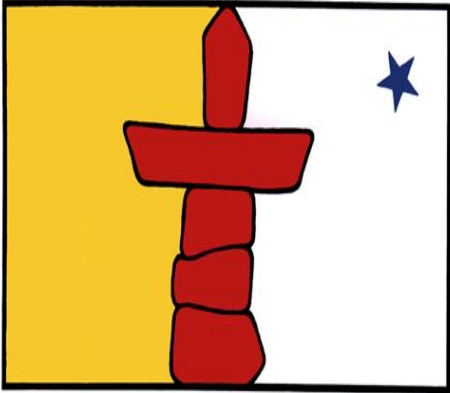


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Ikuma II Implementation

Work Plan



*Decisions and Actions to
Implement Ikuma II Report
Recommendations*

.....

SUMMARY

This work plan outlines the tasks, responsibilities, timelines, and estimated costs to implement the recommendations of the Ikuma II Report. The approach consists of seven components.

Nov 15, 02
–
Mar 31, 03

1. **High level Committee On Managing Energy Transition (“COMET”) coordinates initial planning and preparation.** COMET would include the Chair of NPC, the DM of PW&S, and the President of NPC, and report to the Minister of Energy. The Ikuma group will provide administrative and technical support for COMET. A prospective CEO for Quilliq Energy Corporation (“QEC”) will be in place early in 2003 to help COMET and the NPC/QEC Board set up the structures and systems needed for transition.

Nov 15, 02
–
Mar 31, 03

2. **Legislation amended to create necessary components and enable transition.** Amendments to the *Nunavut Power Utilities Act* and other related legislation are needed to put QEC and its power (NPC) and fuel (QFC) subsidiaries in place, and enable the necessary transfers of people, assets, contracts, etc. from NPC and PPD to these subsidiaries. Legislative amendments may also be needed so that the financing and pricing structures of the new model can be put in place.

Apr 1, 03
–
Mar 31, 04

3. **QEC established and given the mandate to manage transition.** The existing NPC Board, with additional fuel expertise, will become the QEC Board and assume responsibility for planning and managing implementation starting April 1, 03. QEC will be responsible for preparing energy financing, pricing and service integration plans for Cabinet review, with the goal of having all the companies, systems and financing arrangements of the new model in place on April 1, 2004. QEC will borrow any money needed in 03/04 to cover start up costs not met by GN funding.

Feb 1, 03
–
Apr 30, 04

4. **Enable NPC to continue operations as a subsidiary of QEC.** No significant changes will be made to NPC operations in 03/04. Although it will become a subsidiary of QEC on April 1, 03, legislative amendments and suitable legal transfers will enable it to continue to have the same plant, personnel, financing, etc. Fuel related assets will be moved to QFC in line with a QEC plan to be submitted to the Minister in 03/04.

Feb 1, 03
–
Apr 30, 04

5. **Establish QFC capacity to takeover PPD operations.** In 03/04 QEC will prepare QFC to assume fuel service responsibility from PPD – transfer plant and personnel, develop office facilities and necessary IT and financial systems, establish procedures, structure financing, etc. A Chief Operating Officer (“COO”) of QFC will be put in place as soon as possible to work with the CEO of QEC to coordinate the transition. QEC will develop a corresponding comprehensive plan for review by the Minister.

Apr 1, 03
–
Nov 30, 04

6. **Restructure energy funding.** QFC and NPC are to operate as utilities tracking all costs, including reasonable debt and equity costs. These costs will be recovered from the rates and the subsidy provided by the Affordable Energy Fund (“AEF”). QEC will develop energy financing and pricing plans for Cabinet approval in 03/04. These plans will address issues related to PPD asset valuation, use of the Revolving Fund in QFC financing, and the operation of the Affordable Energy Fund (“AEF”). Once the GN has made policy decisions on these issues, QEC and the Department of Finance, will develop appropriate funding and pricing procedures.

Nov 15, 03
–
Apr 1, 05

7. **Carry our communication and consultation.** COMET will prepare a communication and consultation plan for GN review by the end of 2002 aimed at ensuring consumers, employees, and others affected are fully informed participants in the transition process. A planned review of rate proposals by the Utility Rates Review Council will also create an opportunity for public input.

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INTRODUCTION

Purpose

To outline a work plan for implementing the recommendations of the Ikuma II Report.

Situation

- The Ikuma II Report reviewed Nunavut's energy situation and recommended the GN:
 - **Establish Qulliq Energy Corporation (QEC)** – as a Crown Corporation responsible for energy supply and innovation in Nunavut through power (NPC), fuel (QFC), and as-needed energy opportunity subsidiaries, with
 - **NPC kept as an operational unit** – legally restructured as a subsidiary of QEC;
 - **PPD kept as an operational unit** – but as a subsidiary company of QEC;
 - **Adopt similar pricing principles for fuel and power** – by making QFC (replacing PPD) and NPC price proposals subject to review by the Utility Rates Review Council;
 - **Appoint an Energy Advisor** – to monitor energy related issues, recommend policies to Cabinet, and coordinate action on Cabinet level energy decisions;
 - **Create an Affordable Energy Fund** – to replace existing subsidy programs by an annual combined appropriation for power and fuel price subsidies; and
 - **Develop a long term Nunavut Energy Strategy** – with government and private sector partners.
- Cabinet endorsed the Report recommendations and the Ikuma II work group was asked to prepare a work plan for implementation.

Objectives

This work plan outlines the tasks, responsibilities, timelines, and estimated costs to:

- Establish QEC as legal and operational entity with subsidiaries Nunavut Power Corporation and Quilliq Fuel Corporation (“QFC”);
- Establish QFC as legal and operational entity built on the assets and personnel of PPD;
- Transfer people, property, rights and responsibilities as required for QFC and NPC to be fully operational;
- Establish necessary financing mechanisms for QEC and QFC;
- Create the Affordable Energy Fund and restructure existing subsidy and price stabilization funds to fit the new model;
- Establish an implementation & management planning team, supported by an Implementation Secretariat (“QECIS”), to provide administrative and technical support for the implementation process; and
- Draft and give effect to the legislation and policies required to achieve the above results.

Principles

The work plan is guided by three principles – security of supply, transitional simplicity, and delegated management.

- *Security of Supply* – Don't let the transition process impair security of supply or affect the day-to-day operations of NPC and PPD. Operations will change only when QFC is fully operational and QEC can implement a plan for orderly physical, financial and economic integration.
- *Transitional Simplicity* – Minimize the legislative, institutional and operational changes needed to implement the new structures and systems.
- *Delegated Management* – Make QEC, as the body responsible for delivering services, responsible for implementation. The GN, supported by QECIS, will need to coordinate preparation and planning, and set transition and integration targets, but QEC should have the mandate to manage implementation to meet the targets.

PROJECT DESCRIPTION

Approach

The approach consists of seven work packages.

(1) Create the capacity to coordinate transition

To coordinate the transition a Committee On Managing Energy Transition (“COMET”) representing those responsible for PPD and NPC will be set up. It will report to the Minister of Energy, but for 02/03 funding will be via PW&S based on a joint submission of the Ministers responsible for Energy and PWSS. The Ikuma group will provide administrative and technical support for COMET and act as the QEC Implementation Secretariat for 03/04.

(2) Amend legislation to create necessary components and enable transition

During the planning and preparation phase, legal documents will be prepared to create power and fuel subsidiaries of QEC on April 1, 03. On that date, amendments to legislation will convert the *Nunavut Power Utilities Act* into the *Qulliq Energy Corporation Act* (replacing NPC by QEC), ensure people, property, rights and responsibilities can be transferred to the QEC subsidiaries that will be created, and enable the financing and pricing structures needed for the new model to be put in place.

(3) Establish QEC and give it the mandate to manage the transition

A prospective CEO for QEC will be recruited as soon as possible to work with COMET and the QEC (NPC) Board in setting up the structures and systems needed for transition. The QEC Board will assume responsibility for planning and managing implementation starting April 1, 04. COMET's role will diminish as the QEC Board assumes responsibilities. As in the case of NPC's start up, QEC may be required to borrow or finance some of the 03/04 cover start up costs not met by GN funding.

(4) Restructure NPC to continue operations as a subsidiary of QEC

On April 1, 03, the necessary corporate and legislative actions will occur to put QEC in place with a power subsidiary (“NPC”) and a fuel subsidiary (“QFC”). The people, property, rights and responsibilities of today's power corporation will be moved to this “new NPC” subsidiary. There will be little change in the governance or operations of NPC. For 03/04, NPC management will continue to report directly to the QEC Board – essentially its current Board.

(5) Establish QFC capacity to takeover PPD operations

In 03/04 QEC will prepare QFC to assume fuel service responsibility from PPD – transfer plant and personnel, develop office facilities and necessary IT and financial systems, establish procedures, structure financing, etc. A Chief Operating Officer (“COO”) of QFC will be put in place as soon as possible to work with the CEO of QEC to coordinate the transition. QEC will be responsible for developing a comprehensive plan for approval by the Board and review by the Minister.

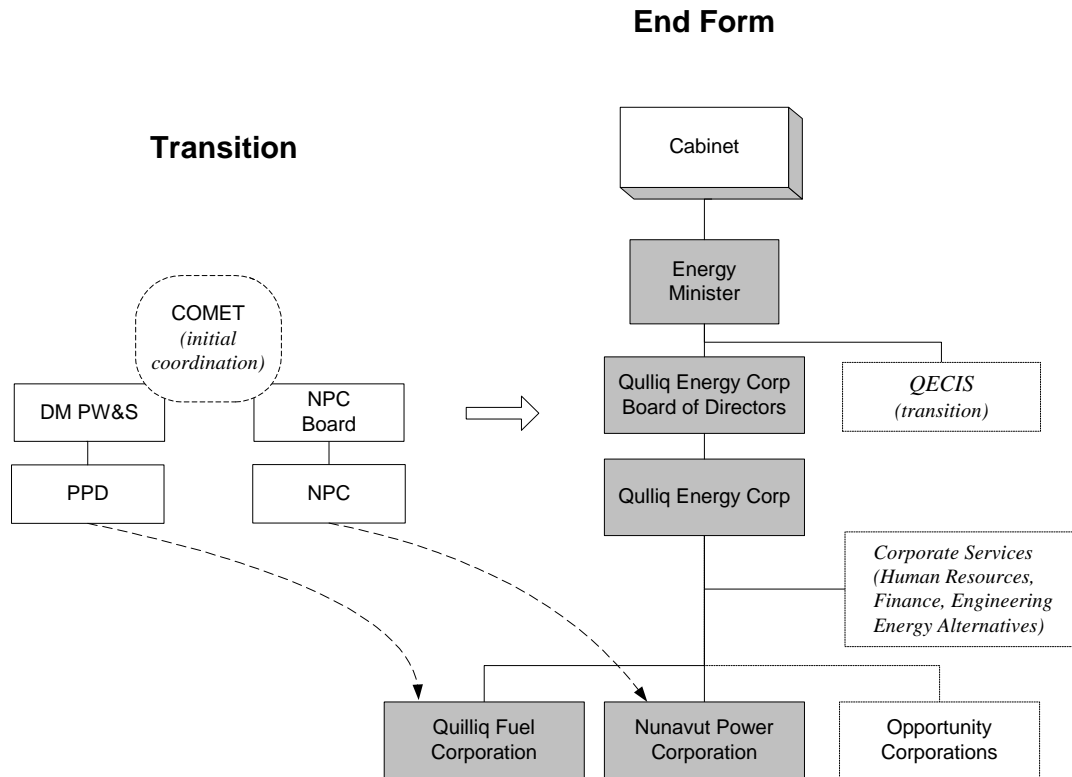
(6) Restructure energy funding

The intent is that QFC, like NPC, will operate as a utility tracking all costs, including reasonable debt and equity costs, and that these costs will be recovered from the rates and the subsidy provided by the Affordable Energy Fund (“AEF”). The actual financing of QFC depends on GN decisions on asset transfer values and the use of the Petroleum Products Revolving Fund. QEC will recruit a CFO by the spring of 2003 to assist the Board in developing a financing plan for Cabinet approval. The plan will address issues related to asset valuation, QEC and QFC financing, and the operation of the Affordable Energy Fund (“AEF”). Once the GN has made policy decisions on these issues, QEC, working with the Department of Finance, will develop a funding and pricing procedure by late 2003, aimed at determining the appropriation and rates for the coming fiscal year.

(7) Carry our communication and consultation.

COMET should have a communication and consultation plan ready for GN review by the end of 2002. Given the number of changes envisioned over the next year, a smooth transition will require continuous consultation and communication with those affected.

Transition Model



Time Frame

ID	Task Name	Start	End	2002		2003				2004	
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	
1	COMET and support created, funded and coordinating effort	02.11.15	03.03.31	█							
2	Prospective QEC CEO and QFC COO recruited and retained	02.11.15	03.01.01	█							
3	Fuel expert(s) for QEC Board recruited and appointed	02.11.15	03.01.31	█							
4	Amendments to legislation drafted and passed	02.11.15	03.04.01	█							
5	COMET prepares detailed transition plan and budget for 03/04	03.01.15	03.02.28		█						
6	Transition plan and budget approved	03.03.03	03.03.14		█						
7	CFO of QEC recruited and put in place	03.01.01	03.03.31	█							
8	Legislation takes effect, QEC and subsidiaries established	03.04.01	03.04.01			◆					
9	Basic QEC offices and systems set up	03.04.02	03.07.18			█					
10	NPC restructured based on existing personnel and assets	03.04.02	03.05.01		█						
11	NFC created and prepared to takeover from PPD	03.04.02	04.03.31		█						
12	QECIS created and operating under Minister of Energy	03.04.01	04.03.31		█						
13	QEC prepares 04/05 AEF subsidy and rates request	03.06.30	03.08.29				█				
14	GN/QEC negotiate agreement on transfer of PPD assets to QEC	03.11.03	03.12.31					█			
15	URRC review of rates proposed for 04/05	03.10.01	03.12.31						█		
16	Decisions on AEF appropriation and QEC rates for 04/05	04.01.01	04.01.15							█	
17	PPD assets, etc. transferred to NFC	04.04.01	04.04.01								◆
18	NFC, QEC, NPC fully operational	04.04.01	04.04.01								◆
19	Prepare QFC, NPC system integration plan for Minister's review	04.04.01	04.05.31								█

Decision Points

This work plan does not provide detailed plans and proposals for each component of the finished structures and systems. Instead it shows where plans need to be developed, suggests who should be involved, and provides a general time frame for their development. There will be a number of decision points, such as those listed below, where bodies within the GN will have to review these plans and make decisions. The list shows separate decision points, but it may be possible in some cases to combine points into a single Request for Decision.

(1) Adoption of Work Plan – Cabinet

This work plan needs to be taken to Cabinet for approval on progress and timing as per the Coral Harbour Retreat Report.

(2) Confirmation of budget – FMB/ Department of PW&S

PW&S has included \$500,000 in their 03/04 Business Plan for the fuel company set-up. This funding must be approved by the Legislative Assembly during the spring budget session.

(3) Appointment of Fuel Expert(s) to NPC’s Board – Cabinet

The Minister appoints the Directors, President and CEO of NPC under the *Nunavut Power Utilities Act*. With the necessary amendments, this Act will apply to QEC and the intent is to keep the Board of NPC as the Board of QEC. This Work Plan calls for adding fuel expertise to NPC’s Board as soon as possible to help plan transition.

(4) Approval of Legislative Proposal and draft legislation – CCL and Cabinet

As outlined in the legislation section of this work plan, there are a number of legislative amendments required to establish the various entities, enable the orderly transfer of people and assets, and make the two new subsidiary companies and QEC subject to URRC review. The relevant legislative proposals will need to be developed and submitted to the Cabinet Committee on Legislation for review so that legislation can be drafted, reviewed in committee and passed by the Assembly in time for start up on April 1, 2003.

(5) Creation of Subsidiary Corporations – Cabinet

The *Nunavut Power Utilities Act* allows NPC to create subsidiaries with the approval of Cabinet. Since the plan is to use amendments to the existing Act to establish QEC, Cabinet approval is required for the creation of QEC’s power (“new NPC”) and fuel (“QFC”) subsidiaries on April 1, 2003.

(6) Appointment President and CEO of QEC – Cabinet

When the amending legislation takes effect on April 1, 2003, QEC’s Board will be in place. The appointments of President and CEO will need to be confirmed, however. The appointment is made by the Premier and confirmed by Cabinet, signed off by the Minister.

(7) QEC (QFC, NPC) Financing Policy – Cabinet and FMB

The Ikuma II Report called for the provision of fuel energy and electric energy to be based on the total cost accounting utility model. That means rates should reflect the cost of debt and equity financing, as is the case for NPC. The extent to which debt is actually used to finance QFC depends, however, on how the GN decides to value the assets transferred from PPD to QFC, and on the use of the existing Petroleum Products Revolving Fund as a financing vehicle. This is one of a package of decisions on financing QEC, QFC and NPC that will be

needed before power and fuel rates for 04/05 can be developed. This work plan calls for QEC to prepare an Energy Financing Policy paper for Cabinet and FMB decision in early 2003.

(8) QEC (QFC, NPC) Interim Financing – FMB

It is proposed that the interim financing of QEC in 2003-04 be organized through a loan from the GN's cash flow of about \$1 million. This will need authorization from FMB, the QEC Board and the creation and signing of the appropriate financial notes – shortly after April 1, 2003.

(9) NPC, QFC Rate Design – Cabinet

The financing model adopted for QEC will affect the amount of revenue needed to pay its total cost of providing service. The major source of that revenue will be the rates charged for power and fuel. NPC's rate design philosophy was inherited from NTPC and tries to match rates to costs on a community basis. This can create problems for smaller communities when the rates go up dramatically to cover the cost of new capital projects. The opposite approach, recently proposed by NTPC, is "postage stamp" rates in which every community pays the same. Events in the NWT show that this approach can also create controversy.

The Ikuma Report called for NPC to adopt a unique Nunavut approach somewhere between the two extremes seen in the NWT. It would be based on shared capital costs and allocated local expenses. Whatever the approach, rate design for NPC and QFC can be a major political issue and the GN will need to deal with it in 03/04 so that QEC's fuel and power rates can get off on the right foot. To help in that regard, QFC will inherit a Cabinet decision holding fuel prices steady at 2001 rates until November 2003, but no other coherent price structures.

This Work Plan calls for QEC to prepare an Energy Pricing and Subsidies Paper for Cabinet review that will set out proposals for rate design philosophy and address what sort of guidelines AEF will need to effectively serve its purpose.

(10) Affordable Energy Fund and Subsidies Policy – FMB

The AEF is the one subsidy fund proposed to replace all existing subsidies and price stabilization funds. It is estimated that this fund will be in the neighborhood of \$25 million annually. Since it will replace a host of existing subsidies, some care will need to be taken in structuring the fund so that specific consumer groups currently benefiting from small, targeted subsidies are not disadvantaged by the transition to a one-fund approach.

A thorough and accurate documentation of existing subsidies across the GN needs to be compiled in 2003-04. Cabinet will then need to provide direction on a transition plan addressing how, if these continue to be desired subsidies, the objectives can be met with the AEF structure in place.

Since subsidies affect the amount actually paid by consumers, if there are specially targeted subsidies, this will also raise issues for the URRC in making rate recommendations. These issues are beyond the scope of this Work Plan and are for QEC to address in the Energy Pricing and Subsidies Paper referred to above.

(11) Budgeting Procedure – Cabinet

This is another decision point related to the AEF. The "one subsidy decision in advance" approach means QEC and the GN will need to develop an annual budget procedure recognizing the role of the URRC. In particular, QEC must have rates in place for the

coming fiscal year that will generate, along with the money received from the AEF, enough revenue to meet its costs. For this to work, QEC will need to prepare a forecast of its revenue requirement, the rates for fuel and power required to generate that much revenue, and a subsidy request from the AEF showing what the corresponding reduced rates would be if the subsidy is provided. The GN will need to be able to provide some estimate of what subsidy can be expected and the QEC will then need to propose rates to the Minister, for URRC review, that show its revenue requirement being met from the subsidy and rates. A procedure proposal needs to be developed so that the AEF appropriation and QEC price setting process can mesh with the GN budget cycle. To that end, this Work Plan calls for QEC to work with NPC, QFC, PPD, and Finance to develop a Budgeting Procedure Plan setting out a workable annual procedure for Cabinet review.

(12) Sale of NPC and PPD Assets to QFC – Cabinet/FMB

The GN could move its PPD assets into QFC at a nominal value or at Net Book Value – approximately \$63 million. Similarly NPC fuel related assets (tanks, pipelines and tank farms) will need to be transferred to QFC and accounted for on the basis that they are currently debt financed. It is beyond the scope of this work plan to determine the best approach for these transactions. QEC will be expected to review the matter with Finance and PPD and prepare a proposal for Cabinet review. At that point a policy decision will be needed and the necessary legal documents prepared to reflect that decision.

(13) QEC Services Integration Plan - Cabinet

This work plan does not deal with the operational details of how QEC and QFC will be set up and become fully functioning companies by the end of 03/04. It also does not deal with how the services of NPC and QFC will be integrated to accomplish the goals of efficiency and effectiveness that were a major motivator for consolidation. Given the paramount consideration of security of supply, the approach recommended is that QEC and its subsidiaries devote their efforts to ensuring a smooth transition in fuel services on April 1, 2004 and then begin an orderly integration of functions based on what makes the most sense operationally. To that end, the QEC Board would present a Services Integration Plan to Cabinet in the first half of 04/05, with the target of full integration by the end of 05/06.

Work Description

For planning and costing purposes, this plan breaks the transition effort into a number of work packages. These packages represent efforts grouped by goal area and are not sequential.

(1) Create Transition Coordination Capacity

▪ **Description**

This work package creates the capacity to coordinate initial planning and preparation. This will require a high level Committee On Managing Energy Transition (“COMET”) to manage the transition. COMET will be chaired by the proposed Chair of the Board of QEC – the current Chair of NPC – and include the President of NPC and the Deputy Minister responsible for PPD. The committee will report to the Minister of Energy. Once the CEO of QEC has been determined, he or she will also become a member of the committee. Similarly, when a COO of QFC is in place, he or she will join the committee and the DM responsible for PW&S can gradually reduce his role.

A senior public servant will provide administrative support and coordination for the Committee and provide primary support for QEC startup. Public Works will appoint a

support team member to provide primary support for QFC startup until a COO for QFC is in place. A Technical Advisory Group (“TAG”) consisting of the consultants responsible for the Ikuma reports will provide technical support services to the Committee as required.

▪ **Approach**

In order to be able to plan and implement the transition, the focus of the initial transition period (Nov. 1, 02 – Mar. 31, 03) is on creating a high level capacity to plan and coordinate the transition effort. This approach calls for QEC to have a CEO in place as soon as possible to work with COMET and the support team and lead transition planning and implementation. [See below in QEC startup]

Because the bulk of the work is PPD related, funding for initial preparations (02/03) could be via PW&S based on a joint submission to FMB by the Minister responsible for PPD and the Minister of Energy. Some funding to PW&S to support transition efforts will be needed in 03/04. QEC will be expected to borrow or finance any additional funds it requires for start up. Following the approach used for NPC’s start up, COMET’s administrative and technical support group will function as a QEC Implementation Secretariat through 03/04.

(2) Establish Necessary Legislation

▪ **Description**

This work package is aimed at putting legislation in place by March 31, 03 so that the implementation of new structures and funding can begin at the start of fiscal 03/04. The legislation will include amendments to the existing *Nunavut Power Utilities Act* and other statutes, and a Ministerial regulation.

▪ **Approach**

The following legislative actions should be completed by March 31, 03:

- Amend the *Nunavut Power Utilities Act* to
 - Change the name of the Act to the *Quilliq Energy Corporation Act*;
 - Transform NPC into QEC on Apr 1, 03, and facilitate the creation of its power (NPC) and fuel (QFC) subsidiaries;
 - Enable the transfer of PPD assets and employees to QFC;
 - Enable the transfer of existing power company personnel, assets, liabilities, rights and responsibilities to the “New NPC” on Apr 1, 03;
 - Repeal Part II of the Act to eliminate references to NTPC; and
 - Deal with other transitional matters as necessary.
 - Make any changes to the *Revolving Funds Act* needed to implement the new financing approach for QEC and QFC on Apr 1, 04.
 - Establish the *Affordable Energy Fund* and establish the mechanism for payments into, and withdrawals from, the Fund;
 - Amend the *Public Service Act* to
 - Ensure employees of QEC, NPC and QFC remain within the public service (Schedule A);
 - Enable the transfer of staff and collective agreements from the GN to QEC or its subsidiaries without adversely affecting related rights.
-

- Pass a regulation under the *Utility Rates Review Council Act* identifying QEC, QFC and “New NPC” as “designated utilities” and consequently subject to URRC review when setting the price for electricity and fuel.

(3) Establish QEC as an operational entity

▪ Description

This work package is aimed at creating QEC as a legal entity and equipping it with the people and resources needed to plan and implement the set up of QFC, the restructuring of NPC, the creation of an “Opportunity Corporation” for energy projects, the creation of new financing and pricing mechanisms, and the integration of NPC and QFC services as far as practicable.

▪ Approach

For QEC to take the lead in planning and implementing the transition, it will need a prospective CEO in place as soon as possible – preferably by January 1, 2003 but for practical purposes, this individual may be on strength until early February/03. This person will help COMET coordinate planning and preparation efforts and become CEO of QEC on its launch April 1, 03. Given the level of communication with the QEC Board required to manage the complexities of the transition, the CEO should be an interim member of the Board through 03/04. The CEO and Board will receive administrative and technical support from QECIS – the QEC Implementation Secretariat.

QEC will focus its efforts in 03/04 on becoming fully functional as an energy company and on preparing QFC to take over fuel responsibilities. To accomplish these goals within one year QEC will need to retain specialized financial and systems expertise beyond that available from QECIS. For instance, QEC must decide on an appropriate capital structure, debt financing, rate design matters, and energy funding issues. Just what special expertise is needed will be for QEC to decide based on advice from QECIS, NPC, PPD and other sources.

(4) Restructure NPC to continue operations as a subsidiary of QEC

▪ Description

This work package focuses on the adjustments required in NPC to enable the new corporate structures to be put in place with as little interference as possible in NPC operations.

▪ Approach

There will be essentially no operational or governance changes for NPC throughout 03/04. NPC will be legally reconstituted as a subsidiary company of QEC on April 1, 03, but will continue to operate as it does at present. It will retain its existing personnel, plant, systems, etc., while working with QEC to plan the integration of NPC and QFC functions. NPC fuel related assets will then be transferred to QFC in accordance with that plan.

(5) Establish QFC as a PPD based operational subsidiary of QEC

▪ Description

The purpose of this work package is establish QFC as a fully operational company, based on PPD, that will take over PPD’s personnel, assets, liabilities, rights, and responsibilities on April 1, 2004.

- **Approach**

For fiscal 03/04 the PPD will continue to function as a division of DPW&S. A COO of QFC will be recruited as soon as possible to work with QEC to prepare QFC to assume PPD's responsibilities. That will require developing office facilities, IT and financial systems, contracting and billing procedures, new financing, etc. It will also require a complete review of PPD's dependencies on GN services and a plan for their replacement. Each of these is a major work package beyond the scope of this work plan. QEC will be responsible for developing a comprehensive plan for review by the Minister before the end of fiscal 02/03.

For the transition year of 03/04 the DM of PW&S will continue to provide advice to COMET and QEC, and ensure coordination of PPD efforts, for as long as necessary to ensure an orderly transition. QFC will take over fuel responsibility on April 1, 04 at which time all PPD assets, liabilities and the like will be transferred to QFC. The transfer may be under a Transfer Agreement between QFC and the GN, or by a Ministerial decision under the enabling legislation.

(6) Restructure energy funding

- **Description**

The purpose of this work package is put in place the new structures and procedures for funding energy supply. This includes structuring financing for QFC, the creation of an Affordable Energy Fund to replace existing subsidies, and a new approach to determining fuel and power prices.

- **Approach**

The Ikuma II Report recommended a total cost accounting approach be applied to energy, whether in the form of fuel or electricity. For QFC, that means rates should reflect the cost of debt and equity financing, as is the case for NPC. The extent to which debt is actually used to finance QFC depends, however, on how the GN decides to value the assets transferred from PPD to QFC, and on the use of the existing Petroleum Products Revolving Fund as a financing vehicle. To address these financing issues, QEC should have a CFO in place by the start of 03/04. Job one for QEC will be to prepare an Energy Financing Policy plan for review and decision by the Minister. This plan will need to address basic questions such as the valuation of PPD assets for transfer purposes, guidelines for an expected return on equity, QFC's financial structure, the continued use of the Revolving Fund approach as a line of credit for QFC, and the impact of the financing approach on the Federal Formula Funding Agreement and the GN's total debt cap. The plan will need Cabinet approval relatively early in 03/04 so that the major task of implementation can begin.

A second major component of the restructuring of energy funding is the creation of a single Affordable Energy Fund ("AEF") to replace all existing power and fuel subsidies. To accomplish that, the GN will need to carry out a study to identify all existing energy subsidies so that the AEF can adequately protect consumers. The goal should be to minimize consumer impacts during the transition period.

The AEF is tied to the second major policy area in energy funding – energy pricing. If NPC and QFC are to operate as standalone utilities they will need to recover their total cost of service each year ("revenue requirement") from their rates and the AEF. To prepare rate proposals, QEC will need to design rates that will recover costs and set targets for subsidies that will make bring those rates down to an affordable level. As mentioned earlier, rate design and subsidy levels can both be contentious issues that raise basic policy considerations. Accordingly, QEC will prepare an Energy Pricing Policy plan for Ministerial, and if

necessary, Cabinet review. QEC will need a decision on the plan before it can develop proposed rates for 04/05.

Based on the analysis in the Ikuma II Report, it appears reasonable to forecast that the AEF may initially require funding of \$25 million or more annually. Given the magnitude of the amounts involved, the legislation creating the AEF will also need to address how money is appropriated to the Fund and the conditions for payment out of the Fund. Those payments will need to be synchronized with product prices, since QEC's only sources of funds to meet its costs will be the rates of NPC and QFC, and the payments from the AEF. Since rates also must be reviewed by the URRC, new budgeting and rate setting procedures will need to be developed in 03/04 so that the system can work on startup in 04/05. Consequently, QEC, working with NPC, PPD, the Minister of Energy, and the Department of Finance, will need to prepare an Energy Funding Process proposal dealing with annual budgeting and pricing procedures for GN approval by the late fall of 2003.

(7) Carry our communication and consultation

▪ **Description**

The purpose of this work package is to ensure that all persons affected by the restructuring are kept informed of plans and activities, and are consulted for ideas that will make for a smoother transition and a better final result.

▪ **Approach**

COMET should have a communication and consultation plan ready for GN review by the end of this year. Given the number of changes envisioned over the next year and a half, a smooth transition will be impossible unless those affected are continuously consulted and informed. In particular, the Nunavut Employees Union will need to be involved in developing a plan for the orderly transition of employees from PPD to QFC and in developing a labour relations plan for QEC.

WORK PACKAGES

Work Package Description		Coordinate Transition Planning and Preparation	
WP 1	Start	Nov 1, 02	
	End	Most work done by Mar 31, 03 - Phase out by fall of 2003	
Job	Establish the bodies, structures, funding and mandates needed to coordinate the implementation process		
How	<ul style="list-style-type: none"> • Create Committee On Managing Energy Transition ("COMET") - Chair of "QEC", NPC President, Deputy Minister DPW&S, CEO QEC when available • Create administrative support (EIA and PPD) and technical support (QECIS - Ikuma group) • Expand QEC Board to include fuel expertise • Recruit prospective CEO for QEC (and COO of QFC) to plan and manage transition efforts • 02/03 fund COMET work via PW&S; 03/04 seed fund QEC for start up – it borrows rest it needs • Phase out COMET in 03/04 as QEC becomes capable of managing transition 		
Result	1.1	Cabinet approval of implementation work plan	02.11.15
	1.2	FMB approval for interim funding for 02/03	02.11.15
	1.3	Appointment of COMET support team	02.11.15
	1.4	CEO of QEC recruited and in place	03.02.01
	1.5	Appointment of fuel supply expert to NPC Board	03.01.31
	1.6	QEC transition budget and work plan for 03/04 approved by Cabinet	03.03.14

Work Package Description		Amend Legislation	
WP 2	Start	Nov 1, 02	
	End	Mar 31, 03	
Job	Create amendments to statutes and regulations needed to create new structures and procedures		
How	<ul style="list-style-type: none"> • Amend <i>Nunavut Power Utilities Act</i> to replace NPC by QEC, ensure power and fuel subs are properly empowered, meet other QEC structuring needs • Ensure orderly transfers - people, plant, rights and responsibilities from PPD • Restructure financing mechanisms - Amend provisions of Revolving Funds Act, establish Affordable Energy Fund • Restructure power and fuel cost subsidy and price stabilization programs (Petroleum Products Stabilization Fund, Territorial Power Support Program, etc.) • Establish Utility Rates Review Council role in fuel pricing 		
Result	2.1	Amendment to <i>Nunavut Power Utilities Act</i>	03.03.31
	2.2	Amendments to <i>Public Service Act</i> , and <i>Revolving Funds Act</i> if needed	03.03.31
	2.3	OC amending designation regulation under <i>Utility Rates Review Council Act</i>	03.03.31
	2.4	Other legislation changes COMET identifies by Dec 31, 02	03.03.31

WORK PLAN

IMPLEMENTING THE IKUMA II REPORT

FROM: IKUMA II TEAM

DATE: Nov. 6, 2002

Work Package Description		Set Up QEC	
WP 3	Start	Nov 1, 02	
	End	Mar 31, 04	
Job	Establish QEC as a fully functional company		
How	<ul style="list-style-type: none"> • Recruit prospective CEO of QEC to plan and manage transition efforts • Pass legislation to put QEC in place and ensure fuel and power subsidiaries can operate effectively • Create interim (fiscal 03/04) GN funding for QEC start up • Make QEC Board responsible for ensuring QEC is fully operational by Mar 31, 04 and has in place a plan to integrate services by Mar 31, 05 • Prepare 04/05 budget including application for fuel and power rates and request for shortfall subsidy 		
Result	3.1	CEO of QEC recruited and in place [See R1.4]	03.02.01
	3.2	Fuel expert on NPC Board [See R1.3]	03.01.31
	3.3	QEC and subs created and QEC Board members appointed	03.04.01
	3.4	CFO of QEC recruited and in place	03.04.01
	3.5	QEC office (building & equipment) in place	03.05.01
	3.6	Cabinet approval of QEC (NPC, QFC) energy financing and pricing plans	03.06.30
	3.7	QEC financial, IT, and other systems in place	03.07.31
	3.8	04/05 GN subsidy and rates request (budget with forecast rate/ subsidy revenue)	03.08.29
	3.9	URRC decision on QEC (NPC, QFC) rates proposal	03.12.31
	3.10	AEF funding and QEC prices approved	04.01.15
	3.11	QEC 04/05 budget and funding mechanisms in place	04.01.31
	3.12	QEC responsible for energy delivery via NPC and QFC	04.04.01
	3.13	QFC, NPC system integration plan submitted for Minister's review	04.05.31
	3.14	QFC, NPC systems fully integrated within QEC	05.04.01

WORK PLAN

IMPLEMENTING THE IKUMA II REPORT

FROM: IKUMA II TEAM

DATE: Nov. 6, 2002

Work Package Description		Restructure NPC	
WP 4	Start	Nov 1, 02	
	End	Mar 31, 04	
Job	Restructure NPC as subsidiary of QEC		
How	<ul style="list-style-type: none"> • "New" NPC created as subsidiary of QEC under amended <i>Nunavut Power Utilities Act</i> • Personnel, assets and liabilities transferred to "new" NPC – no operational changes in NPC • NPC tanks, pipes, and other fuel related assets transferred to QFC when practical • NPC, QFC, QEC jointly plan to have QFC & NPC systems (financial, engineering, HR, billing, etc.) effectively integrated by Apr 1, 05 		
Result	4.1	NPC power subsidiary of QEC created and personnel, assets, etc. transferred	03.04.01
	4.2	NPC fuel related assets rolled over into QFC and related financing changes made	04.04.01
	4.3	Plan approved for integration of NPC, QFC support services in QEC	04.06.30

Work Package Description		Set Up QFC	
WP 5	Start	Dec 1, 02	
	End	Apr 1, 04	
Job	Establish QFC as a fully functional subsidiary of QEC responsible for fuel supply		
How	<ul style="list-style-type: none"> • Appoint person with fuel expertise to NPC Board to help transition planning and preparation • Hire prospective COO of QFC to help plan and coordinate PPD/QFC transition • Put DM PW&S on COMET to provide direction and coordination for transition period until CEO of QEC, and COO of QFC can assemble team to plan and manage PPD transition to QFC • Make QEC Board responsible for having QFC fully operational on Apr 1, 04 • QEC, with assistance from PPD, Finance and technical team develops comprehensive transition plan for creating new financial, IT, and other systems for QFC and for moving PPD assets, liabilities, contracts, staff, etc. to QFC in a way that will not disrupt service • GN approves QFC start up plan submitted by QEC • QEC prepares budget for 04/05 and related rate application and subsidy request • PPD staff, assets, and liabilities transferred to QFC (assisted by legislation if necessary) 		
Result	5.1	Prospective COO of QFC in place to assist transition planning and implementation	03.01.01
	5.2	Comprehensive plan for QFC start up approved by Minister	03.03.14
	5.3	QFC legally created as subsidiary corporation of QEC with fuel mandate	03.04.01
	5.4	QFC offices established and equipped	03.06.30
	5.5	QFC systems (finance, IT, contracting, HR, etc.) operational	03.12.31
	5.6	QFC financing agreements and mechanisms in place	04.01.31
	5.6	All PPD staff, assets, liabilities, contracts, etc. transferred to QFC	04.03.31
	5.7	QFC fully operational and responsible for fuel supply	04.04.01

WORK PLAN

IMPLEMENTING THE IKUMA II REPORT

FROM: IKUMA II TEAM

DATE: Nov. 6, 2002

Work Package Description		Restructure Energy Funding	
WP 6	Start	Apr 1, 03	
	End	Apr 1, 04	
Job	<p>Create proper utility (debt/equity) financing structure for QFC to replace PPRF Create Affordable Energy Fund, with rules for accountability and payments in and out Establish budgeting, funding and pricing procedures for QEC (including NPC and QFC)</p>		
How	<ul style="list-style-type: none"> • GN carries out energy subsidies study to identify all existing subsidies • QEC (with NPC, PPD, Finance) prepares policy papers for review/decision by Minister/Cabinet <ol style="list-style-type: none"> 1. Energy Financing Policy plan for debt/equity financing QFC and NPC; 2. Energy Pricing Policy plan for rate design principles, target rate levels, rate stabilization, and AEF implications; 3. Energy Funding Process plan for budgeting and rate setting procedures that will enable GN budgeting and QEC recovery of its costs annually from rates and AEF. • PPRF, subsidies, and price stabilization programs replaced by AEF and new budget process Apr 04. 		
Result	6.1	QEC submission of Energy Financing and Pricing Plans to Minister	03.05.31
	6.2	Cabinet decision on Energy Financing and Pricing proposals	03.06.30
	6.3	QEC budgeting and price setting procedure approved by Cabinet	03.09.30
	6.4	QEC budget and rate proposal request for 04/05 submitted	03.09.30
	6.5	QEC rates and subsidy for 04/05 approved	04.01.15
	6.6	New energy financing and pricing mechanisms in effect	04.04.01

Work Package Description		Carry Out Communication and Consultation	
WP 7	Start	Nov 1, 02	
	End	Apr 1, 04	
Job	<p>Ensure those affected by restructuring, and general public, are informed and consulted on plans and developments</p>		
How	<ul style="list-style-type: none"> • Senior Management from PPD and GN consult PPD management and staff on proposed changes and impact mitigation • Senior Management from NPC consults NPC staff on proposed changes and impact mitigation • GN communications department provides ongoing information campaign re transition process • COMET provides bi-weekly progress reports to Minister responsible, EIA, and DPW&S • QEC representatives attend municipal and regional meetings to visit with Mayors and SAO's • QEC works with NEU to develop employee transition plans • NPC and PPD provide regular bill stuffers on new approach and progress. 		
Result	7.1	Initial consultation with PPD and NPC employees on proposed changes complete	02.11.15
	7.2	COMET approved plan for internal GN and public communication and consultation	02.12.15
	7.3	Initial bi-weekly report to Minister responsible, EIA and DPW&S submitted.	02.12.31
	7.4	Community consultation plan approved	03.01.31
	7.5	First set of bill stuffers sent out to NPC and QFC customers	03.03.31
	7.6	Communication plan completed	04.04.01

WORK PLAN

IMPLEMENTING THE IKUMA II REPORT

FROM: IKUMA II TEAM

DATE: Nov. 6, 2002

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