

# Qulliq Energy Corporation



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**Qulliq Energy Corporation**  
**Société d'énergie Qulliq**  
**Qulliq Alruyaktugtunik Ikumatjutiit**

# Application for Major Project Permit

## NEW BAKER LAKE HEAD OFFICE BUILDING

## January 2019

## Executive Summary

Qulliq Energy Corporation (QEC) hereby applies to the Minister Responsible for Qulliq Energy Corporation pursuant to section 18.1 of the QEC Act, R.S.N.W.T. 1988,c.N-2 for a project permit respecting the new Head Office Building in Baker Lake.

The project will have no impact on rates until the time of QEC's first General Rate Application following the project coming in-service, which is expected no earlier than the 2020/21 fiscal year.

The Corporation's business activities are served out of the head office located in Baker Lake and the corporate office in Iqaluit. QEC does not own a building in Baker Lake and head office functions operate out of leased office space. QEC currently leases three buildings in Baker Lake. The largest of the three is leased from the Government of Nunavut (GN). A new lease was signed effective September 1, 2018 for two-years with two (2) one (1) year extension options available at the option of the Head Tenant (GN). At the end of the initial lease term (August 31, 2020) the GN intends to take possession of the office space for their own requirements in Baker Lake. This would leave QEC without approximately 50% of the office space it requires in Baker Lake.

Furthermore, the present situation does not allow for an efficient, unified and organized work environment. One of the leased units is a three-bedroom house, which was not constructed as an office building.

Proceeding with the proposed Project will resolve office issues as well as provide the lowest overall cost over the life of the project. The key benefits of constructing a new Head Office Building in Baker Lake include:

- Resolving office shortage issues when the lease ends and the GN takes possession of the space currently leased to QEC.
- A new building would increase QEC's operational efficiency as all Baker Lake staff can be accommodated in one building, which will be specifically constructed as an office building.
- It is cost effective compared to the alternatives.

QEC is requesting approval of a \$13.0 million capital project permit to complete the construction of a new Head Office Building in Baker Lake. It is noted that the forecast budget is based on preliminary estimates (D-class estimate with accuracy of +/- 25%), as the Corporation has not started detailed design and planning work. As such, the forecast budget is subject to refinement during the project design.

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## 1.0 Application

Qulliq Energy Corporation (QEC or Corporation) hereby applies to the Minister Responsible for Qulliq Energy Corporation pursuant to Section 18.1 of the QEC Act, R.S.N.W.T. 1988, cN-2 for a major project permit respecting the new Head Office Building in Baker Lake. QEC is requesting approval for \$13.0 million in capital costs to complete this project. Details in support of the requested project permit are set out below.

## 2.0 Background

The Corporation's business activities are served out of the head office located in Baker Lake and the corporate office in Iqaluit.

Baker Lake is the fourth largest community in Nunavut with population of approximately 2,140.<sup>1</sup> The 2016 Census Profile shows that there are 580 private dwellings in the community.<sup>2</sup> The Baker Lake Integrated Community Infrastructure Sustainability Plan notes that local businesses and commercial operations include: Baker Lake Lodge, Baker Lake Contracting and Supplies Ltd., Iglu Inn, Nunamiut Lodge, Arts and Crafts shop, Northern Store and Co-op Store. The 2017/18 Infrastructure Plan also notes a shortage of rentable commercial space in the community.<sup>3</sup>

QEC does not own an office building in Baker Lake and head office functions operate out of leased office space. QEC currently leases three buildings in Baker Lake with a total leased space of approximately 9,700 square feet.

The 2018 lease cost for the three buildings is \$0.555 million. This includes:

1. The first building (Figure 1 - QEC1; 5,134 square feet of office space for QEC) is leased from the Government of Nunavut. QEC occupies the second floor, while the GN occupies the main floor. A new lease was signed effective September 1, 2018 for two-years with two (2) one (1) year extension options available at the option of the Head Tenant (GN). At the end of the initial lease term (August 31, 2020) the GN intends to take possession of the office space for their own requirements in Baker Lake. QEC's annual leasing cost is \$0.210 million plus a share of any operating and maintenance ("O&M") costs estimated to be \$0.215 million per annum [the O&M costs are estimated based on the previous year actuals and the actual expenses for the lease year are generally higher from the previous year by

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<sup>1</sup> <http://bakerlake.ca/en/baker-lake/informations/> [accessed on September 28, 2018].

<sup>2</sup> <https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/prof/details/page.cfm?Lang=E&Geo1=CSD&Code1=6205023&Geo2=PR&Code2=35&Data=Count&SearchText=Baker%20Lake&SearchType=Begin&SearchPR=01&B1=All&GeoLevel=PR&GeoCode=6205023&TABID=1> [accessed on September 28, 2018].

<sup>3</sup> <http://toolkit.buildingnunavut.com/en/Community/Old/c9536222-1e01-4bcb-82d1-a1f700f16833> [accessed on September 28, 2018].

about 2-3%]. There are approximately 30 QEC staff in this building, including Finance, Human Resources and some Information Technology department employees.

2. The second building (Figure 1 - QEC2; 2,920 square feet of office space) houses 12 staff including Customer Care and Information Technology department employees. The 2018 lease cost is \$0.092 million. QEC's current lease has an option to end the lease without penalties, by providing advance notice to the property owner.
3. The third building (Figure 1 - QEC3; 1,654 square feet of office space) houses five staff including Payroll department staff and the Corporate Auditor. This is a three-bedroom house converted into office space. The annual lease cost is \$0.038 million. QEC could also use this building as employee housing if alternative office space becomes available.<sup>4</sup>

In addition to the GN building becoming unavailable for lease after August 2020, the present leased space has the following issues:

- The current leased space is inadequate for the number of employees in the community.
- QEC does not have dedicated access to boardroom or training room space. The boardroom is available in the GN building based on request. When there is a QEC Board meeting scheduled in Baker Lake or when there is a requirement for a reasonable sized board/meeting room, QEC has to request to use the GN's board room.
- The current arrangement does not allow for an efficient, unified and organized work environment as employees are situated in three different buildings.

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<sup>4</sup> If this building is not available, then QEC will have to lease another building for housing needs.

**Figure 1: Buildings Leased for QEC Head Office in Baker Lake**

QEC1 - Government of Nunavut Building





**Figure 1: Buildings Leased for QEC Head Office in Baker Lake (continued)**

**QEC2 – Customer Care / IT Building**



**QEC3 – Payroll / Audit Building**



### 3.0 Assessment of Project Options

QEC recognizes the need for a long-term approach to prioritize and maximize the benefit of capital expenditures while providing safe and efficient working environment to its employees.

As the lease for the GN building may no longer be available after August 2020, there is no viable “Do Nothing” option. QEC requires space for its Head Office staff in order to be able to operate the Corporation.

QEC investigated the following options as potential solutions to address the issue:

#### **Option 1 – Secure Long-Term Lease from Other Buildings in Baker Lake**

QEC investigated the option of leasing a different building in place of the GN building. This investigation concluded:

- There are no other large buildings available for lease in Baker Lake that could accommodate all of QEC’s employees who currently operate out of the space leased from the GN.
- Leasing a number of smaller buildings is also not considered feasible. The pool of available commercial buildings in Baker Lake is very small and spreading out staff over even more buildings creates more challenges for employees, reduces work efficiency and increases safety risks during winter time.

Based on the above considerations, QEC concluded that Option 1 was not viable.

#### **Option 2 – Purchase Iglu hotel and renovate to convert to office space**

This option includes purchasing and renovating the Iglu Hotel to convert it into office spaces.

The Iglu hotel is the only existing commercial building on the market in Baker Lake that is large enough to accommodate QEC’s employees. The building was constructed in 1976 and underwent renovations in 1997.

QEC retained an engineering company to perform a building evaluation. The evaluation highlighted the following:

- The building is constructed for hotel occupancy and not as office space. As such it would require major changes to convert it to office spaces.
- Based on an inspection of the interiors, materials used and age of the materials, the entire interior of the building be demolished if QEC purchases the property to use for office purposes.



- Based on an evaluation of building exterior and the age of the building, the building envelope should be demolished and reworked to satisfy the minimum thermal resistance value, and if hazardous building material is found, remediation work would need to be completed.
- All windows should be replaced and some of the timber footings were observed to be rotted and the footings at the back of the building are either submerged in water or embedded into the ground and could not be investigated.

Based on the review, intended use, the age of the building and current conditions QEC concluded that Option 2 was not viable.

### **Option 3 – Construct a new Head Office Building**

Option 3 involves construction of a new Head Office Building that will resolve issues related to the office shortage and create an efficient, unified and organized work environment.

QEC reviewed two possible locations for a new building: a) build new office behind the existing QEC power plant, located on the same building lot; or b) an empty lot situated next to the GN office building where QEC currently occupies the second floor space (Qaiqtuq Building).

QEC concluded that building a new office near the Qaiqtuq Building is the preferred option for the following reasons:

- It is in a business area;
- The power plant is located on a lot that accumulates high volumes of snow that would cause issues for the staff to safely enter the parking area and building.
- The power plant can provide heat for recapture that will reduce the building's annual operating costs and QEC would have the capacity to add additional buildings in the surrounding area.

QEC also consulted with the Hamlet of Baker Lake regarding the office building options and the Hamlet supports building the office space next to the Qaiqtuq Building.

QEC contracted Accutech Engineering to complete a preliminary building design and to determine the size and space required for a new office building. Based on the study, the recommended building would be 13,000 square feet in order to meet GN occupancy standards, current staff levels with some allowance for growth, improved meeting space and spare offices for visitors, auditors, and temporary staff.

The preliminary budget for Option 3 is \$13.0 million.

The annualized cost of Option 3 over the service life of the building (45 years) is estimated at \$1.030 million calculated as follows:

- Annualized capital cost of \$0.770 million.
- Annual O&M expense of \$0.260 million.

The annualized cost is before any operational cost savings from terminating the existing lease payments for currently rented office space.

#### **Option 4 – A New Building by Third Party to Lease to QEC**

Option 4 involves issuing a tender requesting investors to build a new building similar to Option 3 that could be leased by QEC. Under this option a new building would be built, owned and operated by a third party. QEC would lease the building.

Similar to Option 3, this option would resolve issues related to the office shortage, create an efficient, unified and organized work environment. However, this option has the following disadvantages when compared to Option 3:

- The annual lease amount would not be finalized until construction is completed and the building is in service.
- The design of the building would be chosen by the investor that may not be fully suitable for QEC's needs.
- The timing of the construction would be determined by the investor.
- QEC could secure a long-term lease, however, risks related to the termination of a lease would remain which puts QEC under the same circumstances existing today (search for lease options).
- QEC would have to renegotiate the lease terms when the first lease terms ends and the owner would have more advantages considering QEC would not have other options than lease the building again based on conditions and price requested by the building owner.

The annualized cost of Option 4 is estimated at \$1.240 million calculated as follows:

- Annual lease cost of \$1.076 million, based on the current GN lease cost of approximately \$83/sq. ft and the area of the new office building (13,000 sq. ft). This is a conservative cost estimate before any future lease cost increases.
- Annualized capital improvement costs of \$0.164 million.

Considering all of the options available today, Option 3 is the preferred and least cost option for QEC.

#### **4.0 Impact of the Project on Ratepayers**

QEC conducted an analysis of the impact of the Project on ratepayers. It should be noted that the project will have no impact on rates until the time of QEC's General Rate Application following the project coming in-service.

It should be noted that the new Head Office building would be considered a common cost that would be shared among all communities. Table 1 summarizes the calculation of the estimated incremental revenue requirement increase due to the project of \$0.690 million in 2021/22. The estimated rate increase is approximately 0.35 cents/kWh.

**Table 1 – Baker Lake New Head Office Building Estimated Rate Impact for 2021/22**

Project Characteristics	
Capital Cost (\$ 000)	13,033
Amortization Period (year)	45
GRA Approved Return on Ratebase	5.34%
<u>Revenue Requirement Impacts</u>	
Amortization Expense (\$ 000)	290
Return on Ratebase (\$ 000)	695
Annual O&M expenses (\$ 000)	260
sub-total: Revenue Requirement Increase	<b>1,245</b>
less: Operational Savings	
Estimated Annual Lease Savings	555
<b>Total Revenue Requirement Impact (\$ 000)</b>	<b>690</b>
Total Territory-wide 2021/22 Forecast Sales (MWh)	197,060
<b>Average Territorial Rate Increase (c/kWh)</b>	<b>0.35</b>

It is important to note that this analysis has been provided for illustrative purposes only. Actual rate impacts will depend on the overall revenue requirements and rate designs approved in subsequent General Rate Applications.

## 5.0 Project Timeline

QEC anticipates the project will commence in April of 2019. Initial efforts will focus on planning and design as well as construction tendering.

Table 2 summarizes the proposed project schedule. The new building design will be completed in the second quarter of the 2019/20 fiscal year, with specifications and tenders to allow for ordering of materials and construction contracts. Construction would begin during the summer of 2020 and be completed by the end of the 2020/21 fiscal year. Considering the lease of the GN building ends in August of 2020, QEC will arrange with the GN to extend the current lease until the new building is completed.

**Table 2 – Project Schedule**

<b>Project schedule</b>		
	<b>Projected Start Date</b>	<b>Projected Completion Date</b>
<b>Planning</b>	<b>1-Apr-2019</b>	<b>1-May-2019</b>
<b>Tender Design</b>	<b>1-May-2019</b>	<b>1-Jul-2019</b>
<b>Design</b>	<b>1-Jul-2019</b>	<b>1-Sep-2019</b>
<b>Tender Construction</b>	<b>1-Oct-2019</b>	<b>1-Dec-2019</b>
<b>Awarding Tender</b>	<b>1-Jan-2020</b>	<b>31-Jan-2020</b>
<b>Construction</b>	<b>1-Feb-2020</b>	<b>1-Jan-2021</b>
<b>Commission</b>	<b>1-Jan-2021</b>	<b>28-Feb-2021</b>
<b>Project Closed</b>		<b>1-Mar-2021</b>

## 6.0 Conclusions and Recommendations

QEC recommends the construction of a new Head Office building in Baker Lake. The current leased space is inadequate for a number of reasons:

- The current space cannot accommodate the number of employees in the community and therefore multiple leases are required.
- There is no dedicated boardroom or training room available in the current space.
- The present situation does not allow for an efficient, unified and organized work environment as employees are situated in three different buildings.

- The largest office space is leased from the GN and the GN advised QEC that this space is required to meet GN's own needs leaving QEC without office space where most of the employees are situated.

In summary, building a new Head Office Building in Baker Lake is the preferred option to address the issues with the current lease and maintain safe, efficient, unified and organized work environment for employees.