FSR balance on March 31, 2010 is a deficiency of $1.829 million. This deficiency is $1.371 million higher than the forecast deficiency of $0.458 million reflected in the October 4, 2010 Application with respect to March 31, 2010. The reasons for the increased deficiency as of March 31, 2010 appear to be as follows.

The October 4, 2010 Application assumed a 10 cent/litre decrease to the fuel price for the months of February and March 2010. This decrease did not occur. The net effect of a decrease in generation and a higher than forecast fuel cost due to the anticipated 10 cents per litre decrease not materializing, contributes to $1.175 million of the increase in the deficiency as of March 31, 2010 as per information request URRC QEC 1 Table 1. QEC states the difference between forecast and actual FSR rider collection accounts for $0.194 million of the increase in the deficiency as of March 31, 2010.

URRC Findings:

The URRC notes, by virtue of using the actual fuel stabilization balance as of March 31, 2010, the Corporation has reflected the actual fuel efficiencies for the purpose of calculating the fuel stabilization fund balance to March 31, 2010. However, for regulatory purposes, the use of actual fuel efficiencies is not consistent with the Ministerial Instructions contained in Schedule F-1 attached to the Application which states:

- *The amount charged or credited in each month to the fund will reflect the following adjustment formula for each community:*

  > *Actual or forecast generation in Kwh/Last URRC approved efficiencies in Kwh per liter* (Actual price per liter-forecast price per liter);*

In the URRC's view the intent of the instructions contained in Schedule F-1 is that the Corporation would be at risk for any fuel efficiency improvements or deterioration, not the customers. Accordingly, for purposes of determining the March 31, 2010 fuel stabilization fund balance the URRC considers the forecast efficiencies from the last GRA should be used. If the Corporation considers, the use of GRA forecast fuel efficiencies required pursuant to Schedule F-1 should be changed, so as to reflect more current forecasts of fuel efficiencies, the issue should be raised in the context of the 2010/11 General Rate Application (GRA), for the change to be effective on a go forward basis.

The URRC also notes the amounts recovered under the FSR rider in the 2009/10 fiscal year on an actual basis are lower than what would be generated from applying the FSR riders to the sales in the 2009/10 fiscal year. In this regard the URRC notes the FSR recoveries based on applying the FSR to the sales kWhs in the relevant periods results in an FSR recovery of $10.605 million for fiscal year 2009/10. In contrast the FSR recoveries based on the continuity schedule provided in the attachment to information request URRC QEC 5(a) reflects FSR recovery of $10.432 million for the 2009/10 fiscal year, as per the November 2010 update. In the URRC's view, any under recoveries of FSR revenues are part of the corporation's risk rather than a customer risk and should therefore not be reflected in the fuel stabilization fund balance for regulatory purposes.

Taking the foregoing into consideration the URRC has adjusted the fuel stabilization fund balance as of March 31, 2010, for regulatory purposes, as follows:

Fuel Stabilization Fund Balance March 31, 2010				$
Opening balance April 1, 2009				(471,831)
Net Charges to Fuel Stabilization Account due to Fuel Price Change				12,731,653
Less FSR Recoveries:				
		Sales kWh	**FSR Rate**	
April to June 2009		34,522,800	0.1252	(4,322,255)
Jul top Sept 2009		34,193,792	0.0796	(2,721,826)
Oct 09 to March 2010		76,097,768	0.0468	(3,561,376)
Sub total FSR Recoveries		144,814,360		(10,605,456)
Balance Mar 31, 2010				1,654,366

The URRC directs the adjusted March 31, 2010 fund balance of $1.654 million be used for purposes of calculating the fuel stabilization fund continuity Schedule and the forecast fuel stabilization fund balance as of March 31, 2011.

4.2 Fuel Stabilization Fund Balance March 31, 2011

The following table shows the calculation of the forecast fuel stabilization fund balance as of March 31, 2011, as updated by QEC on November 5, 2010 and as adjusted by the URRC. The URRC adjustment includes changes to the March 31, 2010 balance referred to in Section 4.1 above.

Forecast Fuel Stabilization Fund Balance March 31, 2011			
		QEC	URRC
		$	$
Opening balance April 1, 2010		1,828,830	1,654,366
Net Charges to Fuel Stabilization account due to Fuel Price Change		10,488,785	10,488,785
Less: FSR Recoveries @ $0.0468 per kWh		7,267,260	7,267,260
Less: GN Rebate		2,732,010	2,732,010
Closing balance Mar 31, 2011		2,318,345	2,143,881

QEC indicates the April 2010 to June 2010 figures in the November 5, 2010 updated continuity schedule set out in the attachment to request for information

URRC QEC 5(a) reflect preliminary actual fuel prices and forecast sales, generation and rider collections; the July 2010 through March 2011 reflect forecast fuel prices, generation and sales.

QEC indicates the Government of Nunavut in July of 2010 made a contribution of $2.732 million in lieu of the 10 cents per litre price reduction assumed in the October 4, 2010 Application, for the period February 2010 to September 2010. This contribution is reflected in the updated fuel stabilization fund balance as of March 31, 2011.

URRC Findings:

The URRC notes from the October 4, 2010 Application and from the attachment to information request URRC QEC 5(a) that the fuel prices are typically adjusted for resupply in the months of August/September. Although there are some minor adjustments to fuel prices in the November 5, 2010 update, price changes resulting from resupply during the summer of 2010 are not reflected in the updated calculations. This introduces an element of uncertainty into the forecast fuel stabilization fund balance as of March 31, 2011.

The URRC is concerned by QEC's inability to reflect the prices resulting from the most recent resupply as this in turn impacts the accuracy of the forecast fuel stabilization fund balance and the accuracy of the FSR rider. In the URRC's view, an incorrect FSR results in intergenerational inequities by not matching fuel cost recoveries with the actual costs, within the period they are incurred.

In the URRC's view the communication lines between QEC and C&GS as well as the GN should be streamlined so that QEC is able to forecast fuel prices reflecting delivered costs of fuel more accurately and on a timely basis for purposes of the forecast FSR filings. QEC is directed to identify and document internal and external process improvements designed to reflect forecast and actual fuel prices accurately and on a more timely basis in future FSR applications and, to implement such improvements prior to the next FSR application.

The URRC notes the forecast fuel stabilization fund balance as of March 31, 2011, after the URRC determined adjustment to the March 31, 2010 balance, would be $2.144 million. The URRC notes if this balance is to be recovered during the October 1, 2010 to March 31, 2011 period the FSR would be significantly higher than the 4.68 cents per kWh requested by QEC.

The URRC notes QEC is not requesting to increase the proposed FSR of 4.68 cents per kWh to recover the significantly higher fuel stabilization fund balance as of March 31, 2011. In principle, the URRC considers delays in the recovery of fuel costs through the FSR mechanism results in intergenerational inequities and should be avoided to the extent it is practical to do so. Further, delays in recovery of fuel stabilization balances can result in higher rates with the potential for rate shock at a later point in time. For these reasons the URRC considers recovery of the March 31, 2011 forecast fuel stabilization fund deficiency on a timely basis is appropriate.

However, in this particular instance, the URRC notes a 6% interim increase in base rates was approved for QEC effective November 1, 2010 and any further increases in the FSR for the winter months may not be appropriate from the point of view of rate stability. Under the circumstances, the URRC finds QEC's recommendation to maintain the FSR of 4.68 cents per kWh for the October 1, 2010 to March 31, 2011 period to be acceptable. Accordingly, the URRC recommends approval of the 4.68 cents per kWh FSR on a final basis for the period October 1, 2010 to March 31, 2011.

The URRC directs QEC to come forward with an FSR application effective April 1, 2011 designed to give effect to the accumulated fuel stabilization fund balance as of March 31, 2011 having regard to rate stability considerations including any further changes to rates resulting from the 2010/11 GRA..

4.3 Station Service and Losses

In the response to information request URRC QEC 4, the Corporation provided the station service and losses as a percent of sales by community and in total for the Corporation for the period October 1, 2010 to March 31, 2011. The Corporation indicates on a corporate wide basis, the station service and losses percentages are lower than those established in the 2004/05 GRA.

URRC Findings:

The URRC notes while the station service and losses percentages overall are lower than those established in the 2004/05 GRA, the percent losses in certain communities have increased significantly relative to the 2004/05 GRA. In this regard Resolute Bay and Grise Fiord are worthy of note.

The URRC is concerned by the increases in losses in certain communities as these increased losses in turn would have an impact on the community-based rates. The URRC directs QEC to address the reasons for unusually high losses in certain communities as part of the 2010/11 GRA, and to propose options which are economically feasible to reduce these losses.

4.4 Interest on FSR Balances

QEC states Schedule F-1 of the Ministerial Directive indicates interest shall be charged or deducted from the rate stabilization fund balance based on short-term interest rates. However, in practice, QEC indicates in information request URRC QEC 6 that it has not been charging interest to the rate stabilization fund balance, as this would increase the amount to be collected from customers. QEC indicates since interest has not been calculated on fund balances in the past 6 years, and since foregoing interest on the fund balance is a benefit to customers, the current practice should be continued.

URRC Findings:

The URRC accepts QEC's proposal that no interest be charged or credited for purposes of the current FSR proceeding. However, the URRC considers any change to the Ministerial Directive as set out in Schedule F-1 should be addressed as part of the 2010/11 GRA. Accordingly, QEC is directed to address this matter as part of the 2010/11 GRA.

5. Summary of Directions

1. The URRC directs the adjusted March 31, 2010 fund balance of $1.654 million be used for purposes of calculating the fuel stabilization fund continuity Schedule and the forecast fuel stabilization fund balance as of March 31, 2011.

2. In the URRC's view the communication lines between QEC and C&GS as well as the GN should be streamlined so that QEC is able to forecast fuel prices reflecting delivered costs of fuel more accurately and on a timely basis for purposes of the forecast FSR filings. QEC is directed to identify and document internal and external process improvements designed to reflect forecast and actual fuel prices accurately and on a timely basis in the FSR applications and, to implement such improvements prior to the next FSR application.

3. The URRC directs QEC to come forward with an FSR application effective April 1, 2011 designed to give effect to the accumulated fuel stabilization fund balance as of March 31, 2011 having regard to rate stability considerations including any further changes to rates resulting from the 2010/11 GRA.

4. The URRC directs QEC to address the reasons for the unusually high losses as identified in Section 4.3 as part of the 2010/11 GRA and to propose options which are economically feasible to reduce these losses.

5. The URRC accepts QEC's proposal that interest not be charged or credited for purposes of the current FSR proceeding. However, the URRC considers any change to the Ministerial Directive as set out in Schedule F-1 should be addressed as part of the 2010/11 GRA. Accordingly, QEC is directed to address this matter as part of the 2010/11 GRA.

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 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.

ON BEHALF OF THE

UTILITY RATES REVIEW COUNCIL OF NUNAVUT

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DATED: December 31, 2010
Raymond Mercer
Chairperson

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 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.

ON BEHALF OF THE

UTILITY RATES REVIEW COUNCIL OF NUNAVUT

DATED: December 31, 2010
Raymond Mercer
Chairperson