



March 22, 2019

Hon. Jeannie Ehloak
Minister Responsible for
the Qulliq Energy Corporation
Legislative Assembly of Nunavut
P. O. Box 2410
Iqaluit, NU X0A 0H0

Dear Minister Ehloak,

RE: The Major Project Permit Application Respecting the New Baker Lake Head Office Building, Report 2019-02.

By letter dated January 8, 2019, the Qulliq Energy Corp (QEC) applied to the Minister responsible for approval of a major capital project permit for a new head office building in the community of Baker Lake. By letter dated the same date the responsible Minister requested advice from the Utility Rates Review Council of Nunavut with respect to QEC's Application.

In response to the Application and the Minister's request, please find attached the Utility Rates Review Council's Report 2019-02 on the Major Project Permit Application respecting New Baker Lake Head Office Building.

Yours truly,

Anthony Rose
Chair, Utility Rates Review Council of Nunavut

CC: Premier Joe Savikataaq, Minister responsible for URRC
Kathy Okpik, Deputy Minister, Executive and Intergovernmental Affairs
Bruno Pereira, President, Qulliq Energy Corporation
Laurie-Anne White, Executive Director, URRC



**Report to the Responsible Minister for the Qulliq Energy Corporation On:
The Major Capital Project Permit Application Respecting Construction of a
New Head Office Building in Baker Lake**

Report 2019-02

March 22, 2019

UTILITY RATES REVIEW COUNCIL OF NUNAVUT

MEMBERS

Anthony Rose	Chair
Graham Lock	Vice Chair
Robbin Sinclair	Member
Nadia Ciccone	Member

SUPPORT

Laurie-Anne White	Executive Director
Wade Vienneau	Consultant

LIST OF ABBREVIATIONS

GRA	General Rate Application
GN	Government of Nunavut
wKh	Kilowatt hour
QEC	Qulliq Energy Corporation
URRC	Utilities Rates Review Council

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1.0 BACKGROUND

1. 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.

2. Section 7(e) of the URRC Act states, among others, the purposes of the Review Council are to 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. On January 8, 2019, QEC applied to the Minister responsible for approval of a major capital project permit for a new head office building in the community of Baker Lake. On the same date the responsible Minister requested advice from the URRRC with respect to QEC's Application. The URRRC consideration of the matter is set out in this Report.

2.0 PARTICULARS OF THE APPLICATION

4. QEC proposed the construction of a new head office building in the community of Baker Lake to replace leased space, at an estimated cost of \$13.0 million. Baker Lake is the fourth largest community in Nunavut located somewhat centrally in QEC's service territory. QEC's business activities are served from the head office located in Baker Lake and the corporate office located in Iqaluit.
5. QEC indicated that the new office building would provide adequate space to accommodate all Baker Lake administration staff in one location and address the probable near-term termination of the lease for one of the office spaces. Currently, there are 41 employees working in three different offices in the community of Baker Lake.
6. QEC does not own an office building in Baker Lake, and currently leases three buildings to meet its needs. The leased space will not accommodate planned staffing levels, and continued access to the largest of its leased buildings is at risk of becoming unavailable in the foreseeable future. QEC advised that at the end of the initial lease, on August 31, 2020, the Government of Nunavut intends to take possession of the office space for its own requirements in Baker Lake. This would leave QEC without approximately fifty percent of the office space it requires in Baker Lake. Further, QEC stated that the present office situation does not allow for an efficient, unified and organized work environment.
7. QEC provided details regarding four options it considered to be potential solutions, for the purposes of the project permit application. It did not consider 'doing nothing' to be a viable option. The four options are summarized as follows:
 - (a) Option 1 – Secure a long term lease from other buildings in Baker Lake
 - (b) Option 2 – Purchase Iglu hotel and renovate to convert to office space
 - (c) Option 3 – Construct a new head office building
 - (d) Option 4 – Lease a new building constructed by a third party
8. QEC concluded that option 3, to construct a new head office building, is the preferred and least cost option for QEC to meet its office space needs in Baker Lake.

9. QEC stated that planning for the new head office will commence in April 2019, with the tender for design completed in September 2019, and the tender for construction completed in January 2020. Construction will commence in February 2020 and the building is expected to be commissioned in February 2021.

3.0 PROCESS

3.1 MAJOR OR MINOR APPLICATION

10. Under the URRC Act, it is directed that at the sole discretion of the URRC, the URRC shall determine whether an Application is either Minor or Major for purposes of determining the time required for processing of the Application; a minor Application provides for a time limit of 90 days for the URRC to report to the responsible Minister while a major application provides a time limit of 150 days. In view of the significant level of investment proposed in the project permit application, and considering the need for information requests and responses, the URRC determined to treat the subject Application as a Major Application.

3.2 PUBLIC CONSULTATION PROCESS

11. During the period leading up to the deadline for written comments, the URRC caused notice of the Application through social media, through the government liaison officers (GLOs) in each community, and by letter to each Member of the Legislative Assembly of Nunavut (MLA), mayor and senior administration officer (SAO) across Nunavut.
12. The URRC also provided an opportunity for the public to make written comments respecting the major capital project permit application by the deadline of February 1, 2019. No written submissions or comments were received from the public or any other party with respect to the Application.
13. QEC responded to one round of information requests from the URRC on February 8, 2019.

4.0 EXAMINATION OF THE APPLICATION

4.1 NEED FOR THE PROJECT

14. The URRC notes the stated need to address a forecast shortage of office space in Baker Lake due to the Government of Nunavut's opportunity to take possession of the GN building as soon as the end of the initial lease term (August 31, 2020). The URRC further notes the stated deficiencies with the three leased spaces, even if they continued to be available. QEC has submitted that the combined 9,708 square feet currently leased:
 - a. is inadequate for the number of employees in Baker Lake
 - b. does not have dedicated access to boardroom or training room space
 - c. does not allow for an efficient, unified and organized work environment.
15. The URRC notes that continued access to the GN building is the primary driver of the need for alternative office space. While the URRC does not know for certain what the GN's plans are with respect to the GN building, it is clear that the option of whether or not to offer one year extensions beyond August 2020, is at the option of the GN and not solely by QEC. This is a risk that has been identified by QEC, and should be addressed in a timely way. The URRC also notes the stated deficiencies with the currently leased space. Each deficiency has merit on a prima facie basis.
16. The URRC explored QEC's stated need further through information requests and other analysis.
 - a. QEC stated that the current 9,708 square feet provides office space for forty of the forty-seven full time equivalent positions approved for Baker Lake. QEC further stated that the ideal number of full time positions in Baker Lake is fifty. The URRC asked QEC about its ability to relocate some of the positions to another location or locations. QEC noted that a GN decentralization mandate requires thirty-one positions to be located in Baker Lake, and provided a list of the positions. QEC acknowledged that it was possible to relocate a portion of the existing Baker Lake staff, but it was not desirable. QEC stated that there is insufficient space in the Iqaluit corporate office to accommodate its current staff, and could not accommodate additional staff relocated from Baker Lake. The

URRC accepts that there is limited ability to relocate Baker Lake staff to other locations, and that to do so would not improve the efficiency of the head office or QEC's desire to be more unified. The URRC also accepts that based on the list of positions provided it would clearly improve the ability of head office staff to interact and collaborate if they were all located in one building.

- b. The URRC notes that the current space does not provide a boardroom or training room space. QEC has not provided any details regarding the frequency or space requirements to meet this need. It is not clear to the URRC how much of a cost or inconvenience it is to QEC when the GN boardroom must be booked. Depending on the frequency of the need, it may be a better solution to continue using the GN boardroom than to dedicate significant space in a new building. The URRC considers that the requirement for access to a boardroom and training room space should be met efficiently from a cost/benefit perspective.
- c. The URRC notes the forty Baker Lake staff are currently located in three buildings, but it is not clear how many offices or workspaces are available. Regardless, the URRC accepts that space will be inadequate if the building leased from the GN is unavailable. It is not clear to the URRC how much space QEC needs for the forty, forty-seven, or fifty staff it needs to accommodate, or for the spare offices, meeting room, training room and break room it identified. The URRC is also not clear about how many of the positions are suitable for shared workspaces or require a dedicated office.

17. Notwithstanding the above, the URRC considers that QEC has a need for new/additional space in the 2020 to 2021 timeframe it has identified. The primary need is to replace the 5,134 square feet of space that may not be available after August 31, 2020. Given that the need is imminent and arose due to a relatively short term lease with the GN, the URRC considers that options should be examined with a longer term solution in mind including improved efficiency and organization of the workforce and minimization of lifetime costs.

4.2 ALTERNATIVE OPTIONS TO MEET THE NEED

18. QEC stated that it recognizes the need for a long term approach to prioritize and maximize the benefit of capital expenditures while providing a safe and efficient working environment for its employees. The URRC agrees that this is a reasonable and

prudent approach.

19. The URRC agrees that if the GN intends to take possession of the 5,134 square feet of space QEC is currently leasing, doing nothing is not a viable option. The URRC reviewed in detail each of the four options QEC included in its application and has summarized its comments about each as follows:

- a. Option 1 – Secure long-term lease from other buildings in Baker Lake. The URRC notes that this would have been a relatively easy option to implement, but agrees that due to the limited supply of buildings for lease, and no large buildings available, the use of a number of smaller buildings could create challenges for employees and be inefficient. The URRC agrees that this option is not viable.
- b. Option 2 – Purchase Iglu hotel and renovate to convert to office space. The URRC notes that this option could have provided enough space to accommodate QEC's Baker Lake employees, but agrees that due to the age of the building, its current configuration as a hotel, the materials used in both the interior and exterior that it may require significant demolition, replacement and reworking. The URRC agrees that this option is not viable.
- c. Option 3 – Construct a new head office building. The URRC notes that this option included two possible locations, for a building that would be approximately 13,000 square feet in size at a QEC preliminary budgeted cost of \$13.0 million. QEC submitted a letter from the Hamlet of Baker Lake in support of the location next to the GN office building that QEC currently leases space from (in response to URRC-QEC-3 b). The URRC notes that the annualized cost of this option is estimated to be \$1.030 million, compared to the current lease cost of \$0.555 million. The URRC agrees that this option is viable.
- d. Option 4 – Lease a newly constructed building from a third party. The URRC notes that QEC also investigated the construction and leasing of a building approximately 13,000 square feet in size. The annualized cost of this option is estimated to be \$1.240 million. The URRC notes that the estimated lease is based on the current GN lease cost. The URRC accepts that this estimate is probably low; it is very likely that a newly constructed building would be more costly than the current GN building. The URRC agrees that this option is viable.

20. The URRC notes that QEC did not provide any details regarding the construction, or, construction and lease of a smaller building (i.e. to replace only the 5,134 square feet

that could be unavailable). The URRC considers that a smaller building could have been a less costly option, but would not provide the unquantified benefits of a single location.

21. The URRC notes that QEC's preferred option is to construct and own a new head office building large enough to accommodate all of its head office staff located in Baker Lake.

Some of the URRC's observations are as follows:

- a. The annualized cost of Option 4 is about \$0.210 million (approximately twenty per cent) more than Option 3. However, the URRC notes that much of the difference appears to be due to annualized capital improvement costs of \$0.164 million included in Option 4, but not in Option 3. In response to URRC-QEC 3(d), QEC stated that there were no planned capital improvements for the new building. The URRC expects that this would also be the case for a newly constructed building in Option 4, which would reduce the difference between the two options considerably.
- b. The estimated average territorial rate increase is approximately 0.35 ¢/kWh, to be examined and tested at the next QEC GRA. The effect on customers is relatively low but not insignificant. The estimate appears to be reasonable and the rate effects are also reasonable if the unquantified benefits are achieved.
- c. The increased operational efficiency and other organizational benefits as a result of owning or leasing a single head office building have not been quantified, but is a likely result.
- d. The potential benefits from heat recapture (from the power plant) may be available to QEC and additional buildings in the surrounding area, but the reduction in operating costs and/or potential revenue source has not been quantified.
- e. The preliminary budget for Option 3 is based on a Class D estimate with an accuracy of plus or minus twenty five percent. Further, QEC has not completed its proposed building layout or detailed design. This uncertainty would have similar effects on Option 3 and Option 4.
- f. QEC retains more direct control over the project schedule and execution by constructing its own head office building.
- g. The construction of a new 13,000 square foot building would provide QEC with an additional 3,300 square feet of space to address some of the deficiencies noted, such as a meeting/board room, training room, break room. The URRC also

expects that a single, well designed building should be much more efficient than three smaller buildings in terms of space utilization.

- h. The lease for the second building (2,920 square feet) has an option to terminate without penalties.
- i. The third building (1,654 square feet) may be redeployed as employee housing at minimal annual cost.

22. The URRC agrees that the option to construct a new 13,000 square foot head office building appears to be the best option based on the information and assumptions provided in the Application. There is an immediate need to replace over fifty per cent of the current office space, and the proposal to locate all head office staff in one larger building has merit for the reasons summarized above. However, if the forecasted cost to construct varies significantly from the preliminary budget once bids have been received, it may be prudent for QEC to reconsider Option 4 or consider constructing a smaller building to reduce the effect on customer rates.

23. In view of all of the above, the URRC recommends, QEC be approved to proceed with the project as requested. The URRC recommends that QEC include consideration of the following, among others:

- Sound financial and project management controls should be in place to optimize/minimize the cost/size of the requested building.
- It would be in consumers' interest and the GN's interest to make building size and design choices based on cost, and not on local criteria.
- That QEC review the options available once the bids have been received with a view to reconsidering Option 4, or a smaller building, if the bid costs vary materially from the initial estimate of \$13.0 million and advise the URRC of its conclusions. The URRC considers a variance greater than 25 per cent from the initial estimate of \$13.0 million to be material, since the initial estimate already includes a contingency of approximately \$1.5 million.

5.0 URRC RECOMMENDATION

24. Having considered the foregoing matters, the URRC recommends as follows:

- That the major capital project permit approval for construction of the new head office building in Baker Lake be granted, with the condition that QEC complete the additional due diligence steps as set out in paragraph 23 prior to commencement of construction and if a change in project concept, cost, and scope is considered appropriate, to present the proposed concept and costs to the Minister Responsible for QEC.
- That the prudence of the actual cost of construction of the project be examined at the time the project is proposed to be included in rate base.

25. 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: March 22, 2019

Anthony Rose
Chair Utility Rates Review Council