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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 Responsible Minister for the Qulliq Energy Corporation On:

The 2010/11 General Rate Application Phase 1 by the Qulliq Energy Corporation

Report 2010-01

March 2, 2011

THE UTILITY RATES REVIEW COUNCIL

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	Raj Retnanandan	Consultant
	Maaki Kakkik	Interpreter
	Andrew Dialla	Interpreter

QEC WITNESSES

The following attended one or more community consultations as representatives of Qulliq Energy Corporation:

Peter Mackey	President and CEO QEC
JamieFlaherty	Vice President
Darryl Taylor	GRA Coordinator/Manager Regulatory Affairs
Eddie Rideout	Director of Corporate Services
Stephen Kerr	Director of Engineering
Meghan McRae	Manager of Corporate Communications

LIST OF ABBREVIATIONS

ACL	Arctic Co-operatives Ltd.
AFUDC	Allowance for Funds Used During Construction
ARO	Asset Retirement Obligation
BRCC	Baffin Regional Chamber of Commerce
DSM	Demand Side Management
COGUA	Canadian Off Grid Utility Association
CWIP	Construction Work in Progress
FTE	Full Time Equivalents
FSR	Fuel Stabalization Rider
GN	Government of Nunavut
GRA	General Rate Application
HDD	Heating Degree Days
HR	Human Resources
IFRS	International Financial Reporting Standard
KC	Kitikmeot Corporation
KIA	Kitikmeot Inuit Association
KWh	Kilowatt Hour
MWh	Megawatt Hour
O&M	Operation & Maintenance
NTI	Nunavut Tunngavik Incorporated
NTPC	Northwest Territories Power Corporation
PPD	Petroleum Products Division
PSA	Public Sector Accounting Standards
QC	Qikiqtaaluk Corporation
QEC	Qulliq Energy Corporation
ROE	Return on Equity
URRC	Utilities Rates Review Council
YEC	Yukon Energy Corporation

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EXECUTIVE SUMMARY

Qulliq Energy Corporation (QEC or Corporation), filed a General Rate Application for the April 1, 2010, to March 31, 2011, Test Year (2010/11 Test Year) with the responsible Minister for QEC, on October 4, 2010. The responsible Minister, in turn, referred the matter to the Utility Rates Review Council (URRC) for review and recommendations, pursuant to Section 12 of the *Utility Rate Review Council Act* (the Act).

QEC requests base rates that would recover a 2010/11 forecast revenue requirement of $101.173 million. At existing rates this forecast revenue requirement translates to an increase in the base energy rates of 31.27%. If the annualized revenues from the existing Fuel Stabilization Rider (FSR) of 4.68¢ kWh were considered part of the revenues, the revenue deficiency at existing rates would be reduced, resulting in an average energy rate increase request of 19.3%. The primary reasons for the requested increase are increases in costs relating to cost of fuel, salaries and wages, supplies and services and travel and accommodation.

The URRC considered the cost of an apprenticeship program included in the revenue requirement should properly be supported 100% by the GN, rather than by the rate payers of QEC. Therefore, the URRC determined the salaries cost of the apprenticeship program (together with any associated employment related costs, supplies and services, as well as travel and accommodation) should not be included in the 2010/11 revenue requirement. The URRC also made reductions to the 2010/11 forecast of overtime and supplies and services, having regard to prior year actual results and the number of forecast URRC determined full time equivalent employees in 2010/11.

Following examination of the Application the URRC determined QEC's 2010/11 revenue requirement to be $97.1 million based on URRC's review of QEC's forecasts, as shown in Appendix 1. Based on existing base rates (excluding the FSR) this revenue requirement results in a revenue shortfall of $18.7 million. Considering that the fuel stabilization rider would recover approximately $7.3 million, the remaining deficiency of $11.4 million would constitute an increase to base energy rates of 14.25%. The calculation of this revenue deficiency is shown in Appendix 1.

URRC considered that revenue recoveries from current base rates, the current FSR, and the approved interim rates should be made final for the 2010/11 year. To retroactively attempt to recover the 2010/11 shortfall, in addition to imposing increased rates effective April 1, 2011 would result in extreme rate shock to current electricity customers. Accordingly, the URRC recommended any revenue deficiency in 2010/11 resulting from delay in implementation of rate increases be recovered from the GN rather than from the customers of QEC.

The URRC also considered that increasing the base rates by a further single adjustment that would recover the remaining 2010/11 deficiency would create extreme hardship for customers of QEC. Accordingly, the URRC considered rate increases that would generate revenues equivalent to the URRC determined 2010/11 test year revenue requirement should be phased-in.

Consequently, the URRC recommended that the 6% interim rate increase approved effective November 1, 2010 be rolled into the current base energy rates and the base energy rate so determined be increased by a further 4.5% on April 1, 2011 as part of the phase-in of base energy rate increases. For the year 2012/13, the URRC recommended that the 2011/12 base energy rates as noted above, be increased by a further 4.43%, effective April 1, 2012. The calculation of the phased in increase effective April 1, 2012 is shown in Appendix 1.

QEC submited the Corporation's major infrastructure is aging and demands on infrastructure are stressing it to the point of failure. QEC indicates 17 of 25 power plants are near, or at the end of, their design life. Under its 5 Year Capital Plan, QEC estimates $145M would be required to meet infrastructure requirements and, under the 10 Year Capital Plan, $250M would be required.

In regard to the infrastructure issue, the URRC found, the Government of Nunavut has a basis for legitimate discussions to occur with the Government of Canada with a view to finding financial assistance for the upgrade and expansion of QEC’s generating assets.

1.0 BACKGROUND

1.1 REGULATORY HISTORY

Qulliq Energy Corporation (QEC or Corporation), filed a General Rate Application (GRA or Application) for the April 1, 2010, to March 31, 2011, Test Year (2010/11 Test Year) with the responsible Minister for QEC, on October 4, 2010. The responsible Minister, in turn, referred the matter to the Utility Rates Review Council (URRC) for review and recommendations, pursuant to Section 12 of the *Utility Rate Review Council Act* (the Act).

This is QEC’s second GRA since the division of QEC from the Northwest Territories Power Corporation (NTPC) on April 1, 2001. The first GRA was for the Test Year April 1, 2004, to March 1, 2005 (2004/05 Test Year). The URRC's Report to the responsible Minister respecting the matters raised in QEC's 2004/05 GRA was issued on January 27, 2005, followed by a final Report on February 18, 2005.

In February 2005, the responsible Minister provided Instructions authorizing an increase of 15% to electricity rates across all communities and rate classes in Nunavut. These rates took effect April 1, 2005. Further to this increase, the URRC requested the Corporation to return with certain specific information before, or as part of, any request for a further increase. This information was submitted to the URRC on May 9, 2006. The result of the May 9, 2006, application was a further 5.44% general rate increase for all electricity consumed in Nunavut, effective October 1, 2006.

In response to a direction from the URRC, on May 27, 2005, QEC requested a rebalancing of rates among communities to bring about a level of equalization in capital costs. The URRC's recommendations respecting this application were issued by way of a Report dated September 29, 2005.

The base rates currently in effect reflect the rate change that took effect on October 1, 2006, following the 5.44% increase.

Following the 2004/05 GRA, QEC requested and received approvals for adjustment of fuel stabilization riders (FSR) from time to time. The most recent FSR application was a request from QEC for an FSR of 4.68¢ per Kilowatt Hour (KWh) for the period October 1, 2010, to March 31, 2011. This application was approved in URRC Report 2010-04, dated December 31, 2010.

Pursuant to the requirements of the Act, on October 4, 2010, QEC filed an application with the responsible Minister for changes from existing rates. The responsible Minister, in turn, issued a Request for Advice to the URRC to undertake a review and provide recommendations on the subject application.

1.2 CORPORATE ORGANIZATION & DUTIES

QEC is a Crown Corporation, 100% owned by the Government of Nunavut (GN).

QEC is the sole generator and transmitter of electricity in Nunavut and serves approximately 12,800 electricity customers. The Corporation generates and distributes electricity to Nunavummiut through the operation of 27 diesel plants in 25 stand alone communities with generating capacities ranging from 15MW at Iqaluit to 400KW at Grise Fiord.

QEC is incorporated and operates under the Qulliq Energy Act. Rates for its electricity service are approved by the responsible Minister who receives advice from the URRC pursuant to its Act.

The Corporation operates under two trades names:

- Nunavut Power, which generates and supplies electricity; and
- Qulliq Energy, which provides core services to the corporate functions.

These two divisions share a single Board of Directors, common financial statements and a unified corporate structure. QEC's Corporate structure consists of the following functional heads reporting to the President and CEO:

Legal, Operations Director, Director of Information Technology, Director of Engineering, Director of Corporate Services, Health, Safety and Environmental Manager, Human Resources Director and Chief Financial Officer.

The Corporation provides mechanical, electrical and line maintenance from three regional centers, administers the Corporation's business activities from headquarters in Baker Lake and has its executive offices in Iqaluit. The following Table shows the major Division/Responsibility centres:

Major Division / Responsibility Center Location

Major Division	Location	Major Division	Location
President/CEO	Iqaluit	Corporate Services	Iqaluit
Vice President	Iqaluit	Health, Safety & Environment	Iqaluit
Legal	Iqaluit	Finance	Baker Lake
Operations Regional offices	Iqaluit Cambridge Bay, Iqaluit, Rankin Inlet	Human Resources & Organizational Development	Baker Lake
Engineering	Iqaluit	Information Technology	Baker lake

1.3 JURISDICTION & MANDATE OF URRC

The Act requires the Corporation, as the supplier of electricity in Nunavut, to obtain the approval of the responsible Minister for any proposed rate changes. Before approving the Corporation's rates, the responsible Minister is required to seek the advice of the URRC.

In the case of Major applications, such as the current GRA, the URRC is required to report to the responsible Minister within 150 days following receipt of a Request for Advice 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 URRC should be imposed.

In making its report, the URRC is required to have regard to whether the proposed rate or tariff is fair and reasonable considering, among other things, the cost of providing the service, including related financing costs.

In carrying out its purposes under the Act, the URRC is permitted to:

a) hold public and private meetings;

b) retain the services of experts and advisors;

c) solicit advice from the public;

d) conduct meetings and mediations with utilities and concerned parties and assist utilities and their customers in developing a consensus on contentious issues;

e) require utilities and their employees to provide all information needed to carry out its purposes and may require that information to be provided under oath or by way of solemn declaration; and

f) generally engage in activities that assist it in providing informed advice to the responsible Minister.

Pursuant to the Request for Advice from the responsible Minister, dated October 4, 2010, the URRC conducted the proceedings in accordance with the requirements and parameters specified in the Act. This report sets out the URRC's recommendations to the responsible Minister.

2.0 APPLICATION

2.1 REQUESTED APPROVALS OF QEC

In its letter dated October 4, 2010, QEC requests the following approvals:

1. Base Rate Changes: QEC requests base rates that would recover a revenue requirement of $101.173 million as summarized in Schedules 1.1.1 to 1.1.5 of the Application. The forecast revenue at existing rates is $76.282 million and revenue deficiency at existing rates is $22.745 million. This translates to an average increase in base energy rates of 31.27%.

   If the annualized revenues from the existing FSR of $4.68¢/kWh were considered as part of the revenues, the revenue deficiency at existing rates would be reduced to $15.478 million. This equates to an average energy rate increase of 19.3%. The calculation of QEC's request for rate increase is shown in the following table:

	QEC 2010/11 GRA Increase	
Calculation of Revenue Deficiency at Existing Rates		**$000**
1	Revenue Requirement Schedule 3.1	101173
2	Sales Revenue Schedule 2.1	76282
3	Other Revenue Table 4.3	2146
4	Total Revenues	78428
5	Revenue Deficiency at Existing Base Rates	-22745
6	Fuel Rider Revenues (Annualized) (155283 MWh*.0468)	7267
7	Net Revenue Deficiency After Fuel Rider	-15478
Calculation of Percent Increase in Energy Revenues		
8	Sales Revenue Schedule 2.1	76282
9	Less: Revenue from Demand Charges & Customer Charges	-3545
10	Add: FSR Revenue	7267
11	Energy Revenue at Existing Rates Including FSR	80004
12	Net Revenue Deficiency After Fuel Rider	-15478
13	Percent Increase in Energy Revenues Requested by QEC	19.3%
14	Average Interim Increase Requested (50% Line 13)	9.7%

QEC also requests approval of:

2. Interim Rates: QEC requests an interim increase in rates to cover 50% of the $15.478 million revenue deficiency. This translates to an interim increase in rates of 9.7%

3. Shortfall Rider: QEC indicates, following the responsible Minister's review and approval of base rates, QEC will request approval of a shortfall rider designed to collect outstanding amounts arising from 2010/11 base rate adjustments not implemented for the full 2010/11 period. QEC states following approval of base rate changes, QEC would provide the responsible Minister with a compliance

filing detailing the calculation of the shortfall amount, any transfers between the Fuel Stabilization Fund and the shortfall account that may be necessary and a proposal for a shortfall rider to collect that amount.

QEC also states the Application was generally prepared based on budgets consistent with Canadian Generally Accepted Accounting Principles for regulated utilities. However, QEC indicates it is in the process of transitioning to Public Sector Accounting Standards (PSA) and has made certain adjustments to the calculation of the revenue requirement to allow its financial reporting to better align with PSA.

The specific changes to the calculation of the revenue requirement resulting from a move to PSA are:

- QEC proposes to adopt revised amortization rates that do not include a provision for net salvage. To address potential environmental liabilities, QEC is also proposing to adopt an Asset Retirement Obligation (ARO) related to those potential environmental liabilities. Since QEC's amortization rates will no longer include a provision for net negative salvage, net salvage costs will be expensed in the year incurred. QEC has included a provision for these expenses in its revenue requirement; and

- QEC proposes to roll-up the deferral accounts related to the rate hearing reserve and the reserve for injuries and damages. QEC has not included a provision for deferred cost amortization for these items in its 2010/11 revenue requirement. QEC is proposing to retain these balances for regulatory purposes and to draw down amounts over the period until the next General Rate Application.

2.2 AMENDED APPLICATION

By letter dated January 16, 2011, QEC filed certain amendments to the Application. QEC describes the amendments as follows:

1. Amortization Expense:

- The 2010/11 amortization expense forecast did not include forecast amortization expense related to leasehold improvements (FERC Code 399). The revision is discussed in the Corporation's response to URRC.QEC-23 (b); and

- The 2010/11 capital additions forecast was based on incorrect capital additions forecasts for the Chesterfield Inlet and Whale Cove Capacity Increase projects. The revisions are discussed in the Corporation's responses to URRC.QEC-32 (d) and URRC.QEC-32 (e).

These revisions also affect Table 3 of the response to URRC.QEC-23. Therefore, the Corporation provided a revised Table 3 to URRC.QEC-23. The net result of the above revisions is an increase to the amortization expense forecast for 2010/11 of $0.028 million.

2. Return on Rate Base:

- The 2010/11 Mid-year accumulated amortization expense forecast has been revised to correct amortization expenses related to FERC Code 399. The revision is discussed in the Corporation's response to URRC.QEC-23 (b); and

- The 2010/11 forecast return on rate base was based on incorrect capital additions forecasts for Chesterfield Inlet and Whale Cove Capacity Increase projects. The revisions are discussed in the Corporation's responses to URRC.QEC-32 (d) and URRC.QEC-32 (e).

The net result of the above revisions is a decrease to return on rate base by $2,000.

3. Non-Electricity Revenue:

- The 2010/11 revenue requirement includes the full forecast salary and wage expenses for the apprentices and does not reflect the Government contribution toward the Apprenticeship Program. Government contributions towards apprentices' salaries is $23,350 per apprentice per annum. This contribution of approximately $0.397 million should be reflected as additional non-electricity revenues. This revision is discussed in the Corporation's response to URRC.QEC-12 (d).

QEC indicates, as a result of these revisions, the Corporation's 2010/11 Firm Rate Revenue Requirement (Schedule 1.2.3) decreased from $99.027 million to $98.656 million and the requested increase to existing rates plus riders decreased from 19.3% to 18.9%.

2.3 INTERIM INCREASE IN RATES

With regard to Interim Rates, Section 12.1 (1) of the URRC Act states:

> **12.1.** (1) Where the advice of the Review Council is requested under subsection 12(2), the Review Council may recommend the imposition of an interim rate or tariff until an instruction is given under section 16, and the responsible Minister for the Review Council may authorize the designated utility to impose the recommended interim rate or tariff.

The URRC met to discuss the interim refundable rate request by QEC. Having regard to the number of items that may not be approved on a final basis in the GRA, the URRC recommended an interim increase of 6% on the existing base rates (excluding the Fuel Rider). The Council recommended this interim rate commence on November 1, 2010, and continue in place until the review process was completed and an Instruction from the responsible Minister has been issued. Pursuant to the letter from the Minister responsible for the URRC dated October 28, 2010, the interim increase in rates recommended by the URRC was approved for implementation effective November 1, 2010.

3.0 PROCESS FOR HEARING OF THE APPLICATION

Upon receipt of the Application, the URRC established a process for examination and hearing of the Application. Notice of the Application followed by location and timing of community consultation meetings was published in newspapers having general circulation in Nunavut from October 2010 until January 2011.

As part of the process for examination of the Application, the URRC issued information requests to QEC. Responses to information requests were received on December 20, 2010, and January 28, 2011 and February 9, 2011. As part of the process for receiving input from interested parties, the URRC held a number of community consultation meetings with concerned citizens and corporate entities in the month of January 2011 at the following dates and locations:

Date	Community	Time	Meeting Place
6-Jan-2011	Iqaluit	7:00 p.m.	Parish Hall
7-Jan-2011	Iqaluit	2:30 p.m.	Parish Hall
10-Jan-2011	Pangnirtung	7:00 p.m.	Community Center
11-Jan-2011	Apex (Iqaluit)	7:00 p.m.	Apex Abe Okpik Hall
12-Jan-2011	Chesterfield Inlet	7:00 p.m.	Council Chambers
13-Jan-2011	Rankin Inlet	2:30 p.m. & 7 p.m.	Arena
18-Jan-2011	Cambridge Bay	7 p.m.	Community Hall

In addition to community meetings, radio announcements were made at the regional and community levels. Announcements were also posted on local bulletin boards.

At each of the meetings, the URRC Chair introduced the URRC panel members, explained its role in the process, the legislative mandate of the URRC and the desire to gain as much input as possible from affected parties.

At the meetings, QEC presented a panel of witnesses headed by the CEO of the Corporation to explain the requirement for the requested rate increase and to respond to questions. QEC also made power point presentations explaining the current and future infrastructure requirements of the Corporation. Meeting participants were provided an opportunity to make statements and ask questions of QEC's panel on the Application.

The following parties made written or oral sumbissions at the meetings:

Elders

Homeowners

Local Businesses
City of Iqaluit
Kitikmeot Inuit Association (KIA) - Cambridge Bay
Arctic Cooperatives Limited (ACL) - Nunavut
Qikiqtaaluk Corporation (QC) - Iqaluit

Written submissions were also received from the following parties on, or about, January 28, 2011, in accordance with the schedule for the proceedings:

Baffin Regional Chamber of Commerce (BRCC)-Iqaluit
Kitikmeot Corporation (KC)
Nunavut Tunngavik Incorporated (NTI)
Qikiqtaaluk Corporation-Iqaluit (QC)
The City of Iqaluit
Mr. Jorgen Gronfeldt

QEC submitted its Reply submission on February 4, 2011.

The URRC would like to thank all of the individuals and organizations who attended the meetings and/or provided submissions respecting the proposed power rate increases. These individuals and organizations will be collectively referred to as parties to the proceeding. The URRC will not provide a summary of each and every one of the submissions, but will include the comments from parties, as applicable, with respect to specific issues.

4.0 COMMUNITY CONSULTATIONS & SUBMISSIONS

This Section deals with issues of a general nature arising from community consultations and submission by parties.

4.1 COMMENTS BY CONSULTATION MEETING PARTICIPANTS

Comments were made by some meeting participants that there was very limited information out in the general public respecting the application.

Generally, the participants at the consultation meetings considered the proposed one time increase of about 20% to be excessive. Most did not disagree that increases are needed. However, they stated Applications should have been more frequent and increases implemented gradually and phased in over time.

Some participants suggested and urged QEC to review its costs, centralize and streamline operations to limit rate increases.

With respect to QEC's infrastructure requirements, participants suggested QEC and the Government of Nunavut need to address both short and long term generation costs and to develop a sustainable plan for providing electricity to Nunavut communities. Concern was expressed that Nunavut communities have electricity costs well in excess of the highest cost utilities of Canada and further increases will affect the very economies of the Nunavut communities, driving people to maximize commercial activity with entities in southern Canada instead of promoting local business.

The following sections deal, in more detail, with some of the issues raised in parties' submissions and presentations.

4.2 ISSUES ARISING FROM SUBMISSIONS & PRESENTATIONS

4.2.1 Views on the Proposed Increase in Rates & Conditions for Approval

There were a number of comments by interested parties respecting the magnitude of the proposed increase.

ACL indicated it strongly opposes the 19.3% increase and submits QEC must take steps to become more cost efficient and cost conscious. The rate change will mean increases in food, rent and other costs. The benefits of the energy conservation initiatives taken by the Co-ops equipment upgrades, re-lamping and energy conservation awareness will be nullified by the proposed increase. Overall, for the 23 Member Co-ops, the 19.3% increase will result in additional costs of $800,000 per year. The proposed increases cannot be absorbed at one-time without negative consequences to the Co-ops and the communities served by the Co-ops. In ACL's submission, the 19.3% increase should be rejected and, at most, any increase should be approved at a level more in line with increases in the national consumer price index.

BRCC submits the proposed increase (average of 20.3%) to the power rates submitted in the current QEC GRA should be denied and, instead, the following (or similar) increase be approved:

a) In the interest of ongoing transparency, maintain the existing fuel stabilization rider so consumers clearly understand this amount is directly related to the cost of fuel and the revenues generated by that rider are not added to the general revenues of QEC;

b) Distribute equally, over a 5 year period, the proposed 20.3% (average) increase to allow the QEC to undertake a new external review that will assess where the Corporation can improve its operations and reduce costs. Subsequent annual increases should be conditional upon the delivery of cost of service study, the external review and implementation of the recommendations contained within that review.

Kitikmeot Corporation (KC) submits a sudden 20% increase in a major cost component cannot be recovered in a short term period. Property owners, not just the Kitikmeot Corporation, need time to work out cost recovery of such a major cost item. Given the proposed increase has not been phased in over the past number of years, nor any indication given it was being planned, a much smaller increase in 2011, followed by gradual, progressive increases over the next years would make much better business sense.

Kitikmeot Inuit Association (KIA) submits the URRC should tell the Government to review rates more frequently and to limit the impact of the current proposed rate hike. KIA submits QEC must reduce its overhead, centralize and streamline its operations to limit rate increases.

In KIA's view, the problem is not all of QEC's making. The GN needs a plan to address the high costs of power and to attract new capital investment in plant and equipment. KIA submits the URRC should recommend the requested rate increase be spread over several years. Charging commercial customers higher rates is not, itself, an answer, because it reduces investment in new plant and equipment.

Qikiqtaaluk Corporation (QC) submits it understands QEC must have increases in power rates as operating costs in all businesses are increasing. QC indicates it has reviewed the application, along with the business plan, and has some concerns about the necessity of the size of the requested increase.

QC notes Nunavut Power has now had control over the provision of power in Nunavut for 10 years. QC submits, by now, foundation business practises should be well established. Based on what has been disclosed in the Application, it seems there may still be some systemic problems in the administration of the Corporation resulting in inflated costs.

QC recommends a staged increase along with a requirement for QEC to demonstrate it is getting its operations in order, as well as a strategic plan for infrastructure replacement. In the interim, consideration should be given to a new process where base years are formally established every five years, with automatic annual increments based on the Consumer Price Index. QC submits this may result in a more efficient process and eliminate serious lag times between applications.

Several of the representatives of Municipalities pointed to the significant impact of the proposed rate increase in terms of their ability to deliver services to their citizens.

The City of Iqaluit (the City) submits it will be impacted severely if the requested rate increase is approved. The City points out electricity is a major cost item, specifically noting the cost of street lighting, which is essential for public safety, would increase by $40,000 under QEC's Application. Further costs would also be incurred due to the high energy requirement of the utilidor and reheat systems which use large amounts of electricity. The City estimates its total increase in costs from the requested rate increase to provide service to the many recreational facilities, city owned buildings and the above items would be approximately $200,000 per year. The City also notes its tax base, namely the residents and businesses of Iqaluit, are facing further adversity as the GN has withdrawn its Forced Growth Funding of $400,000 in 2010. Consequently, the tax impact is already difficult for those living in Iqaluit. The City submits the URRC should feel absolutely confident QEC has examined and exhausted all proactive measures to operate within its means and any rate increases address only essential needs. The City also recommends URRC ensure any approved rates be implemented in such a manner as to not create any major hardship on the City, its residents, businesses and future infrastructure growth. The City also points out the hardship an increase of the requested magnitude will have on those residents who are struggling financially to be independent.

The Mayor of Cambridge Bay submits QEC's requested rate increase will be difficult for the residents, businesses and the Hamlet to afford. He submits the current Hamlet bill for electricity is approximately $250,000 and, if the requested increase is granted, it would increase the cost by $50,000. The Hamlet is concerned about the impact such an increase will have on its ability to provide and maintain Hamlet services.

In its Reply submission, QEC submits it is important to note the current forecast Operating and Maintenance (O&M) expense reflects the increase over the last six years since the last GRA filing in 2004/05, including the same general inflationary pressures all businesses are subject to.

URRC Findings:

The URRC will take these comments into consideration in determining the revenue shortfall for the test period and the rate change for 2010/11 in Section 10 of this Report.

4.2.2 Timing of Rate Applications

A number of Parties commented on the timing of the Application and the triggers for future applications.

BRCC notes a statement in QEC's 2007/08 business plan, page 16, where QEC states:

> The Corporation is finally in a position to have a rate structure which provides an income within acceptable limits. The Corporation's approved rates now generate the income required to operate.

BRCC notes, in the same business plan, page 26, QEC goes on to state, "For the first year since 2001, the Corporation has reached the point where it has adequate income to be financially self sustaining."

BRCC submits the previous two comments from QEC's business plan indicates, at least in the year the plan was written and, one would assume, the following year at the very least, QEC was in a good financial position.

BRCC questions what happened to QEC's finances in the interim. Why is it now necessary to request a 20.3% (average) increase to the base rate to make ends meet? If costs were escalating at such a tremendous rate, why did QEC wait an additional 3 years from their last business plan and a total of 7 years since their last GRA application before submitting another GRA?

Nunavit Tunngavik Incorporated (NTI) notes, under the Act, a "designated utility that desires to impose a rate or tariff shall request in writing the approval of the responsible Minister". In NTI's submission, it is assumed the Utility will seek approval from the responsible Minister before incurring major ongoing expenditure items with a material impact on rates. Seeking approval after the fact limits the authority of the responsible Minister and goes against the principles inherent in setting up the URRC.

NTI recommends maximum periods be established between GRA's and/or triggers be established (e.g. QEC not be permitted to operate at a loss) requiring QEC to bring forward a GRA. The URRC should recommend procedures requiring QEC to bring forward major new O&M initiatives to URRC for consideration in the periods between GRA's.

In its Reply submission, QEC indicates it will evaluate certain key indicators, including returns on equity, interest coverage ratios and debt to equity ratios, as well as give consideration to more frequent, smaller rate increases, as suggested by parties during community consultations. QEC indicates, on average, it anticipates filing future rate applications every two to three years.

URRC Findings:

The URRC notes in URRC.QEC–2, following rate adjustments for the 2004/05 GRA, the Corporation, in 2007/08, earned a return of approximately $5 million and paid a dividend of $0.72 million to the GN. Since that time, QEC has not achieved expected returns. The poor operating results of the past two years indicates the significant rate increase requested in the 2010/11 GRA is the result of the Corporation not seeking rate relief on a timely basis to address cost increases. The URRC notes rates were last approved with respect to the 2004/05 year.

In the URRC's view, appropriate trigger mechanisms are necessary for QEC to seek rate relief on a timely basis and with greater frequency than in the past. The URRC considers timely rate relief is necessary to facilitate gradual changes in rates and for the Corporation to generate adequate funds to sustain its operations and meet growth requirements.

With respect to the timing of future rate applications, the URRC agrees with NTI's comment that the Corporation should bring forward rate applications on a prospective basis, before the Test Year begins. The forward Test Year approach to regulation is consistent with the URRC

Guidelines where rates are required to be set having regard to the total revenue the utility earns and the total cost of providing service on a ‘looking ahead” basis (forward Test Year).

Having regard to the foregoing, the URRC considers rate applications initiated on the basis of a set forecast earnings shortfall/ excess will serve as an appropriate trigger mechanism. Under this mechanism, the earnings shortfall/excess will be determined in relation to a plus or minus 200 basis points spread around the approved rate of return on equity. If forecast earnings for a prospective year are higher or lower than the rate of return on equity plus or minus 200 basis points, a rate application should be triggered by QEC. The URRC considers GRA applications triggered by this mechanism should be submitted prior to the commencement of the relevant Test Year to be in compliance with the forward Test Year principle. Therefore, QEC is directed to follow the above requirements for triggering future rate applications.

4.2.3 Infrastructure Requirements

QEC, as well as other parties, commented on the Corporation's infrastructure requirements.

QEC submits the Corporation's major infrastructure is aging and demands on infrastructure are stressing it to the point of failure. QEC indicates 17 of 25 power plants are near, or at the end of, their design life. Under its 5 Year Capital Plan, QEC estimates $145M would be required to meet infrastructure requirements and, under the 10 Year Capital Plan, $250M would be required.

ACL submits Nunavut is a new Territory and cannot be expected to build millions of dollars in essential infrastructure overnight or on the backs of current and future consumers. Further, ACL indicates Nunavut is in a crisis as it relates to electricity infrastructure and the cost of infrastructure. GN and Government of Canada must come together to find ways to build new infrastructure and reduce the cost of electricity.

During the consultation meetings, the representative for ACL submitted the Prime Minister of Canada had stated “we are the sovereignty for the rest of Canada, we are the ones that keep this a part of Canada." Nunavut is a new territory and, as such, cannot be expected to build millions of dollars in infrastructure over night or on the backs of current and future consumers.

In BRCC's submission, while the GRA suggests equity shortfalls should be met by higher rates, it is also equally possible the QEC could receive an equity contribution from its shareholder, the GN.

KIA notes additional capitalization for infrastructure is urgently needed. A long term focus for investment is required. In KIA's view, proper infrastructure should include local generation possibilities, including wind, solar etc.

During consultation meetings, the representative for KIA submitted the coming of the Canadian High Arctic Research Station (CHARS) will require a significant increase in new power generation to be constructed in Cambridge Bay. At a design cost of $15 million, it will be a major permanent institution with a projected staff of 55 year round with scheduled completion in 2017. Cambridge Bay is also a logical center for new mining activities in Hope Bay (Newmont Canada Inc.), Sabina Gold and Silver Corporation and Minerals and Metals Group (MMG).

KIA notes artificially low rates guarantee QEC is not financeable. The result will be a downward spiral to system failure. Solutions could include discussions with private sector providers and investors. Alternative solutions require political will.

NTI notes the 2010/11 GRA provides little assurance the situation Nunavut currently faces with an aging infrastructure will improve.

NTI notes the public presentation clearly makes the case that $145 million is required to bring plant and equipment up to standard and sufficient for growth. It appears as though QEC's capital program is based on the need to invest in plant expansion to meet future demands. The risk analysis undertaken indicates several generating plants have exceeded their planned end of life. The risks are further exacerbated because there is no apparent certified Preventative Maintenance program in place. NTI's representative noted:

> The Corporation has been operating below the operational standards for several past years …. routine maintenance requirements are currently behind schedule... QEC intends to institute preventative maintenance to reduce/prevent capital assets degradation and repair by actively maintaining existing assets.

NTI goes on to submit a multiyear “catch up” capital program should be established based on a comprehensive risk analysis to bring generating units within accepted industry standards. Standard operating procedures should also be developed to deal with unplanned emergency maintenance.

In NTI's view, funding for “catch up” capital should not be included in rate base. A formula should be established to clearly define funding responsibilities for implementing the program.

With respect to financing the infrastructure program, one of the parties submitted, to get around the GN debt cap, others, like Inuit Corporations, could be asked to build and lease required assets for QEC. Another party noted QEC should consider Public Private Partnership (P3) to replace traditional funding. Yet another party noted, not enough is being done to engage the Federal Government.

During consultation meetings, one of the parties submitted QEC and the Government of Nunavut must become leaders in the area of energy conservation. They indicated they were not aware of any efforts by either of these two parties to encourage Nunavummiut and their businesses to reduce energy consumption. Reduced consumption should reduce the need to expand power generating facilities at such a fast pace.

One of the Parties suggested a demand side management program focused on customer education to ensure demands are down when not needed.

URRC Findings:

The URRC finds a significant portion of the growth in demand is being driven by new loads unanticipated at the time of Division. Since Division, the Government of Canada has made significant sovereignty investments in the communities of Nunavut in the form of research stations, health facilities, Federal presence facilities and education facilities. These facilities also require the human resources to operate and maintain them and to deliver the services they are intended to provide. These people also place significant growth demand on the electricity infrastructure as they require homes, further exacerbating the problem of growing demand for energy. The power plants in the communities were not designed to provide the energy requirements of these significant additions and people. If these demands had been properly defined by the Government of Canada at the time of Division, an appropriate negotiation would have occurred which might have seen sufficient funding in place to add the necessary energy infrastructure to provide for the demand. It is the URRC's finding that the Government of Nunavut has a basis for legitimate discussions to occur with the Government of Canada with a view to finding financial assistance for the upgrade and expansion of QEC's generating assets. The URRC recommends the GN, in conjunction with QEC, and perhaps NTI, consider this approach to addressing some of the legacy issues impacting the current infrastructure requirements of QEC.

The URRC notes the submissions that reduced consumption should reduce the need to expand power generating facilities. The URRC agrees Demand Side Management (DSM) can help postpone new capacity additions. The URRC directs QEC to identify and develop cost effective DSM and other conservation programs with a view to offsetting some of the projected demand growth in the next 5 to 10 years. For example, during public consultations, QEC indicated it does not manage street-light operating periods in such a manner as to turn them off during periods of ambient light. At the very least, there should be a fuel saving from establishing a program which turns these lights off during periods when ambient light is adequate for communities.

In addition, the URRC directs QEC to give consideration to helping customers better manage their electricity consumption. This may include customer education, as well as rate design changes promoting wise use of energy. Further, a reassessment of the design of the subsidy programs would be appropriate to make customers more aware and accountable for their consumption decisions.

QEC is directed to address the design of rates and the subsidy program in the context of promoting the wise use of energy by customers at the time of the Phase II proceedings. Further, QEC is directed to propose appropriate DSM and conservation initiatives for consideration as part of the Phase II proceedings.

In addition to the foregoing, the URRC notes the several suggestions made by parties respecting alternative approaches to financing the Corporation's infrastructure deficit, as well as to finance the infrastructure required to meet future growth. The URRC considers there is merit in identifying, evaluating and using, as may be practical and cost effective, alternative approaches to financing the Corporation's infrastructure requirements. Therefore, URRC directs QEC to consider the matter of alternative financing approaches as suggested during these proceedings and report on this matter at the time of the next GRA.

4.2.4 Alternative Energy

With respect to the development of alternative energy projects, BRCC submits QEC should proceed with the highest priority, namely the investigation and development of alternative forms of electrical generation within the territory, particularly hydro electricity. Further, the GN should be encouraged to fully support financially, and in other ways, as required, QEC’s development of hydro electricity and other alternative forms of electrical generation throughout Nunavut.

KIA submits proper infrastructure for QEC should include local generation possibilities, including wind, solar etc.

One public submission suggests alternative energy be placed elsewhere and removed from QEC as it is not in the Corporation's jurisdiction, according to the Qulliq Energy Act. Understandably, the responsible Minister can make a change to the Qulliq Energy Act to allow QEC to do that, but alternative energy probably rests elsewhere within the GN.

In its Reply submission, QEC submits it is already engaged with the GN and pursues alternative energy opportunities by performing feasibility studies of such opportunities when they arise. QEC states it cannot implement long-term alternative energy solutions without a healthy injection of human and economic resources. Currently, the complete annual capital budget is expended maintaining the existing electrical utility infrastructure.

During a consultation meeting, QEC's witness indicated QEC does not currently spend any money on alternative energy projects, but has developed proposals to try and get infrastructure funding from the Federal Government for alternative energy projects. Alternative energy projects, like hydro or the hybrid plant in Cape Dorset, would be carried out if the Federal Government provides the funding. QEC pointed out the economics resulting from potential wind and solar projects would not warrant such expenditures unless financial contributions from outside the Corporation were forthcoming. Such projects implemented in the absence of outside funding would simply increase rates beyond that achievable with diesel generation.

URRC Findings:

The URRC notes QEC's statement that the Corporation does not currently spend any money on alternative energy projects, but has developed proposals to try and obtain infrastructure funding from the Federal Government for alternative energy projects. The URRC considers this to be a practical approach, particularly in relation to large-scale projects which generally entail significant business risks and where economics would result in significantly higher costs than those achievable with current diesel operations.

4.2.5 Government of Nunavut Subsidy Program

KC submits private homeowners receive the Government subsidy on their total power bill. Property owners who rent out residential units and have a central utility room for heat and/or water distribution are charged the full commercial rate for the utility room. It is still residential property and the owner cannot absorb the cost. Consequently, they must pass it on to the tenants. In KC’s submission, renters are unjustly treated as compared with private homeowners.

QEC indicates it administers the subsidy program for the GN and suggests the URRC may be able to pass on, to the responsible Minister, its views on the subsidy program.

URRC Findings:

The URRC does not consider it has sufficient evidence before it to consider the merits of the subsidy program design in any comprehensive manner. Further, the legislation establishing the subsidy program does not appear to fall within the jurisdiction of the URRC. Affected parties should engage the GN in further direct discussions to address their concerns.

5.0 EXAMINATION OF THE APPLICATION

Section 13 (2) of the Act states the URRC must have regard to whether the proposed rate or tariff is fair and reasonable considering the cost of providing service, including financing costs and other factors set out in the Guidelines. Sections 1(1) and 1(2) of the Guidelines require the URRC to determine the costs of providing service (revenue requirement) having regard to the following:

> **1(1) Total Cost Recovery**
> Rates should be set so that looking ahead each year the total revenue the utility earns from the rates will match the total cost of providing services as determined under these guidelines.
>
> **1(2) Traditional Regulatory Approach**
> The total cost of providing services should be determined using principles commonly applied in Canada to regulated utilities. Some key features of that approach are:
>
> a) Determine the value of all the property the utility uses or needs to provide the service.
> b) In determining the value of the property used or needed
>   i) consider the reasonableness of the utility's forecast of customer growth, system use, and sales, and its plans for adding and upgrading plant and equipment in view of that forecast and the need to provide safe reliable service;

ii) use the cost of property when first put it into service taking into account what the utility acting wisely should have paid for it and any depreciation, amortization or depletion; and
iii) consider necessary working capital.

c) Once the total value of the property has been determined, decide on a suitable mix of equity and debt for financing the property, and allow as costs
   i) a fair return on the equity part, and
   ii) reasonable interest and related costs for the debt part.

d) In addition to these costs, include all other costs that appear reasonably necessary for the utility to provide services, for example:
   i) all reasonable operations and maintenance expenses,
   ii) fuel costs,
   iii) taxes, and
   iv) any other costs the utility must incur to provide safe, reliable service.

In any case where the Review Council is requested to provide advice to Government, it may base its analysis on these and other generally accepted regulatory principles.

In considering the cost of providing service and the request for rate increase, the URRC will consider the proposed rate base (Section 5), fair return on rate base (Section 6), components of revenue requirement (Section 7), the forecast revenues and the revenue deficiency for the Test Year 2010/11 (Section 8). A discussion of other matters follows in Section 9 and the URRC's recommendations are set out in Section 10.

Since the forecast revenue requirement for 2010/11 reflects the underlying accounting assumptions, the URRC will examine QEC's request for changes in the accounting method for the 2010/11 Test Year in Section 4 of the Report.

The URRC’s examination and assessment of the Application are based on the Corporation's Annual Reports, technical and financial information made available by the Corporation as part of the Application, responses to information requests, public submissions and QEC's written submission dated February 4, 2011.

6.0 RATE BASE

6.1 INTRODUCTION

The forecast rate base of QEC consists of the Mid-Year Gross Plant in Service, Mid-Year Accumulated Depreciation, Amortization of Contributions and Working Capital.

6.2 GROSS PLANT IN SERVICE

QEC's GRA forecast for 2010/11 reflects forecast opening balances for gross plant. The following table provides a comparison of the 2009/10 forecast and actual year-end gross plant balances:

	2009/10 F	**2009/10 A**
Gross Plant	$000	$000
Opening Balance	193146	193146
Additions	9023	19177
Disposals		-3983
Adjustments		1
Closing Balance	202169	208341
Source: URRC QEC 28		

F – Forecast; A – Actual

In calculating the above actual balances, QEC excludes $14.292 million related to residual heat assets and $1.745 million with respect to the Baker Lake generating plant from gross plant, as per the accounting records. The latter amount for the Baker Lake plant was disallowed by the URRC in the 2004/05 GRA Report. Subject to these adjustments, the 2009/10 actual gross plant balance reconciles with the audited financial statements.

In QEC.URRC-76(a), QEC provides the reasons for the increase in the 2009/10 capital additions compared with the forecast. In particular, QEC indicates incorporating 2009/10 actual closing balances for gross plant, accumulated depreciation, contributions, fuel inventory and amortization increases the Test Year revenue requirement by $0.304 million. QEC indicates it does not propose to change the forecast revenue requirement submitted in the GRA revised filing to reflect an adjustment of 2010/11 opening balances to reflect the actual balances as incorporating 2009/10 actual closing balances for gross plant, accumulated depreciation, contributions, fuel inventory and amortization increases the Test Year revenue requirement by $0.304 million.

URRC Findings:

The URRC accepts QEC's forecast of gross plant opening balances for purposes of this Report.

The calculation of the gross plant for the Test Year is set out in Schedule 5.2 of the Application. The URRC accepts QEC's calculation of gross plant in service for the Test Year.

6.3 CAPITAL ADDITIONS

The following table provides a summary of capital additions from 2007/08 to 2010/11.

	2007/08A	**2008/09A**	**2009/10 F**	**2010/2011F**
	$000	**$000**	**$000**	**$000**
Diesel Plant	2269	2903	8458	7879
Distribution Plant	430	1697	0	42
General Plant	3411	2661	565	1390
Total	6110	7261	9023	9311
Source: Schedule 5.2				

F – Forecast; A – Actual

The need and prudence of 2010/11 capital additions were examined by the URRC in URRC.QEC-32.

The major capital additions in 2010/11 include:

- Genset Replacements in the Communities of: Cambridge Bay, Rankin Inlet and Arviat;
- Capacity Increases in the Communities of: Baker Lake, Chesterfield Inlet, Whale Cove;

- Electric Document Management System: Baker Lake;
- Fuel Oil System Upgrade: Arviat; and
- Air System Compressor: Iqaluit

QEC indicates its policy is to apply a charge to the capital projects in the form of an administrative overhead cost. The actual percentage of the charge varies from year to year to reflect the level of administrative involvement in the projects. QEC indicates no detailed written policies on capitalization of overhead applicable to capital projects are currently available. [URRC.QEC-70]

URRC Findings:

The URRC considers a written policy on capitalization is required to ensure the policy is understood and consistently applied from year to year and throughout the organization when dealing with forecast and actual construction costs. Accordingly, QEC is directed to develop and implement a written policy on capitalization of overheads and file this policy with the URRC at the time of the next GRA.

6.4 ACCUMULATED AMORTIZATION

QEC's GRA forecast for 2010/11 reflects forecast opening balances for accumulated amortization. The following table provides a comparison of the 2009/10 forecast and actual year-end accumulated amortization balances:

	2009/10 F	**2009/10 A**
Accumulated Amortization	$000	$000
Opening Balance	97576	97576
Additions	8478	7106
Disposals		-3160
Site Restoration exp	-166	-65
Closing Balance	105888	101457
Source: URRC QEC 35		

F – Forecast; A – Actual

In calculating the above actual balances, QEC excludes $5.622 million for residual heat assets and $0.226 million for the Baker Lake generating plant from the accumulated amortization, as per the accounting records. QEC includes $20.373 million related to the reserve for site restoration and future removal, shown as a separate regulatory liability in the accounting records, as part of the accumulated amortization balance for regulatory purposes and indicated in the above table. Subject to these adjustments, the 2009/10 actual accumulated amortization balance reconciles with the audited financial statements.

QEC indicates incorporating 2009/10 actual closing balances for gross plant, accumulated depreciation, contributions, fuel inventory and amortization increases the Test Year revenue requirement by $0.304 million. QEC states it does not propose to change the forecast revenue requirement submitted in the GRA revised filing to reflect an adjustment of 2010/11 opening balances to reflect the actual balances.

URRC Findings:

The URRC accepts QEC's forecast of accumulated amortization opening balances for purposes of this Report.

The calculation of the accumulated amortization for the Test Year is set out in Schedule 5.3 of the Application. The URRC included the site restoration expense of $0.161 million as part of the amortization expense and accumulated amortization for 2010/11. Subject to this adjustment, the URRC accepts QEC's calculation of accumulated amortization for the Test Year.

6.5 CONTRIBUTIONS

Customer contributions represent the portion of assets directly recovered from the Corporation's customers at the time the asset was constructed, as well as portions of assets directly financed by the Government of Nunavut. The following table provides a comparison of the 2009/10 forecast and actual year end contributions and associated accumulated amortization balances:

	2009/10 F	2009/10 A
Gross Contributions	$000	$000
Opening Balance	15692	15692
Additions	2647	1717
Disposals		
Closing Balance	18339	17409
	2009/10 F	2009/10 A
Amortization of Contributions	$000	$000
Opening Balance	6738	6738
Additions	679	661
Disposals		
Closing Balance	7417	7399
Net Contributions Closing Balance	10922	10010
Source: URRC QEC 36		

F – Forecast; A – Actual

From the actual gross contributions, QEC excludes $0.525 million for residual heat assets. Subject to this adjustment, the 2009/10 actual net contribution balance reconciles with the audited financial statements.

As previously noted in Section 6.2, incorporating 2009/10 actual closing balances for gross plant, accumulated depreciation, contributions, fuel inventory and amortization would increase the Test Year revenue requirement by $0.304 million. QEC indicates it does not propose to change the forecast revenue requirement submitted in the GRA revised filing to reflect an adjustment of 2010/11 opening balances to reflect the actual balances.

URRC Findings:

The URRC accepts QEC’s forecast of net contributions opening balances for purposes of this Report.

The calculation of the net contributions for the Test Year is set out in Schedule 5.4 of the Application. The URRC accepts QEC's calculation of net contributions as proposed.

6.6 WORKING CAPITAL

QEC states cash working capital has been calculated based on a lead-lag study completed for this GRA. Included in the calculation of working capital are the operational revenue and expense leads and lags and the GST lead/lag calculation. The other components of working capital are supplies inventory, fuel inventory and prepayments of rent and insurance.

URRC Findings:

The calculation of working capital is set out in Schedule 5.5 of the Application. The URRC has adjusted the cash working capital to reflect certain reductions in cash expenses described in Section 8.2. Subject to this adjustment, the URRC accepts QEC's forecast of working capital for purposes of this Report.

7.0 RETURN ON RATE BASE

The following table shows QEC's proposed capital structure, long term embedded cost of debt and return on equity for 2010/11:

2010/11 Forecast	Mid-Year Capitalization	Mid-Year Capital Ratios	Mid-Year Rate Base	Mid-Year Cost Rate	Return
	$000	%	$000	%	$000
Common Equity	51102	43.82%	43442	9.25%	4018
Long Term Debt	61173	52.46%	52004	6.11%	3175
No Cost Capital	4334	3.72%	3684	0.00%	0
Total	116609	100.00%	99130	7.256%	7193

The proposed capital structure includes long term debt, equity and no cost capital.

The long term debt consists of a 20 year 6.809% debenture debt (year end 2009/10 balance of $51.988 million) and two floating rate, non-revolving, term loan facilities. These loans are categorized as long term debt in QEC's 2009/10 financial statements. With respect to the debenture debt, QEC is required to make blended semi-annual payments of $2.848 million with a balloon payment of $17.502 million at the end of the term on September 27, 2021.

The no cost capital includes the mid year balances of GN no cost loans, the hearing cost reserve and the reserve for injuries and damages.

With respect to the proposed capital structure for 2010/11, QEC notes the URRC, in its 2005 report to the Responsible Minister respecting QEC's 2004/05 GRA, recommended approval of a capital structure of approximately 75:25 debt to equity for 2004/05. This capital structure was based on the actual and forecast equity balance for 2004/05. QEC states its proposed capital structure reflects forecasts for long-term debt; no-cost capital and equity for the 2010/11 Test Year, while also considering the requirements of legislation and existing debt covenants.

With respect to its proposed return on equity of 9.25%, QEC indicates it reviewed the following in developing the rate.

1. QEC reviewed the current approach to ROE in Alberta. QEC notes the Alberta Utilities Commission (AUC) (formerly the AEUB) conducted a review of its approach to the setting of a generic ROE leading to AUC Decision 2009-216. In that Decision, the AUC suspended the application of its previous ROE adjustment formula and set a generic ROE for 2009 and 2010 of 9.0 per cent. In the same Decision the AUC established an interim ROE for 2011 of 9.0 per cent.

2. QEC reviewed the most recently approved ROE for the Northwest Territories Power Corporation (NTPC). In Decision 13-2007, the Northwest Territories Public Utilities Board approved a ROE of 9.25 per cent for NTPC's 2007/08 Test Year.

   QEC operates in a harsher environment than NTPC or Alberta based utilities due to the isolated nature of its communities (i.e. no road or rail interconnections with southern jurisdictions); the smaller size of its communities and the lack of access to hydro-electric or natural gas generation. Therefore, QEC believes its ROE should, at a minimum, be consistent with the levels approved for NTPC or Alberta based utilities and that there likely could be an argument that its business risks would support a higher ROE.

In this application, QEC states it is requesting an interest coverage ratio of 2.27 for 2010/11. QEC notes this is higher than the 1.53 interest coverage ratio for 2004/05 recommended by the URRC in its February 18, 2005, report; but is consistent with the discussion in the URRC's report which, in QEC's view, indicates 1.5 interest coverage should be a minimum standard. [URRC.QEC-26(a)]

With respect to its business risks, QEC notes:

- QEC's operating environment is more challenging than NTPC or Yukon Energy Corporation (YEC) due to its communities being generally smaller and more isolated (without road access to Southern Canada or between most communities).

- With respect to production risk, QEC relies entirely on thermal generation sources, unlike YEC and NTPC which provide substantial portions of their generation needs through hydro-electric generation.

- QEC does not have industrial customers. Therefore, it likely has somewhat lower sales variability and sales forecast risk than YEC or NTPC, where the addition or closure of an industrial customer can have more material impacts on sales.

With respect to return on rate base, BRCC notes the need for any business to generate sufficient revenues (through sales or user fees) to recover both the full cost of service and a reasonable return on their investment is a fundamental requirement if the entity is to remain viable.

In the case of the QEC, BRCC notes the *reasonable return on investment* has been set at 9.6% by the URRC. The BRCC indicates it is assuming this amount is what is required to maintain the capital plan of the QEC as it strives to upgrade the aging infrastructure.

NTI submits QEC is proposing a return on equity of 9.25% for the Test Year. This is consistent with rate approvals for the Northwest Territories Power Corporation and the Alberta Energy and Utilities Board.

URRC Findings:

In the URRC's view, a utility's capital structure and return on equity should be reasonably sufficient to assure confidence in the financial viability of the utility and preserve its financial integrity. Given QEC's funded debt is guaranteed by the GN, the URRC considers the capital attraction criterion generally considered in setting rate of return may be given somewhat lower weighting in establishing a rate of return on equity for a Crown Corporation such as QEC.

Having regard to the business risks of the Corporation and the return awards for comparable utilities and their respective business and financial risks, noted above, the URRC considers a 40% equity ratio in the capital structure financing the rate base together and a 9.25% return on equity to be appropriate for the determination of fair return on rate base in 2010/11.

QEC's Application requests a 43.82% equity ratio in the capital structure. Accordingly, the fair return and the 2010/11 forecast revenue requirement will be adjusted to reflect the reduction in the equity ratio from 43.82% to 40%.

8.0 REVENUE REQUIREMENT

8.1 FUEL & LUBRICANTS EXPENSE

8.1.1 Price of Fuel & Lubricants

QEC indicates 2010/11 fuel price forecasts are based on actual weighted average June 2010 prices, which were the most recent available prices from Petroleum Products Division (PPD) at the time of application. Weighted average actual fuel prices were calculated by taking the weighted average of inventory fuel prices in the beginning of June and the actual fuel prices in June weighted by the inventory fuel volume. QEC indicates the forecast fuel prices for 2010/11 are consistent with the fuel prices used for QEC's October 2010 FSR application. [URRC.QEC-9]

From its perspective, QEC indicates use of a single weighted average fuel price (both forecast and actual) and a single weighted average fuel efficiency should improve the administrative burden of maintaining the fund and simplify the review process. [URRC.QEC-43]

URRC Findings:

QEC's forecast of fuel prices is set out in Schedule 3.2.4 of the Application. The URRC accepts QEC's forecasts for purposes of this Report.

With respect to QEC's suggestion that use of a single weighted average fuel price (both forecast and actual) and a single weighted average fuel efficiency should improve the administrative burden of maintaining the Fuel Stabilization Fund and simplify the review process, the URRC considers this matter is best addressed in the Phase II proceeding. Accordingly, QEC is directed to address this matter in its Phase II filing.

8.1.2 Fuel Efficiencies

QEC indicates forecast efficiency is calculated by taking the actual efficiency for the most recent actual years (2006/07, 2007/08 and 2008/09) and calculating a weighted average. The year with the highest efficiency is given a weighting of 3, the second highest year a weighting of 2 and the lowest efficiency year a weighting of 1. QEC indicates the weighted average method was chosen because it is consistent with regulatory practice in other jurisdictions (e.g. it is the same method approved for the NTPC).

QEC submits it would not be appropriate to adjust fuel efficiencies between General Rate Applications, as new gensets are installed, for two reasons:

> 1. QEC does not have fuel meters for each genset. Fuel efficiencies are measured at the plant level.
>
> 2. Rates are set based on an assumed forecast fuel efficiency. In QEC's experience, ratepayers are usually insulated from risks associated with fuel efficiency between rate applications, both due to potential improvements in efficiency and potential decreases in efficiency. [URRC.QEC-43]

QEC states fuel volumes used to calculate plant fuel efficiencies are based on fuel dips at the fuel tank and, therefore, are total plant fuel volumes. QEC does not have fuel meters on individual gensets and cannot calculate genset-specific fuel efficiencies. [URRC.QEC-10]

QEC also states a high level estimate of the cost to install the required metering on each genset is approximately $25,000 per genset. As a result, installing metering on each of QEC's gensets would cost approximately $2.25 million (based on installing metering on 95 gensets).

Given the small number of gensets in each community, QEC submits the ability to use individual fuel efficiencies to influence genset dispatch and overall fuel efficiency in a material way seems limited. However, QEC indicates it is undertaking an evaluation of the potential benefits on a pilot project basis. [URRC.QEC-71]

URRC Findings:

The URRC considers fuel efficiency to be one of the criteria used in the selection of new gensets. An accurate measure of the actual performance of these gensets in terms of fuel efficiency is necessary to assess whether they are even meeting the expectations for fuel efficiency.

The URRC notes QEC's proposal to carry out a pilot project to assess the benefits of monitoring fuel efficiencies on a individual genset basis. QEC has not indicated the length of time this pilot project would take nor has it provided any details as to how the pilot project will be carried out and how the costs and benefits will be evaluated.

In the URRC's view, fuel costs constitute a very large component of QEC's revenue requirement and any potential efficiency improvements in fuel use would have significant benefits in terms of the electricity costs to consumers. The URRC urges QEC to examine and assess cost effective approaches to improving fuel efficiencies. QEC is directed to report the timing and the results of initiatives undertaken to improve fuel efficiencies at the time of its next GRA.

8.2 OPERATIONS & MAINTENANCE EXPENSE (O&M)

QEC forecasts O&M of $44.383 million. [Schedule 3.1 of the Application] These expenses include Salaries and Wages of $22.294 million, Supplies and Services expenses of $17.924 million and Travel and Accommodation expenses of $4.054 million.

8.2.1 Salaries & Wages Expense

The following Table shows the components of Salaries and Wages from 2006/07 to 2010/11:

Salaries and Wages					
	2006/07A $000	2007/08A $000	2008/09A $000	2009/10A $000	2010/11F $000
Regular Salaries & Wages	7580	9124	9158	10992	13421
Overtime	1896	1850	1799	1963	2455
Casual Regular & Overtime	572	540	684	570	493
Benefits (Fringe, Allowances etc)	5058	5738	6538	7100	5924
Other (Leave, Miscellaneous Payout)	1030	495	754	710	
	16136	17747	18933	21335	22293
Source URRC.QEC-13, Table 2					

F – Forecast; A – Actual

At page 3-5 of the Application, QEC indicates the Corporation added several new positions to the Human Resources (HR), IT and Finance and Operations departments and is implementing a number of process improvements across departments and functions in the Corporation.

In addition, QEC indicates, to assist in the development and retention of trades people in high demand positions, the Corporation has undertaken an apprenticeship program, adding six linesmen, six electricians and five mechanic positions. This has resulted in an additional $1.739 million in Salaries and Wages expense. QEC states the Apprenticeship Program is key to ensuring the Corporation has qualified, highly skilled employees in these high demand positions and is in line with QEC's Corporate Human Resources Strategy of refining the Inuit Employment Program to develop internal and external Inuit resources to assume responsibilities at all levels and positions in the organization.

QEC states the 2010/11 revenue requirement includes the full salary and wages cost for the Apprentices and does not reflect the GN contribution. GN contributions towards Apprentice salaries is $23,350 per apprentice per annum. This contribution of approximately $0.397 million is reflected as an additional non-electricity revenue offset.

With respect to the apprentice training program, NTI submitted the program should not be included for rate purposes, regardless of whether the program continues operating at the level indicated. Referring to its submission in the 2004/05 GRA, NTI indicates, under QEC's application, beneficiaries of the program are effectively being asked to contribute to the costs of implementing their own agreement with the Crown. This is an off-loading of responsibilities from government to those for whom the measures were intended.

NTI suggested performance-based funding be considered for the Apprenticeship program, so adjustments are made to the rate base on a formulaic basis. NTI submitted QEC should be required to submit for review requests for new Full Time Equivalents (FTEs) to URRC prior to being included.

In its Reply submission, QEC submits the increase in the number of FTEs was the result of the Corporate Functional Review, which identified workload and staffing issues in a number of departments, as well as the need for HR resource training and change initiatives. QEC states the apprenticeship program is key to ensuring the Corporation has qualified highly skilled employees in various high demand positions and to develop internal and external Inuit resources to assume responsibilities at all levels and positions in the organization.

URRC Findings:

With respect to the apprenticeship program, the URRC notes the submission of NTI that the program should not be included for rate purposes, regardless of whether the program continues operating at the level indicated and, in effect, this is an off-loading of responsibilities from government to those for whom the measures were intended.

The URRC notes the addition of the 17 apprentices results in a significant drop in the productivity of the Corporation in 2009/10 and 2010/11 as measured by the number of customers per FTE. If the FTEs related to apprentices were removed from the forecast FTEs for the Test Year, the Corporation's productivity improves and would be more comparable to the FTE productivity levels from prior years, as shown below:

	2004/05 GRA	2004/05A	2005/06A	2006/07A	2007/08A	2008/09A	2009/10A	2010/11F	2010/11F Adjusted
Number of customers	12775	11402	11584	11724	11836	12310	12729	12792	12792
Total FTE before vacancies	156	151	155	155	166	163	191	193	176
Vacancies	14	10	20	8	20	11	14	16	15
FTEs net of vacancies	142	141	135	147	146	152	177	177	161
Adjustment for GN portion of Apprentices							3	3	
Adjusted FTEs	142	141	135	147	146	152	174	174	161
Customers per FTE	90	81	86	80	81	81	73	74	79
Source: URRC.QEC-61, Table 1									

F – Forecast; A – Actual

The URRC agrees with NTI the apprenticeship program is one that should properly be supported 100% by the GN, rather than by the rate payers of QEC. Therefore, the salaries cost of the apprenticeship program (together with any associated employment related costs, supplies and services, as well as travel and accommodation) should not be included in the 2010/11 revenue requirement. Accordingly, the URRC will reduce the forecast of salaries and wages for 2010/11 by $1.739 million to reflect the removal of the salaries cost of the apprenticeship program from the forecast revenue requirement. At the same time the GN contribution towards salaries and wages of apprentices amounting to $0.397 million will also be removed from other revenue.

The URRC notes, in 2009 the Corporation undertook a review of departmental functions and staffing. The review identified workload and staffing issues in a number of departments, as well as the need for HR resource training and change initiatives. In response to these needs, QEC indicates it added several new positions to the HR, IT and Finance and Operations departments and is implementing a number of process improvements across departments and functions in the Corporation.

Notwithstanding the addition of FTEs, as described above, the URRC notes the forecast level of overtime in 2010/11 is proportionately higher (overtime as a percentage of regular salaries and wages) than in 2009/10. The URRC expects, with the addition of new FTEs following the 2009 staffing review, the proportion of overtime would at least be consistent with 2009/10 levels and that management would pay particular attention to this cost as it is rising in a significant manner.

The URRC considers the forecast proportion of overtime in 2010/2011 should not exceed the overtime as a proportion of regular salaries and wages in 2009/10. Having regard to the URRC determined reduction in regular salaries and wages with respect to the apprentices program, the URRC has calculated a reduction of $0.369 million to overtime expenses as follows:

Calculation of 2010/11 Overtime Reduction				
	2009/10A	**2010/2011F**	**2010/11 F Adjusted**	**Overtime Reduction**
	$000	**$000**	**$000**	**$000**
Regular Salaries & Wages	10992	13421	13421	
Apprentice Salaries & Wages			-1739	
Net Regular Salaries & Wages			11682	
Overtime	1963	2455	2086	369
Ratio Overtime to Regular Salaries	17.9%	18.3%	17.9%	

F – Forecast; A – Actual

The URRC will reduce the forecast of salaries and wages for 2010/11 by $0.369 million to reflect overtime levels that are in line with those experienced in 2009/10, after the removal of salaries and wages related to the apprenticeship program.

8.2.2 Supplies & Services Expense

The components of supplies and services are plant maintenance, tools, furniture and equipment, clothing and safety equipment, building rental, training, computer and software licensing consulting expenses and bad debt expense. The issues relative to the Test Year forecast of supplies and services are discussed below.

8.2.2.1 *Plant Maintenance:*

The following table shows the plant maintenance expenses for the years 2007/08 through 2010/11:

	2007/08A	**2008/09A**	**2009/10A**	**2010/2011F**
	$000	**$000**	**$000**	**$000**
Plant Maintenance	8653	6645	11639	9460
Source: URRC.QEC-14, Table 1				

F – Forecast; A – Actual

QEC indicates the 2010/11 forecast of plant maintenance expense includes a $0.5 million emergency fund. QEC states the $0.5 million fund is for emergencies that may occur throughout the year in any plant. QEC states the amount is nominal and not based on prior years' expenditures. It covers anything from engine parts to airline charters to get crew into a community where the power is out.

NTI submitted it is concerned about QEC creating unallocated reserves (contingency funds) within the rate base. It is normal to include contingencies within capital programs, but NTI does not support such funds within O&M budgets. If QEC can make a strong case for why the establishment of a Emergency Fund is required, the fund should be established as a reserve which can be topped up based on a GRA application.

In addition to the foregoing, in URRC.QEC-14, QEC was asked to describe its policies respecting capitalization of capital maintenance expenses. Capital maintenance includes major maintenance or upgrade expenditures on utility plant required periodically to realize or extend the expected service life of utility plant (example major overhauls for generating units). In response, QEC indicates it does not have a policy respecting expensing versus capitalization for capital maintenance expenditures. For example, all major overhauls for generating units are expensed under supplies and services.

URRC Findings:

The URRC notes QEC does not capitalize any major capital replacements and upgrades applicable to its plant and equipment as a result of interim retirements and replacements of components of plant.

QEC's depreciation consultants, Gannett Fleming, indicate they reviewed this policy with QEC during the development of the average service life estimates and depreciation rate calculations. Gannett Fleming indicates it is not an expert in accounting or, more specifically, PSA. Therefore, they did not feel they could properly comment on the appropriateness of this specific capitalization policy. However, Gannett Fleming did indicate it is important to understand the capitalization policies of a utility when developing the average service life estimates so the estimated lives are consistent with the Company’s policies. Gannett Fleming indicates, during discussions with QEC, they were made aware of the capitalization policies and developed average service life estimates consistent with the practice of not treating interim plant maintenance activity as a capital project.

The URRC considers major capital replacements and upgrade expenditures whose benefits extend beyond the test period should properly be capitalized for rate making purposes to appropriately reflect the matching of costs and benefits. Accordingly, QEC is directed to examine its capitalization policy respecting capital maintenance in light of these comments and make any necessary changes to the capitalization policy and estimates of depreciation parameters at the time of its next GRA.

The URRC notes QEC's request for inclusion of $0.5 million in supplies and services as an emergency fund to cover anything from engine parts to airline charters to get crew into a community where the power is out. The URRC considers expenditures of this nature would have been budgeted as part of the preparation of the plant maintenance budget and forecast for 2010/11. Accordingly, the URRC considers inclusion of the $0.5 million emergency fund in supplies and services would likely result in duplicating some items of expenditure in the forecast. Accordingly, the URRC will reduce the supplies and services expense forecast by $0.5 million in 2010/11.

8.2.2.2 *Tools, Furniture & Equipment, Clothing & Safety Equipment, Building Rental & Training*

At page 3-7 of the Application, QEC indicates tools furniture and equipment, clothing and safety equipment, building rental and training are increasing due to increased staffing. In URRC.QEC-15, QEC was requested to provide a calculation of amount of expenses per FTE under each of these headings for each of the years 2007/08 through 2010/11 and comment upon and explain any significant changes in the expenses per FTE.

For forecast 2010/11, QEC states there are significant changes in the expenses per FTE in all expense categories, other than building rental. Expenses in these categories reflect increases in the number of staff and in maintenance requirements. QEC states maintenance requirements do not necessarily increase proportionately to the number of staff. Increases in training costs are required due to the introduction of more advanced operations and financial recording, monitoring and reporting systems. QEC states, this training is required for both new and existing employees.

URRC Findings:

The URRC notes the expenditures in tools, furniture and equipment, clothing and safety equipment, building rental and training are forecast to increase at a faster rate than the changes in FTE levels from 2009/10 to 2010/11. While an allowance for inflation from the prior year is appropriate, the URRC is not convinced the disproportionate increases in expenditure levels are warranted. Further, the URRC considers, in view of the determination that the FTEs related to the apprenticeship program will not be included in the 2010/11 revenue requirement, any supplies and services costs associated with these FTEs should also not be included in the revenue requirement.

Accordingly, the URRC will reduce the expenditures in tools, furniture and equipment, clothing and safety equipment, as well as building rental and training, to reflect levels comparable to those in 2009/10 and allow changes consistent with the changes in number of FTEs plus a 3% allowance for inflation. The URRC has calculated the reductions as follows:

Expenses Related to Tools, Furniture and Equipment; Clothing and Safety Equipment; Building Rental; and Training						
	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Forecast	2010/11F Adjusted (Includes 3% Inflation)	URRC Reduction
	A	B	C	D	E	F=D-E
FTE	146	152	177	177	161	
Tools Furniture and Equipment ($000)	216	171	263	641	246	395
$000 Per FTE	1.5	1.1	1.5	3.6	1.5	
Clothing and Safety Equipment ($000)	57	76	110	422	103	319
$000 Per FTE	0.4	0.5	0.6	2.4	0.6	
Building Rental ($000)	1469	1375	1535	1647	1443	204
$000 Per FTE	10.1	9.0	8.7	9.3	8.7	
Training ($000)	104	83	177	334	166	168
$000 Per FTE	0.7	0.5	1.0	1.9	1.0	
Total Reduction ($000)						1086
Source: URRC QEC 15 Table 1						

The adjusted FTE's in the above table reflects the reduced FTEs accepted by the URRC under Section 8.2.1.The URRC will reduce the forecast of Supplies and Services expense for 2010/11 by $1.086 million, as per the above table.

8.2.2.3 *Bad Debt Expense*

The following table shows the bad debt expenses for the years 2007/08 to 2010/11:

	2007/08A	2008/09A	2009/10A	2010/2011F
	$000	$000	$000	$000
Bad Debt	188	2383	2853	500
Source: URRC.QEC-17(a)				

F – Forecast; A – Actual

QEC states bad debt expenses on an actual basis vary from year to year. Based on QEC's past experiences and comparing organizations of a similar size in other jurisdictions, QEC forecasts the 2010/11 bad debt expense to be about 2.5% of its accounts receivable of about $21 million, or approximately $0.5 million.

In URRC.QEC-65, QEC was asked to explain why bad debt expenses in 2008/09 and 2009/10 were significantly higher than in other years. In response, QEC states the Corporation recorded an increase in bad debts in 2008/09 and 2009/10 primarily related to accounts for Local Housing Organizations. Since April 1, 2009, QEC has been working with the Nunavut Housing Corporation to address the situation. Since that time, the Nunavut Housing Corporation has taken responsibility for the payment of the majority of the former Local Housing Organization accounts and payments for current year's utilities since that time have not been a problem. Since that time, QEC has also been successful in collecting some of the bad debt amounts and has made adjustments to its account policies and payment plans. As a result, the 2010/11 Test Year forecast reflects a substantially reduced bad debt expense.

With respect to the issue of bad debt, QC states the $0.85 million in arrears interest and adjustments (page2 -I7) and the apparent significant lag time in receivables is no surprise to QC, since bills are rarely received before the date when the extra payment is required. From a business perspective, this is unacceptable. Of all of QC's payables, the Nunavut Power accounts are the worst for keeping balanced. Often payments made take months to show up on statements. Meanwhile, late payment fees keep accruing.

QC states the apparent significant lag time of 47 days for receivables suggests a problem with the billing procedures. QC indicates it rarely receives its bills before the due date, at which point it takes 30 days to process it. A factor in this lag time might be Canada Post. However, assigned due dates that predate the possible delivery of the invoice will typically be ignored.

QC notes there is a $0.5 million allowance cited in the application for bad debt expense. Regardless of how it eventually gets reported, it is disconcerting. QC questions what efforts are being made to mitigate this amount of bad debt.

URRC Findings:

The URRC notes the efforts being taken by the Corporation to address its bad debt performance. The 2009/10 Annual Report indicates the level of accounts receivable has been reduced from $34.5 million, as at fiscal year end 2008/09, to $23.4 million, as at fiscal year end 2009/10. Having regard to the electricity sales of $74 million in 2009/10, the level of accounts receivable appears to represent about 3.5 to 4 months of sales, on average. The URRC notes parties' comments respecting QEC's billing practices and urges the Corporation to further streamline its billing and customer accounting methods and practices to ensure timely and accurate rendering of bills and recording of payments.

Having regard to its past bad debt performance, URRC accepts QEC's proposed bad debt expense of $0.5 million for purposes of the 2010/11 Test Year.

8.2.3 Travel and Accommodation Expense

The following table shows the travel and accommodation expenses for the years 2007/08 through 2010/11:

	2007/08A	**2008/09A**	**2009/10A**	**2010/2011F**
	$000	**$000**	**$000**	**$000**
Business Travel/Accommodation	1840	1872	2045	2740
Training Travel/Accommodation	480	431	582	713
Other Travel	1012	1109	580	601
Total	3332	3412	3207	4054
Source: URRC.QEC-17(a) & Schedule 3.1				

F – Forecast; A – Actual

QEC states travel and accommodation expenses include all of the costs associated with travel, meals and accommodation for operational and professional development activities. QEC also indicates business travel and accommodation expenses in 2010/11 are in line with other areas that have been increasing, as QEC makes changes driven by the Corporate Functional Review recommendations. QEC also advises it is taking a more proactive approach in financial responsibility, plant operations and environmental stewardship. This involves more travel for plant maintenance, inspections and networking. [URRC.QEC-66(a)]

At page 3-9 of its Application, QEC states it is budgeting to hire 17 apprentices to different positions in the Operations department. The related expenses for apprentices' travels have been reflected in Business Travel and Accommodations, which is the major driver in the travel and accommodation budget increase. QEC indicates the training, travel and accommodation expenses for the apprentice program are approximately $0.4 million. [URRC.QEC-12(a)]

URRC Findings:

The URRC has examined the forecast travel and accommodation expense. As stated in Section 8.2.1, it is the URRC's view that expenses associated with the apprenticeship program should be 100% supported by the GN, rather than the ratepayers of QEC. Accordingly, the URRC considers it appropriate to reduce travel and accommodation expenses by $0.4 millon in the 2010/11 Test Year to remove the travel and accommodation expenses associated with the apprenticeship program from the forecast revenue requirement.

8.3 RESERVES

8.3.1 Reserve for Injuries & Damages and Rate Hearing Costs Reserve

QEC indicates it is proposing to roll-up the deferral accounts related to the rate hearing reserve and the reserve for injuries and damages. QEC states it has not included a provision for deferred cost amortization for these items in its 2010/11 revenue requirement. QEC proposes to retain these balances for regulatory purposes and to draw down amounts over the period until the next GRA. QEC indicates it is proposing to adopt the foregoing changes to its accounting practices in this GRA to better align its financial reporting with PSA.

A representative from the Rankin Inlet Chamber of Commerce who appeared at the consultation meetings raised the question, if a catastrophic failure occurs, who picks up the cost? In response, QEC indicated if that happened, the GN would declare a state of emergency and would replace the plant.

URRC Findings:

The URRC considers QEC to be a rate regulated entity under the Utility Rates Review Council Act. The URRC is required pursuant to the Guidelines prescribed under the Act to determine the cost of providing service using principles commonly applied in Canada to regulated utilities.

8.3.1.1 ***Reserve for Injuries and Damages***

The URRC has considered QEC's request to expense amounts that would be otherwise be charged to a reserve for injuries and damages in the year incurred and to terminate the reserve for injuries and damages at the end of the 2010/11 fiscal year.

The URRC notes the concern raised during the consultation meetings as to who picks up the costs in the event of a catastrophic failure. In the URRC's view, proper financial planning requires adequate insurance coverage for such events, as well as a reserve that could absorb uninsured or uninsurable sudden and accidental losses.

The URRC considers the deductible portion of insured losses, as well as uninsured losses resulting from sudden and accidental, high impact, low probability events are the types of expenses normally allowed to be charged to the reserve for injuries and damages. The elimination of this reserve raises the concern the funds required to pay for such events may not be available when required, which in turn may adversely impact the financial stability of the Corporation.

Accordingly, QEC is directed to continue the reserve for injuries and damages for regulatory purposes. Since QEC did not include an appropriation for the reserve for injuries and damages in the 2010/11 forecast revenue requirement, the URRC will include an amount of $0.15 million in the revenue requirement for this purpose.

8.3.1.2 *Hearing Cost Reserve:*

The URRC notes QEC is proposing to expense approximately $0.164 million in 2009/10 and $0.836 million in 2010/11 to the hearing cost reserve. In QEC's submission, the amounts included in the Hearing Cost reserve charges are costs related to the GRA, over and above normal O&M expenses, including long distance telephone, printing costs, etc.

URRC considers the expensing of external hearing costs against the hearing cost reserve is appropriate. However, the URRC does not consider the expensing of internal costs, such as salaries and office expenses, against the hearing cost reserve to be an appropriate use of the reserve. Although QEC indicates the Corporation's internal costs related to salaries and wages are incremental, it has not provided any evidence to demonstrate this is, in fact, the case. In the URRC's view, the inclusion of internal hearing costs in the hearing costs reserve could prove to be controversial in terms of what is normal and what is incremental. Accordingly, the URRC will not allow recovery of internal hearing related costs through the hearing costs reserve. The following table shows a tabulation of the hearing cost reserve charges as proposed by QEC and as adjusted by the URRC:

Hearing Cost Reserve Charges					
Name of Supplier	**Nature of Work**	**2009/10**	**2010/11**	**2009/10 Adjusted**	**2010/11 Adjusted**
		$000	**$000**	**$000**	**$000**
QEC GRA Coordination	Salaries for data collection and drafting of GRA	47.7	100.0		
QEC GRA Coordination	Travel	0.3	25.0	0.3	25.0
Tiqqaq Ltd	Office Supplies	0.2	5.0	0.2	5.0
InterGroup Consultants	Assist in GRA dtafting	101.7	142.0	101.7	142.0
Gannett Fleming	Depreciation Study	11.3	34.0	11.3	34.0
Local Consultants	Translation Services & Advertisements	2.6	25.0	2.6	25.0
QEC-Community Consultations	Travel		60.0		60.0
QEC-Corporate Support	Labour-Engineering, Finance/IT/Operations		350.0		
Overhead	Office, Telephone, Computers		95.0		
		163.8	836.0	116.1	291.0
Source: URRC QEC 40 Table 1					

The URRC will adjust the hearing cost reserve to reflect the above changes. QEC is directed to record external hearing costs and QEC's hearing related travel costs in the hearing cost reserve for 2009/10 and 2010/11 on an actual basis.

The URRC has considered QEC's request to expense hearing costs in the year incurred and to terminate the hearing cost reserve at the end of the 2010/11 fiscal year. The URRC considers rather than expensing hearing costs, future external hearing costs should be charged against the balance in the hearing cost reserve. The hearing cost reserve account may be terminated once the funds included in the reserve have been used up in this manner. From that point onwards, QEC may amortize external hearing costs equally over three years, in the interests of rate stability.

8.4 AMORTIZATION

8.4.1 Gannett Fleming Amortization Study

In URRC.QEC-24(a), QEC was questioned on the process used by Gannett Fleming to determine the history of retirements, as well as to understand future life expectancy for each account.

QEC indicates the average service life estimates were primarily based on the professional judgment of Gannett Fleming. A review of the available data required for the completion of a full retirement rate analysis of the historic retirement transactions was made at the beginning of the depreciation study and, in the opinion of Gannett Fleming, completion of a full retirement rate analysis would not produce results that would provide sufficient meaningful data upon which an average service life recommendation could be made. QEC states this determination was based on the following:

- Much of the detailed historic retirement data from prior to the split from NWTPC was not available:
- The QEC system has not experienced a significant level of retirements since the split with NWTPC.

- The use of a retirement rate analysis requires some retirement history.
- The capitalization and retirement practices have not been consistent. Therefore, in the opinion of Gannett Fleming, some retirement transactions have not been booked.
- Given the limited history of retirement transactions, the average service lives were likely to be developed on the basis of professional judgment in any circumstance.

QEC states, based on the above considerations, Gannett Fleming advised the average service life estimates should be developed based on the following procedures:

- A review of average service life estimates, as determined in the depreciation studies of other Northern Canadian Electric utilities.
- Given most of the assets were operated as NWTPC assets for many years, the average service life estimates from NWTPC were given additional focus.
- A physical site tour of facilities was conducted by Gannett Fleming.
- A review of large retirement transactions was made by Gannett Fleming
- Management and Operating Staff interviews were conducted by Gannett Fleming
- Preliminary average service life recommendations were reviewed by QEC to ensure the estimates reflect the unique conditions faced by QEC in the operation of this system.
- Final average service life estimates were compared to the wider range of electric utilities estimates made by Gannett Fleming.

URRC Findings:

The URRC has examined the Gannett Fleming Study and accepts the results for purposes of this proceeding.

8.4.2 Change in Accounting for Net Salvage Costs

QEC indicates it is in the process of transitioning to PSA and has made certain adjustments to the calculation of revenue requirement to allow its financial reporting to better align with PSA.

QEC proposes to adopt revised amortization rates that do not include a provision for net salvage or future removal and site restoration. To address potential environmental liabilities, QEC indicates it is proposing to adopt an Asset Retirement Obligation (ARO) related to those potential environmental liabilities. Since QEC's amortization rates will no longer include a provision for net negative salvage, net salvage costs will be expensed in the year incurred. QEC as included a provision for these expenses in its revenue requirement in the amount of $0.161 million.

Under QECs proposal, amortization expense would no longer include cost recovery for net salvage (positive or negative) or future removal and site restoration expenses related to retirement of existing assets. Further, the negative salvage collected from customers in the past ($20.4 million as of year-end 2009/10) would be amortized over the remaining life of the assets, thereby reducing depreciation expense in 2010/11 and future years. Any negative salvage or cost of removal incurred in a given year is to be expensed in the year incurred.

QEC states its investigation of the potential for an ARO was not sufficiently advanced at the time the Application was completed to include an ARO provision in the current Application. QEC indicates it may include a provision for an ARO in future rate applications.

In URRC.QEC-67(c), QEC was questioned on whether PSA allows recognition of deferred costs and revenues in the financial statements. QEC was also asked, if there is a large expenditure on site cleanup in a given year, whether this expenditure could be amortized over a number of years for financial statement purposes and, if amortized, whether there is a maximum period over which the amortization must take place? In response, QEC states:

> Based on QEC's understanding, PSA does not allow recognition of deferred costs and revenues in the financial statements. There exist some technical documents drafted in regards to dealing with deferred costs accounts when converting to PSA or International Financial Reporting Standards (IFRS), but they pertain specifically to rate-regulated utilities. Under this circumstance, the utility can submit a request to the regulator for special provisions. However, in the opinion of the Auditor General of Canada, QEC does not meet rate-regulated accounting criteria. As such, QEC does not fall within the rate-regulated utility category and cannot request for special provisions with respect to deferred costs accounts.

> Please see Auditor's Report to QEC 2009/10 financial statements in URRC.QEC-67(c) Attachment 1.

The Auditor General's Report states as follows with respect to rate regulated accounting for QEC:

> The Corporation has prepared its financial statements using rate regulated accounting. Under Canadian Generally Accepted Accounting Principles, rate regulated accounting requires that rates be set at levels that will recover costs. As the Corporation is unable to recover its costs without significant direct or indirect financial support from the Government of Nunavut, it does not meet the criteria for rate regulated accounting.

URRC Findings:

The URRC considers QEC to be a rate regulated entity under the Act. Pursuant to the Guidelines prescribed under the Act, the URRC is required to determine the cost of providing service using principles commonly applied in Canada to regulated utilities.

The URRC has considered QEC's request to change the method for calculation of amortization rates whereby a provision for net salvage would no longer be included in the amortization rates and in the annual amortization provision. Rather, the actual expenditures/gains on net salvage and removal and site restoration costs will be expensed in the year incurred.

The URRC notes three concerns with QECs proposal . First, the proposal may cause rate spikes in certain years, particularly if the cost of removal is high. For example in URRC.QEC-21(f), QEC indicates the estimated costs of clean-up for the old Baker Lake plant site are in the range of $10 million. However, QEC indicates the liability ownership for the site has not been cleared between QEC/GN and Federal Government. If this expense were to be incurred by QEC, there will be a significant increase in the revenue requirement in the year incurred. Even if it is amortized over a number of years, it is still a significant increase. Avoiding the expense indefinitely may also not be prudent environmental stewardship on the part of QEC.

Second, the recovery of negative salvage and removal costs from current customers, as opposed to all past generations of customers who were served during the service life of the asset, may be unfair from the point of view of intergenerational equity.

Third, the funds required to pay for significant negative salvage and removal costs may not be available if these expenditures are to be expensed in the year they are incurred.

In the URRC's view, QEC's proposal to change the method of amortization does not adequately address the foregoing concerns respecting QEC as a regulated utility. Accordingly, QEC is directed to continue to account for net salvage and future removal and site restoration expenses as part of the amortization rates and annual amortization expense for regulatory purposes. Under this approach, any expense/gain related to net salvage or site removal costs should be expensed to the relevant accumulated amortization account for regulatory purposes.

The URRC notes the responsibility for environmental liabilities related to site clean-up may not rest entirely with QEC. Accordingly, QEC is directed to carry out an amortization study for the next GRA that provides a realistic assessment of future removal and site restoration costs. QEC is to include these costs and estimates for positive or negative salvage, by account, in the amortization rates.

For purposes of this GRA, the URRC notes the proposed amortization expense does not include a provision for net salvage. However, QEC has included an amount of $0.161 million as an annual estimate of site restoration expense in the revenue requirement. In the absence of evidence from QEC as to the appropriate level of net salvage and site restoration expense that should be included in amortization expense, the URRC will include the $0.161 million in the amortization expense as a proxy for such costs, for purposes of this proceeding.

8.4.3 Financing Cost Amortization

The financing cost amortization of $0.249 million is the amount included in the revenue requirement in accordance with the URRC Report to the responsible Minister on QEC’s 2004/05 GRA. These costs relate to the early payment of QEC’s share of NTPC long-term debt, which amounted to $9.945 million.

Because these financing costs resulted from the early repayment of NTPC debt and the Corporation's new debt incurred a lower interest rate, the Corporation incurred lower interest expenses than NTPC otherwise would have incurred. In the 2004/05 GRA application, QEC requested to amortize the future benefit derived from the lower interest rate over the term of the debt for regulatory purposes. The amortization period was 20 years and the requested annual financing cost amortization was $0.497 million ($9.945 million / 20 years).

The URRC considered 50% of these financing costs to be shareholder related and included an amount of $0.249 million for amortization of financing costs.

URRC Findings:

The URRC accepts QEC's proposed financing cost amortization expense for the 2010/11 Test Year.

8.4.4 Amortization of Contributions

Customer contributions are amortized at the same rate as the amortization rate on the corresponding assets. QEC included $0.48 million with respect to amortization of contributions in the revenue requirement.

URRC Findings:

The URRC accepts QEC's proposed amount for amortization of contributions.

9.0 REVENUE FORECAST

9.1 LOAD FORECAST

QEC indicates it used a linear regression model based on weather and trend to prepare its 2010/11 load forecast. QEC states preparation of the forecast based on the regression model was considered an appropriate approach, given the modeling takes into account long term historical data on weather and consumption to investigate the existing relationship between them and to come up with their robust projection into the near future.

QEC states the model assumes the following relationship between the load and the demand factors:

- Electricity sales increase with colder temperature. In addition, every incremental drop in the temperature has an exponential impact on the increase in sales to appropriately capture the impact of very cold weather on the demand for electricity; and

- Electricity sales also increase with the population growth and technological development. This relationship is captured through using the trend variable as a proxy for the population growth and technological development.

QEC states this data was adjusted to account for the billing lag factor. For example, in the first month the customer reading may be low; while the next month it may be high, depending on when the read was taken. To minimize the impact of such outliers on the regression results, the peaks and troughs are adjusted to 15% maximum deviation from the previous year.

QEC states the weather data was taken from Environment Canada for each region. Cambridge Bay Heating Degree Day (HDD) data is used for Kitikmeot region, Rankin Inlet HDD data is used for Kivalliq region, and Iqaluit HDD data is used for the Baffin region.

QEC indicates streetlight sales are forecast at the actual 2008/09 level with a slight adjustment to reflect an increase in the number of streetlights in Chesterfield Inlet, Iqaluit, Pangnirtung and Igloolik (11.9 Megawatt hour (MWh) increase in total).

With respect to customer forecasts, QEC states the forecast 2010/11 customer numbers is built off the 2009/10 customer numbers per meter read sheets and projected at the rate of forecast increase in sales by community and by rate class.

URRC Findings:

The following Table shows the sales and sales per customer by class:

Total Sales & Sales Per Customer						
	2006/07A	**2007/08A**	**2008/09A**	**2009/10 F**	**2009/10 A**	**2010/11 F**
Domestic						
MWh Sales	55731	56736	57096	58897	57501	60091
Customers	9125	9163	9554	9639	9872	9833
Sales Per Customer	6.11	6.19	5.98	6.11	5.82	6.11
Commercial						
MWh Sales	82306	83210	86328	90429	85404	93208
Customers	2599	2674	2756	2875	2857	2960
Sales Per Customer	31.67	31.12	31.32	31.45	29.89	31.49
Street Lights						
MWh sales	1961	1966	1973	1985	1910	1985
Source: URRC.QEC-5 and Schedule 2.1						

F – Forecast; A – Actual

From the above table, the URRC notes the forecast sales per customer for domestic and commercial customers is consistent with those recorded in prior years. The 2009/10 sales per customer are somewhat lower than the forecasts for the same year. However, QEC explained the 20109/10 actual sales are lower than forecast due to warmer than normal weather. [URRC.QEC-78]

The URRC has examined the methods used by QEC to forecast sales and accepts QEC's forecast of electricity sales for 2010/11, as proposed.

9.2 REVENUE AT EXISTING RATES

The revenue at existing rates is calculated by applying the existing rates to the forecast billing determinants for 2010/11. The URRC has examined QEC's forecast of revenues at existing rates and accepts the proposed revenues at existing rates, as filed.

9.3 LOSSES & STATION SERVICE

Due to metering problems, QEC indicates actual line losses for the following communities in some years were showing up as negative or very low numbers: 2006/07 – Taloyoak, Iqaluit, Pangnirtung, 2007/08 - Coral Harbour, Chesterfield Inlet and 2008/09 – Arviat, Sanikiluaq. QEC states all negative line losses were adjusted by taking the previous 5-year actual average of losses as a percentage of sales. Also, Gjoa Haven actual line losses for 2008/09 were capped at the previous 5-year actual average (7.2%), as the reported number of 17% was too high.

For forecasting purposes, QEC states line losses were forecast based on the actual 2008/09 levels, as a percentage of sales by community.

As there were no issues identified with actual station service data, QEC advises there were no adjustments to station service numbers. For forecasting purposes, station service numbers are set at the absolute actual 2008/09 level by community.

URRC Findings:

The URRC notes the forecast loss percentages in the communities of Resolute Bay, at 16.3%, and Grise Fiord, at 13.2%, are exceptionally high. QEC is directed to address these exceptional line losses and report on how they have been dealt with at the time of the next GRA.

9.4 NON ELECTRICITY REVENUE

The following Table shows the components of non electrical revenues from 2004/05 to 2010/11:

Non Electrical Revenue							
	2004/05A	2005/06A	2006/07A	2007/08A	2008/09A	2009/10A	2010/11F
	$000	$000	$000	$000	$000	$000	$000
Joint Use	292	393	326	303	305	333	340
Miscellaneous Charges	408	819	761	1016	977	1282	1245
Time and Materials	222	405	431	806	1118	908	561
Total	922	1617	1518	2125	2400	2523	2146
Source: URRC QEC 11							

F – Forecast; A – Actual

QEC states forecast non-electrical revenue is composed of three categories – Joint Use, Miscellaneous Charges and Project Time and Materials. Forecast Joint Use and Miscellaneous Charges are based on average actual revenue for the three (3) most recent years (actual 2007/08, 2008/09 and forecast 2009/10). QEC states the material increase in Miscellaneous Charges relative to the 2004/05 GRA forecast is due to Arrears Interest & Adjustments, forecast at $0.85 million in 2010/11.

Project Time and Materials include forecast revenue in 2010/11 from the work done by QEC for other companies, equipment rental, as well as recovery of time and materials on small scale repair works (broken pole replacements, lighting installations, etc.).

URRC Findings:

In its January 16, 2011, amended application, QEC proposed to include $0.397 million for the Government subsidy on the apprenticeship program. As a result, the proposed non-electrical revenue for 2010/11 would amount to $2.453 million, as per the amended application. However, consistent with the URRC's finding in relation to the inclusion of costs related to the aprrenticeship program, the URRC has reduced the non-electrical revenue by the $0.397 million subsidy.

Subject to the foregoing, the URRC accepts QEC's forecast of non-electrical revenues.

10.0 REVENUE SHORTFALL BASED ON EXISTING RATES

Following the responsible Minister's review and approval of base rates, QEC indicates it will request approval of a shortfall rider designed to collect outstanding amounts arising from 2010/11 base rate adjustments not being implemented for the full 2010/11 period. Following approval of base rate changes, QEC states it will provide the responsible Minister with a compliance filing detailing the calculation of a shortfall amount, any transfers between the Fuel Stabilization Fund and the shortfall account that may be necessary and a proposal for a shortfall rider to collect that amount.

In reviewing rate increases, the URRC must balance the Corporation’s financial situation, as well as the rate shock impact for customers resulting from a high percentage increase in any given year. The URRC notes the comments of parties to the proceedings as to the impact of rate increases on customer bills and the request to phase in the increases.

During public consultations, QEC implied the effect of its application would result in an increase to current customer bills of 19.7%. However, URRC considers this description does not fully describe the effect the Corporation's request will have on customers’ rates. For example, QEC appears to consider the FSR as not temporary, but as a base from which the increase should be measured. QEC has not specifically applied for the roll in of the FSR in the current application and the URRC considers the consolidation of the 4.68¢ kWh FSR as part of the base rates is a matter is best addressed at the Phase II proceedings dealing with rate structure, at which time customers ought to be explicitly notified as to QEC's proposal. URRC directs QEC to bring forward its application to consolidate the FSR into base rates at that time.

In its deliberations following public hearings, the URRC determined QEC's costs have risen significantly since its last GRA. The URRC has determined QEC's 2010/11 revenue requirement to be $97.1 million, based on URRC's review of QEC's forecasts, as shown in Appendix 1. Based on existing base rates (excluding the FSR) this revenue requirement results in a revenue shortfall of $18.7 million. Considering the FSR will recover approximately $7.3 million, the remaining deficiency of $11.4 million will constitute an increase to base energy rates of 14.25%. The calculation of this revenue deficiency is shown in Appendix 1.

Noting QEC did not file its general rate application on a timely basis, prior to commencement of the test year, as required by legislation, and noting the 2010/11 test year period has almost expired, URRC considers revenue recoveries from current base rates, the current FSR and the approved interim rates should be made final for that year. To retroactively attempt to recover the 2010/11 shortfall, in addition to imposing increased rates during 2011/12, would result in extreme rate shock to current electricity customers. Accordingly, the URRC recommends any revenue deficiency in 2010/11 resulting from delay in implementation of rate increases be recovered from the GN, rather than from customers of QEC.

Going forward, the URRC considers increasing the base rates by a further single adjustment that recovers the remaining 2010/11 deficiency would create extreme hardship for customers of QEC. Accordingly, the URRC considers rate increases generating revenues equivalent to the URRC determined 2010/11 test year revenue requirement should be phased-in.

URRC has directed QEC to maintain the FSR as a separate cost recovery item until the approval of final rates for 2010/11 following the Phase II proceedings. In addition, the URRC recommends the 6% interim increase be rolled into the current base energy rates and the base energy rate, so determined, be increased by a further 4.5% on April 1, 2011, as part of the phase-in of base energy rate increases. For the year 2012/13, the URRC recommends the 2011/12 base energy rates, as noted above, be increased by a further 4.43%, effective April 1, 2012. The calculation of the phased in increase effective April 1, 2012, is shown in Appendix 1.

To avoid extreme hardship to customers, the URRC recommends any revenue deficiency in 2011/12 resulting from the delay in implementation of rate increases due to the phasing-in of such increases be recovered from the GN, rather than from the customers of QEC.

11.0 RESPONSES TO DIRECTIONS FROM LAST GRA

The following section of this Report addresses directions from the 2004/05 GRA applicable to the current GRA.

11.1 COMMUNITY CONSULTATIONS

Direction: The URRC expects, prior to QEC filing its next GRA, QEC will have community consultations with its customers and directs QEC to provide, as part of its next GRA, commentary concerning the process and results of these community consultations.

Summary of QEC's Response: QEC recognizes the importance of undertaking consultation with its customers in advance of the GRA filing and developed a communication plan. The purpose of the communication plan was to provide information on the Application to the public and provide an opportunity for interested parties to ask questions about the process. The communication plan included the following elements:

- On December 14, 2009, QEC published a press release giving advance notice that a GRA would be filed in 2010. Within this press release, QEC informed the public of the following:
    - An information letter would be included in the next month's power bills;
    - A GRA webpage had been established on QEC's website at www.nunavutpower.com; and
    - A "one point of contact" had been established for GRA related issues;
- On May 14, 2010, QEC delivered a presentation on the GRA Process at the AGM of the Baffin Region Chamber of Commerce; and
- In early June 2010, QEC published a Q&A segment on the GRA in local newspapers.

URRC Findings:

In URRC's view, QEC has complied with this direction.

11.2 EXCLUDE $1.745 MILLION FROM PLANT IN SERVICE

Direction: QEC is directed to exclude the disallowed amount of $1.745 million from utility plant in service in future General Rate Applications.

QEC's Response: These amounts have been excluded from the calculation of QEC's rate base, as reflected in Schedules 5.1-5.3.

URRC Findings:

In URRC's view, QEC has complied with this direction.

11.3 SOFTWARE COST

Direction: QEC is directed to address the prudence of all software costs included in plant in service at the time of the next GRA.

Summary of QEC's Response: The software costs included in the Corporation's plant in-service in 2010/11 Test Year are provided in Table 6.1. Software included in rate base is in-service, used and useful in the test-year. Engineering Software is used for power generation monitoring; Great Plains is the finance accounting software; Penny B.L and HR software are the Corporation's payroll and benefits software. Electronic Document Management System is software which will be used in streamlining and management of the Corporation's electronic documents.

URRC Findings:

In URRC's view, QEC has complied with this direction.

11.4 LEAD LAG STUDY

Direction: QEC is directed to file a lead lag study supporting the cash expense component of working capital at the next GRA. This study should reflect QEC’s best practice policies regarding management of working capital.

Summary of QEC's Response: The lead lag study is provided in Appendix D. The study reflects QEC’s practices with respect to managing working capital.

URRC Findings:

In URRC’s view, QEC has complied with this direction.

11.5 RESERVE FOR INJURIES & DAMAGES (UNINSURED LOSSES)

Direction: The URRC directs QEC to adopt the above definition for uninsured losses for the purposes of recording uninsured losses.

Summary of QEC's Response: For Financial Reporting purposes, the Corporation has not maintained a deferral account for reserve for injuries and damages (RFID). With the impending transition to PSA, the Corporation is not applying to continue the RFID. For the purposes of this GRA, the Corporation is providing a continuity schedule in Table 6.2 showing the balances arising from the 2004/05 GRA.

URRC Findings:

This matter is dealt with in Section 8.3.1 of this Report.

11.6 HEARING RESERVE

Direction: The Corporation is directed to record all external hearing costs incurred with respect to these proceedings against the reserve when they become known.

Summary of QEC's Response: For Financial Reporting purposes, the Corporation has not maintained a deferral account for the rate hearing reserve. With the impending transition to PSA, the Corporation is not applying to continue the Rate Hearing Reserve. For the purposes of this GRA, the Corporation is providing a continuity schedule in Table 6.3 showing the balances arising from the 2004/05 GRA. The Corporation estimates GRA costs for the 2010/11 GRA will amount to approximately $1.0 million. These amounts have not been included in O&M expenses for the 2010/11 GRA. Instead, they will be charged, for regulatory purposes, to the Rate Hearing Reserve. The Corporation has not included any allowance for an appropriation to the Rate Hearing Reserve in the 2010/11 GRA.

URRC Findings:

This matter is dealt with is Section 8.3.1 of this Report.

11.7 AMORTIZATION STUDY (INCLUDING ARO STUDY)

Direction: The URRC directs QEC to conduct an amortization study prior to the end of March 31, 2006, for presentation in the next GRA. The amortization study should specifically include factors that are common to QEC's operating territory in the determination of the proposed lives and net salvage.

Summary of QEC's Response: The amortization study report is provided in Appendix C**.**

URRC Findings:

This matter is dealt with in Section 8.4.1 of this Report.

11.8 AMORTIZATION RATE

Direction: The URRC directs QEC to use the correct amortization rate for contributions at the time of the next GRA.

Summary of QEC's Response: The calculation of QEC’s rate base in the current application reflects the correct amortization rate for contributions.

URRC Findings:

The URRC considers QEC has complied with this direction

11.9 ALTERNATIVE ENERGY STUDY

Direction: The following directions are for the treatment of costs to fund alternative energy studies:

- QEC should develop policies and guidelines specifying the nature of studies that will qualify as alternate energy studies, consistent with the purposes of QEC as a regulated utility providing electricity and heat services;
- Prudent expenditures on alternative energy projects may be treated as part of the Corporation’s regulated costs for ratemaking purposes;
- Allowance for Use During Construction (AFUDC) may be earned by the Corporation on the mid year balance of prudent expenditures charged to the alternative energy deferral account if the project extends beyond one year;
- If a project that is investigated proves viable, the costs should be added to the capital cost of the relevant alternative energy project; and
- If a project that is investigated proves not viable, the costs should be amortized over a reasonable period.

Summary of QEC's Response: QEC's practice since the last GRA with respect to accounting for alternative energy studies is as follows:

- If the project proves viable and results in a capital project, the costs of the feasibility study are capitalized as part of the project costs.
- If the project does not proceed to a capital project, amounts related to feasibility studies are expensed (i.e. not capitalized).

URRC Findings:

The URRC accepts the practice with respect to accounting for alternative energy studies as outlined above. The URRC considers QEC has complied with this direction.

11.10 FUTURE REMOVAL & SITE RESTORATION EXPENDITURES

Direction: The URRC directs QEC to provide a detailed study of the potential liability on the part of QEC with respect to future removal and site restoration expenditures, including a risk assessment of unknown contingencies, at the time of the next GRA.

Summary of QEC's Response: With the impending transition to PSA, QEC's amortization study does not reflect an allowance for future removal and site restoration expenses. QEC prepared a preliminary assessment of a potential ARO for diesel fuel contamination, but has not included any associated costs in the calculation of its revenue requirement for 2010/11.

URRC Findings:

This matter is dealt with in Section 8.4.2 of this Report.

11.11 COST OF SERVICE STUDY

Direction: URRC considers a fully allocated cost of service study should be provided as part of the next GRA and directs QEC to do so.

Summary of QEC's Response: QEC will address matters related to a cost-of-service study as part of its Phase II Application.

URRC Findings:

This matter is addressed in Section 12.1 of this Report.

11.12 TWO PHASE APPLICATION

Direction: The URRC recognizes a fully allocated cost of service study cannot be meaningfully examined until there is resolution on the issue of rate averaging among communities. To address this matter, the URRC recommends the following sequencing of the next GRA. The response to the URRC's direction on rate averaging options should be provided as part 1 of a separate phase application for consideration of revenue requirement and rate averaging mechanisms. The revenue requirement and rate averaging mechanism approved by the URRC in phase I will then form the basis for cost allocations to customer classes and rate design in a phase II application. Accordingly, the URRC directs QEC to follow the above sequence of proceedings for the next GRA.

Summary of QEC's Response: QEC has outlined a recommended rate design approach in Section 6.1.13, above. QEC expects a Phase II application could be completed approximately six months after receipt of a final report from the URRC on QEC's Phase I application.

URRC Findings:

This matter is dealt with in Section 12.1 of this Report.

11.13 CUSTOMER DEPOSITS

Direction: The URRC directs QEC to address the appropriateness and feasibility of investing customer deposits in commercial paper short term investments at the time of the next GRA. At the same time, QEC should address the appropriate rate of interest to be paid on customer deposits and the appropriate working capital treatment of deposits.

Summary of QEC's Response: QEC submits customer deposits are relatively small amounts, ranging from $150 to $300. The daily interest savings rate is more appropriate to these amounts than a commercial paper short term interest rate. QEC deposits the security deposits in the Corporation's receipts account and uses them as cash flow for operations. In QEC's view, the costs to manage these deposits through a short-term paper investment would heavily out-weigh any potential benefit to ratepayers. QEC did make inquiries and the possible investment options offered are outlined in the Appendix F. However, QEC is not proposing any changes to its current practice with respect to customer deposits.

In URRC.QEC-47, QEC notes Section 5.9 of the Corporation's Terms and Conditions of Service requires QEC to pay simple interest on the security deposit, from the date the deposit is paid, at an annual rate of interest equal to the Daily Interest Savings rate in effect at the end of each month as posted by the Canadian Imperial Bank of Commerce. Such interest will be credited monthly to the Customer's security deposit account for each full month the security deposit is held by the Corporation.

QEC indicates it is currently reviewing its procedures and practices with respect to paying interest on deposits to ensure the Terms and Conditions of Service are consistently applied. QEC is also investigating methods to automate the interest calculation and application to customer deposits.

URRC Findings:

The URRC acknowledges QEC's efforts to ensure deposit records and interest calculations are kept up to date. QEC is directed to provide an update on this matter at the next GRA.

11.14 SERVICE CONNECTION FEE

Direction: The URRC directs QEC to address the cost basis for service connection fees at the time of the next GRA.

Summary of QEC's Response: QEC will address matters related to service connection fees as part of its Phase II Application.

URRC Findings:

The URRC agrees this is a matter to be addressed in the Phase II proceeding.

11.15 RELIABILITY STATISTICS & MEASURES

Direction: The URRC directs QEC to immediately commence collecting quarterly statistics, by region and by community, for both planned and unplanned outages, and report those statistics collected to the point in time of the filing of their next GRA.

Direction: The URRC directs QEC to recommend appropriate target measures for reliability having regard to industry standards, at the next GRA.

Summary of QEC's Response: The Corporation has started collecting quarterly statistics for both planned and unplanned outages, as per the above directive. Quarterly statistics and report by region and by community for both planned and unplanned outages for the period of 2005/06-2008/09 are provided in Appendix G.

URRC Findings:

This matter is addressed in Section 12.2 of this Report.

11.16 CUSTOMER COMPLAINTS

Direction: QEC is directed to commence maintaining a complaints log for recording customer complaints by complaint category and explain how each complaint was resolved.

Summary of QEC's Response: QEC is committed to providing excellent service to its customers. To ensure customer comments are addressed, QEC has established the following comments tracking protocol:

> A 1-800 phone number has been established that appears on all customer utility bills and reads “IF YOU HAVE ANY QUESTIONS PLEASE CALL: 1-866-710-4200”. To help the proper flow of customer comments, QEC has set up the following procedure:
>
> QEC has designated one person in the Baker Lake Office who will be directly responsible for the complaints log. This is our first response member to a complaint.
>
> The 1-800 number is answered by the front desk receptionist. If a customer has a complaint and asks for a specific person, the receptionist will forward it. This person will log the complaint with comments on it, how it was handled and resolved. The receptionist will then forward a copy to the Complaints Coordinator (above) who will log it into the register. This form is available on the Intranet.
>
> If a customer calls in and does not ask for a specific person, the front desk receptionist will forward it directly to the Customer Service Complaints Coordinator who will follow the above procedure and help rectify the problem or handle the complaint.
>
> This procedure has been documented, discussed with the staff and is now part of our every day responsibilities.
>
> The “Customer Complaint Form” is provided in Appendix H.

URRC Findings:

In URRC’s view, QEC has complied with this direction.

11.17 SERVICE QUALITY MEASURES & REPORTING

Direction: The URRC directs QEC to institute the above service quality measures for monitoring and reporting service quality and customer satisfaction levels, as soon as possible and, in any event, no later than April 1, 2006.

Direction: QEC is directed to report to the URRC at the time of the next GRA on the service quality and customer satisfaction measures so implemented and the date implemented.

Direction: QEC is also directed to recommend appropriate targets for performance and service quality measures having regard to industry standards, at the next GRA.

Summary of QEC's Response: QEC states it understands the importance of service quality measurement and reporting. To date, QEC has not undertaken or implemented a service quality monitoring and reporting program as contemplated by the URRC. QEC plans to undertake an initial study of measurement and reporting done by other Northern utilities and, based on the findings, will consider developing a Service Quality measurement plan.

URRC Findings:

This matter is addressed in Section 12.4 of this Report.

11.18 DISTRICT HEATING COST STUDY

Direction: The URRC directs QEC to prepare a fully allocated cost study at the time of the next GRA, showing the costs applicable to district heating and those applicable to electrical service customers in those communities where district heating service is offered.

Summary of QEC's Response: QEC has developed an approach for this Phase I GRA to segregate out district heating expenses from the revenue requirement for the electricity operations as follows:

- District Heating, or Residual Heat assets, have been separately coded in QEC’s code of accounts. Residual heat assets have been excluded from the calculation of QEC’s rate base; and
- QEC has prepared estimates of operations and maintenance expenses related to residual heat operations for 2010/11. These amounts have been excluded from the calculation of QEC’s revenue requirement, as illustrated in Table 6.6.

URRC Findings:

The URRC has reviewed QEC's proposed allocation of costs to the District Heating function and accepts QEC's proposal for purposes of this report.

11.19 TREATMENT OF FUTURE INDUSTRIAL CUSTOMERS

Direction: The URRC also considers, consistent with the practice in other jurisdictions, the revenues and costs resulting from industrial contracts should be included in the Corporation’s revenue requirement and revenues and must be subject to review at the time of QEC’s subsequent GRAs. The URRC considers any contractual rates established with large industrial customers should reflect the principles of cost causation, including an allocation of shared costs. QEC is directed to reflect the foregoing principles in any future filings and in contractual arrangements with large industrial customers.

Summary of QEC's Response: At present, QEC does not have any industrial customers and none are forecast for the test period.

URRC Findings:

The URRC considers the above principles should be used to guide the development of industrial rates, if any, in the future. QEC is directed to bring forward this direction for consideration at the next GRA.

12.0 OTHER MATTERS

12.1 PHASE II PROCEEDINGS

With respect to Phase II matters, QEC notes most Crown utilities in Canada maintain a rate structure that levelizes rates for service throughout their service area (both interconnected and non-interconnected) for at least a portion of each customer's electricity use. QEC indicates it elected to review two potential rate averaging mechanisms for implementation at the time of QEC's Phase II rate application:

Transition to Territory-wide Levelized Rates – This would involve transition to a single rate schedule for all customers in the same rate class.

Community Based Rates with a Capital-Asset Based Averaging Mechanism - Similar to the method used for implementing the November 2005 rate adjustments.

QEC indicates it considered three primary criteria in evaluating the above methods:

> **Fairness to Customers:** In QEC's view, access to electricity is a basic need for customers in Nunavut. Levelized rates would better reflect the role of electricity in Nunavut.
> **Consistency with Other Jurisdictions:** Based on its review, QEC notes that most regulated Crown utilities in Canada maintain some form of levelized rates for at least a portion of the customer's load. By contrast, QEC is not aware of any other regulated Crown utility in Canada that implements a rate similar to the capital-based averaging mechanism.
> **Administrative Ability to Implement:** At present, QEC's accounting system is not set up to track common costs (such as engineering salaries for positions located in Iqaluit) separately from plant specific costs (such as plant operator positions located in Iqaluit). This imposes a major limitation on QEC's ability to implement a community-based cost-of-service study. In QEC's view, the cost to undertake a community-based cost-of-service study would be prohibitive and not provide substantial benefits to customers.
> **Price Signals to Customers:** It is generally accepted that community-specific rates provide an enhanced price-signal to customers. However, this is valuable only to the extent customers are able to respond to the price signal.

QEC indicates its preferred rate design would be to transition to Territory-wide Levelized Rates.

Regardless of the rate design method chosen, QEC notes the revenue requirement increases requested in this application make it impractical to undertake rate rebalancing at the same time as implementing the overall higher level of rates. Therefore, QEC seeks a recommendation from the URRC to the responsible Minister that QEC, as part of its Phase II rate application, develop a plan to transition to Territory-wide Levelized Rates.

With respect to the timing of the Phase II Application QEC states:

- Developing a cost-of-service study is a significant undertaking and QEC has never prepared such a study before. QEC will likely need to retain a consultant to assist with the development of a cost-of-service study;
- QEC has very limited regulatory staff resources. QEC's regulatory staff will be fully engaged with matters related to the Phase I proceeding until a final report on Phase I is provided; and
- QEC expects certain recommendations by the URRC with respect to the Phase I application will impact the manner in which the cost-of-service study and Phase II application are developed.

Based on this, QEC maintains the earliest possible date for a Phase II filing is six months after receipt of a final report on its Phase I Application.

QEC indicates it will develop proposals for adjustments to the rebate program during the transition period to mitigate rate pressures as part of its Phase II rate application. The intent would be for domestic customers to not experience rate impacts on the subsidized portion of their consumption as a result of the transition to levelized rates. QEC expects a proposal could be developed that would be largely neutral to the GN subsidy program costs. QEC acknowledges, it would ultimately be the responsibility of the GN to ensure the appropriate timing of any amendments to the rebate program. [URRC.QEC-44]

QEC submits it would be appropriate for the URRC to include recommendations in its report to the responsible Minister of certain related policy decisions that could support the transition to a Territory-wide rate structure, such as changes to the existing rebate program and a transition plan potentially including caps on the level of rate adjustments that might be undertaken in a single year. [URRC.QEC-72]

Given the unique circumstances in Nunavut (lack of hydro projects, no interconnected communities, higher cost of operations), BRCC submits URRC should instruct QEC to fully evaluate both potential rate averaging or levelizing rate mechanisms (Transition to Territory-wide Levelized Rates and Community Based Rates with a Capital-Asset Based Averaging Mechanism) and present those findings, in detail, in their next application.

QC notes QEC's acknowledgement it is unable to track common costs and proportionally assign those costs to each community. QC submits this reason is being used to substantiate the need for a flat billing rate across the territory. If so, then who is covering those costs? Are Iqaluit rate payers assigned a base rate that accommodates all of the corporate administration because it is located in Iqaluit? Are these costs assigned to the community where the offices are?

QC submits assigning common costs is a standard business practice and formulas are available to accomplish this assessment, regardless of accounting systems installed.

QC also submits it is not yet convinced a territorial flat rate is a compelling option in Phase II. While this may be politically attractive and "easier" to administer, it is by no means "fafu". QC looks forward to an extensive consultation on this matter later in the process.

URRC Findings:

The URRC notes the support for continuation of community based rates indicated by a number of parties during these proceedings. The URRC also notes the other options being considered by QEC.

Accordingly, QEC is directed to file the following approaches for consideration as part of its Phase II application:

- Cost of service study and rate design based on the cost of providing service by individual community;

- Cost of service study and rate design based on capital zones involving the averaging of capital related costs by region or zone. QEC should provide the rationale for grouping of communities within a zone; and
- Cost of service study and rate design based on Territory-wide rates.

The Phase II evidence should consider the pros and cons of each of the approaches and identify QEC's recommended approach, including reasons. In conjunction with rate design proposals, QEC should consider the design of the subsidy program and the impacts on customers, by customer class and community. The response to this direction should be filed within 150 days from the date of this Report.

By way of guidance to QEC in the preparation of cost of service studies, the URRC notes the following:

- The preparation of a cost of service study involves several steps, including functionalization of costs to different functions, classification of the functionalized costs to customer, demand or energy categories and allocation of classified costs by rate class. Load research is typically required to determine demand allocation factors by rate class and weighting studies may also be required to allocate billing and customer care costs to rate classes. For much of the principles and community based information, QEC may be able to draw from the last cost of service study conducted by NTPC prior to separation and update any methods or allocation factors, as may be necessary to reflect changes in circumstances, if any.

- In the URRC's view, once a community based cost of service study is prepared, the other cost of service studies referred to above would involve the grouping of the community based costs. Therefore, they would not involve significant incremental effort and time to prepare.

12.2 RELIABILITY OF SERVICE

QEC indicates the Corporation has started collecting quarterly statistics for both planned and unplanned outages, as per the directive noted in Section 11.15 of this Report. Quarterly statistics and reports by region and by community for both planned and unplanned outages for the period 2005/06 through 2008/09 are provided in Appendix G.

QEC indicates the planned and unplanned outage reports are used to determine the actual downtime for each community, individually. Statistics related to unplanned outages are utilized to isolate equipment within plants with unusual down times. This information is then used in maintenance programs to facilitate repairs or replacement of potentially defective equipment. Year by year comparisons can then be used to verify the effectiveness of preventive and predictive maintenance programs. The planned part of the outage report is used as a tracking tool for maintenance, both reactionary and preventative.

QEC indicates it undertakes a detailed individual outage report after each event. Each of these are produced by the staff on hand at the time of the outage, depending on each community, and distributed immediately to the appropriate supervisor for action, if required. Fully detailed reports are submitted to the Maintenance Supervisor and Director of Operations. Summary reports are presented to the Board of Director on a quarterly basis. The reports are subsequently made available to all employees via the Intranet. [URRC.QEC-48(a) and (b)]

QEC indicates it is a member of the Canadian Off Grid Utility Association, COGUA. This Association's members include any utility with isolated off grid diesel power plants. QEC indicates it compares its reliability statistics against those of other COGUA members.

URRC Findings:

The URRC acknowledges the use of reliability statistics and outage reports for planning and other decision making by QEC staff.

The URRC also notes QEC's statement it is a member of COUGA and it compares its reliability statistics against those of other COGUA members. QEC is directed to provide comparative reliability statistics for QEC in relation to other COGUA members as part of its next GRA.

12.3 SAFETY

QEC indicates it maintains statistics on injury frequency and severity. With respect to ongoing safety initiatives in the Corporation, QEC has a safety specialist position whose responsibilities include:

- Reviewing and updating the Corporation's safety manual and safety rule book; and
- Coordinating training and workshops on safe job procedures and safe work practices.

QEC indicates it conducts regular safety inspections of all power plants. In 2009/10, QEC successfully completed the Safe Advantage Audit by the Worker's Safety Compensation Commission (WSCC) of Nunavut. The 2010/11 Safe Advantage Audit will take place early in 2011. [URRC.QEC-49]

URRC Findings:

Although worker injury statistics are being maintained, the URRC notes the Corporation did not provide any evidence respecting comparative industry statistics on worker safety, including comparisons with other Northern utilities. QEC is directed to provide such statistics as part of its next GRA.

12.4 SERVICE QUALITY MEASURES

QEC indicates it established a tracking protocol for customer complaints. QEC also states it understands the importance of service quality measurement and reporting. However, to date QEC has not undertaken or implemented a service quality monitoring and reporting program as contemplated by the URRC. QEC plans to undertake an initial study of measurement and reporting done by other Northern utilities and, based upon the findings, will consider developing a Service Quality measurement plan.

NTI submits most utilities maintain a number of metrics to rate their performance against industry standards. NTI notes the URRC direction at the time of the 2004/05 GRA that Service Quality measures be established. NTI submits the importance of standards is not only to benchmark standards against the industry, but to measure progress in meeting standards within the Corporation. It takes some years to see progress, but if measures are not established, the Corporation is working in the dark.

QC notes QEC admits it has not undertaken any service quality measuring, contrary to the directive of their regulatory authority. The first one was due in 2006, yet it is now 2011 and still nothing has been done in this regard. They now claim they plan to do an initial study of how other companies do it; not that they will actually undertake such a study themselves.

QC submits, despite its admitted importance, the failure to have this task completed is a defiance of an order of the URRC on multiple occasions and reflects poorly on the Company. Further, it is, optically, a poor business decision and brings into doubt the credibility and veracity of the administration of QEC.

URRC Findings:

The URRC notes QEC's statement it is currently in the process of developing a service quality measures system and is planning to have it ready for implementation by February 2011.

The URRC considers service quality measures should be designed to be comprehensive and include metrics involving the billing and customer care function, including response to customer complaints. QEC is directed to consult with its customers in designing and developing service quality measures and proceed with implementation without undue delay.

13.0 SUMMARY OF DIRECTIONS

The URRC recommends QEC be directed to comply with the directions contained in this Report and summarized below:

1. If forecast earnings for a prospective year are higher or lower than the rate of return on equity plus or minus 200 basis points, a rate application should be triggered by QEC. The URRC considers GRA applications triggered by this mechanism should be submitted prior to the commencement of the relevant Test Year to be in compliance with the forward Test Year principle. Therefore, QEC is directed to follow the above requirements for triggering future rate applications.

2. The URRC directs QEC to identify and develop cost effective DSM and other conservation programs with a view to offsetting some of the projected demand growth in the next 5 to 10 years.

3. In addition, the URRC directs QEC to give consideration to helping customers better manage their electricity consumption. This may include customer education, as well as rate design changes promoting wise use of energy. Further, a reassessment of the design of the subsidy programs would be appropriate to make customers more aware and accountable for their consumption decisions.

4. Therefore, URRC directs QEC to consider the matter of alternative financing approaches as suggested during these proceedings and report on this matter at the time of the next GRA.

5. Accordingly, QEC is directed to develop and implement a written policy on capitalization of overheads and file this policy with the URRC at the time of the next GRA.

6. With respect to QEC's suggestion that use of a single weighted average fuel price (both forecast and actual) and a single weighted average fuel efficiency should improve the administrative burden of maintaining the Fuel Stabilization Fund and simplify the review

process, the URRC considers this matter is best addressed in the Phase II proceeding. Accordingly, QEC is directed to address this matter in its Phase II filing.

7. QEC is directed to report the timing and the results of initiatives undertaken to improve fuel efficiencies at the time of its next GRA.

8. The URRC considers major capital replacements and upgrade expenditures whose benefits extend beyond the test period should properly be capitalized for rate making purposes to appropriately reflect the matching of costs and benefits. Accordingly, QEC is directed to examine its capitalization policy respecting capital maintenance in light of these comments and make any necessary changes to the capitalization policy and estimates of depreciation parameters at the time of its next GRA.

9. Accordingly, QEC is directed to continue the reserve for injuries and damages for regulatory purposes.

10. QEC is directed to record external hearing costs and QEC's hearing related travel costs in the hearing cost reserve for 2009/10 and 2010/11 on an actual basis.

11. Accordingly, QEC is directed to continue to account for net salvage and future removal and site restoration expenses as part of the amortization rates and annual amortization expense for regulatory purposes. Under this approach, any expense/gain related to net salvage or site removal costs should be expensed to the relevant accumulated amortization account for regulatory purposes.

12. Accordingly, QEC is directed to carry out an amortization study for the next GRA that provides a realistic assessment of future removal and site restoration costs. QEC is to include these costs and estimates for positive or negative salvage, by account, in the amortization rates.

13. The URRC notes the forecast loss percentages in the communities of Resolute Bay, at 16.3%, and Grise Fiord, at 13.2%, are exceptionally high. QEC is directed to address

these exceptional line losses and report on how they have been dealt with at the time of the next GRA.

14. QEC has not specifically applied for the roll in of the FSR in the current application and the URRC considers the consolidation of the 4.68¢ kWh FSR as part of the base rates is a matter best addressed at the Phase II proceedings dealing with rate structure, at which time customers ought to be explicitly notified as to QEC's proposal. URRC directs QEC to bring forward its application to consolidate the FSR into base rates at that time.

15. The URRC considers the above principles should be used to guide the development of industrial rates, if any, in the future. QEC is directed to bring forward this direction for consideration at the next GRA.

16. Accordingly, QEC is directed to file the following approaches for consideration as part of its Phase II application:

- Cost of service study and rate design based on the cost of providing service by individual community;
- Cost of service study and rate design based on capital zones involving the averaging of capital related costs by region or zone. QEC should provide the rationale for grouping of communities within a zone; and
- Cost of service study and rate design based on Territory-wide rates.

The Phase II evidence should consider the pros and cons of each of the approaches and identify QEC's recommended approach, including reasons. In conjunction with rate design proposals, QEC should consider the design of the subsidy program and the impacts on customers, by customer class and community. The response to this direction should be filed within 150 days from the date of this Report.

17. QEC is directed to provide comparative reliability statistics for QEC in relation to other COGUA members as part of its next GRA.

18. Although worker injury statistics are being maintained, the URRC notes the Corporation did not provide any evidence respecting comparative industry statistics on worker safety, including comparisons with other Northern utilities. QEC is directed to provide such statistics as part of its next GRA.

19. QEC is directed to consult with its customers in designing and developing service quality measures and proceed with implementation without undue delay.

14.0 URRC RECOMMENDATIONS TO THE RESPONSIBLE MINISTER

The following recommendations are made to the Responsible Minister:

1. It is the URRC's finding that the Government of Nunavut has a basis for legitimate discussions to occur with the Government of Canada with a view to finding financial assistance for the upgrade and expansion of QEC's generating assets. The URRC recommends the GN, in conjunction with QEC, and perhaps NTI, consider this approach to addressing some of the legacy issues impacting the current infrastructure requirements of QEC.

2. Noting QEC did not file its general rate application on a timely basis, prior to commencement of the test year, as required by legislation, and noting the 2010/11 test year period has almost expired, URRC considers revenue recoveries from current base rates, the current FSR and the approved interim rates should be made final for that year. To retroactively attempt to recover the 2010/11 shortfall, in addition to imposing increased rates commencing April 1, 2011, for the 2011/12 year, would result in extreme rate shock to current electricity customers. Accordingly, the URRC recommends any revenue deficiency in 2010/11 resulting from delay in implementation of rate increases be recovered from the GN, rather than from customers of QEC.

3. URRC has directed QEC to maintain the FSR as a separate cost recovery item until the approval of final rates for 2010/11 following the Phase II proceedings. In addition, the URRC recommends the 6% interim increase be rolled into the current base energy rates and the base energy rate so determined be increased by a further 4.5% on April 1, 2011, as part of the phase-in of base energy rate increases. For the year 2012/13, the URRC recommends the 2011/12 base energy rates, as noted above, be increased by a further 4.43%, effective April 1, 2012. The calculation of the phased in increase effective April 1, 2012, is shown in Appendix 1.

4. To avoid extreme hardship to customers, the URRC recommends any revenue deficiency in 2011/12 resulting from the delay in implementation of rate increases due to the phasing-in of such increases be recovered from the GN, rather than from the customers of QEC.

5. The URRC recommends QEC be directed to comply with the directions contained in this Report and as summarized in Section 13.

ON BEHALF OF THE
UTILITY RATES REVIEW COUNCIL

ORIGINAL SIGNED

DATED MARCH 1, 2011
RAY MERCER
CHAIRPERSON

APPENDIX 1

Appendix 1						
QEC 2010/11 General Rate Application						
Calculation of Revenue Deficiency at Existing Rates						
		Original Application	**QEC Adjustments (Note 1)**	**Application as Amended Jan 16, 2012**	**URRC Adjustments**	**Per URRC**
		Col A	**Col B**	**Col C**	**Col D**	**Col E**
		$000	$000	$000	$000	$000
1	Non Fuel Operations and Maintenance (Note 2)	44383		44383	-4255	40128
2	Fuel and Lubricants	42874		42874		42874
3	Amortization Expense (Note 3)	6721	28	6749	161	6910
4	Return on Rate Base (Note 8)	7195	-2	7193	-157	7036
5	Reserve for Injuries and Damages-Provision (Note 4)				150	150
6	Revenue Requirement	101173	26	101199	-4101	97098
7	Energy Revenues	72737		72737		72737
8	Revenue from demand and Customer Charges	3545		3545		3545
9	Sales Revenue	76282		76282		76282
10	Other Revenue (Note 5)	2146	397	2543	-397	2146
11	Total Revenues	78428	397	78825	-397	78428
12	Revenue Deficiency at Existing Base Rates	-22745	371	-22374	3704	-18670
13	Base Energy Rate Increase	31.27%		30.76%		25.67%
14	Fuel Rider Revenues (Annualized) (155283 Mwh*.0468)	7267		7267		7267
15	Net Revenue Deficiency After Fuel Rider [L12-L14]	-15478	371	-15107	3704	-11403
16	Energy Rate Increase Applicable to Base Energy Rates Plus Fuel Rider [L15/(L7+L14)]	19.35%		18.88%		14.25%
Calculation of Phased-In Increases						
17	Revenue from 6% Interim Increase on base rates [L7*6%]					4364
18	Annualized Interim Energy Revenues [L7+L17]					77101
19	**Annualized Phased-in Increase percent Effective April 1, 2011**-Applicable to Energy Revenues Including Nov 1, 2010 Interim					**4.50%**
20	Revenues from annualized Phased-in Increase Effective April 1, 2011 [L18*L19]					3470
21	Deficiency after: Fuel Rider, Nov 1, 2010 Interim and April 1, 2011 Phased-in Increase [-L15-L17-L20]					3569
22	**Annualized Energy Revenue Increase percent Effective April 1, 2012**- Applicable to Energy Revenues Including Nov 1, 2010 Interim & 4.5% Phased-in Increase [L21/(L18+L20)]					**4.43%**
Notes:						
1	The adjustments under Column B proposed by QEC are described in Section 2.2 of the Report					
2	Reduction under Column D is made up of the following components				$000	
	Salaries and Wages-Reduction for 17 Apprentices	Section 8.2.1			-1739	
	Salaries and Wages-Overtime Reduction	Section 8.2.1			-369	
	Supplies and Services-Plant Maintenance	Section 8.2.2.1			-500	
	Supplies and Services-Tools, Furniture and Equipment, Clothing and Safety Equipment, Building Rental and Training	Section 8.2.2.2			-1086	
	Travel and Accommodation-Apprenticeship Program	Section 8.2.3			-400	
	Site Restoration Expense	Section 8.4.2			-161	
	Total				-4255	
3	Site Restoration Expense-Added to Amortization	Section 8.4.2			161	

		Appendix 1				
		QEC 2010/11 General Rate Application				
		Calculation of Revenue Deficiency at Existing Rates-Notes				
4	Reserve for Injuries and Damages	Section 8.3.1			150	
5	Other Revenue-Removal of Government Subsidy towards Apprentice pay	Section 9.4			-397	
6	Change in Rate Base				2010/11 F	
	Mid Year Rate Base Per QEC				99130	
	Working Capital Adjustment due to O&M change	Section 6.6	$4255*14.63/365		-171	
	Site Restoration Expense-Mid Year	Section 6.4	$161/2		-81	
	Adjusted Rate Base Per URRC				98879	
7	No Cost Capital ($000)	2009/10 QEC	2010/11 QEC	2009/10 URRC	2009/10 URRC	
	GN No Cost Loan:					
	Opening Balance	3581	3071	3581	3071	
	Issue	0	0	0	0	
	Repayment	-510	-510	-510	-510	
	Closing Balance	3071	2561	3071	2561	
	Mid Year Balance	3326	2816	3326	2816	
	Hearing Reserve:					
	Opening Balance	800	736	800	784	
	Additions	100		100		
	Use	-164	-836	-116	-291	
	Closing Balance	736	-100	784	493	
	Mid Year Balance	768	318	792	638	
	Reserve for Injuries and Damages:					
	Opening Balance	1050	1200	1050	1200	
	Additions	150		150	150	
	Use	0	0	0	0	
	Closing Balance	1200	1200	1200	1350	
	Mid Year Balance [(L29+L32)/2]	1125	1200	1125	1275	
	No Cost Capital Mid Year Balance	5219	4334	5243	4729	
8	Change in Capitalization & Rate Base					
	2010/11 Forecast-QEC	Mid-Year Capitalization	Mid-Year Capital Ratios	Mid-Year Rate Base	Mid-Year Cost Rate	Return
		$000		$000		$000
	Common Equity	51102	43.82%	43442	9.25%	4018
	Long Term Debt	61173	52.46%	52004	6.11%	3175
	No Cost Capital	4334	3.72%	3684	0.00%	0
	Total	116609	100.00%	99130	7.26%	7193
	2010/11 Forecast-URRC (Notes 6 & 7)	Mid-Year Capitalization	Mid-Year Capital Ratios	Mid-Year Rate Base	Mid-Year Cost Rate	Return
		$000		$000		$000
	Common Equity	51102	40.00%	39552	9.25%	3659
	Long Term Debt	61173	55.96%	55331	6.11%	3378
	No Cost Capital	4729	4.04%	3997	0.00%	0
	Total	117004	100.00%	98879	7.12%	7036
	Return Reduction	Section 7				-157