

June 18, 2015

Board of Commissioners of Public Utilities  
P.O. Box 21040  
120 Torbay Road  
St. John's, NL A1A 5B2

## **Report to the Board of Commissioners of Public Utilities**

Dear Sirs/Madams;

This report was prepared by Eric Coombs, B.Comm, C.F., F.C.A., at the request of Innu Nation in connection with electricity services in the community of Natuashish.

I am an independent consultant who presently specializes in working with First Nation communities in Canada. I have been a Chartered Accountant for 35 years and was the former independent auditor of the Mushuau Innu First Nation from 1984 until 2009 including the period of relocation of the community from Davis Inlet to its present location in Natuashish.

### **Terms of Engagement**

This report to the Board of Commissioners of Public Utilities presents the findings of my analysis of the Electrification Costs incurred by the Mushuau Innu First Nation (MIFN).

As part of my work I undertook the following:

1. Discussions with MIFN officials including the current Co-Manager of MIFN, PwC LLP and review of MIFN accounting systems related to electrification.
2. Analysis of the capital cost of the distribution and generation assets
3. Analysis of the operating costs incurred for power generation
4. Analysis of funding provided by the Department of Aboriginal Affairs & Northern Development (AANDC)
5. Analysis of other revenues received for electrical services to third party users in the community
6. Summary of electrification costs and associated revenues and reconciliation of those amounts to the amount reported in MIFN's annual audited financial statements.

## Discussions with MIFN officials and co-manager

As the former auditor for 25 years, I have an in-depth knowledge of MIFN's programs, the nature of their expenditures and financial capacity.

MIFN has limited financial capacity and is presently incapable of managing its own financial affairs. Where these circumstances exist, AANDC can, as a condition of their funding arrangements, require the Band to engage the services of an outside financial manager. As a result, MIFN have been in "co-management" for approximately 12 years. Additional funding is not provided to the First Nation for the co-management services and the band must pay for this from regular funding arrangements with AANDC or own source revenues. The current co-management arrangement is costing MIFN in excess of \$600,000 a year.

The current co-manager is PricewaterhouseCoopers LLP (PWC) in Halifax, N.S. who have been in place for five years. The majority of the accounting records of MIFN are maintained in Halifax, N.S. including the journals, general ledger and supporting documentation.

The accounting for the electrification costs and revenues is handled predominately by PWC. This would include ordering fuel, analyzing the consumption of fuel, submitting claims to AANDC and issuing invoices to third party users of fuel purchases and electrical consumption.

I have attached to this report a letter received from PwC LLP, in the capacity as Co-Manager for the Mushuau Innu First Nation. Based on my knowledge and experience with MIFN, I believe everything in the letter to be accurate.

## Capital Assets

The electrical distribution and generation assets were constructed in 2003-04 as part of the cost of relocation of the community of Davis Inlet to Natuashish. The total capital costs incurred as recorded in MIFN's audit was as follows:

- |                       |             |
|-----------------------|-------------|
| • Distribution assets | \$8,320,491 |
| • Generation assets   | \$6,114,909 |

The cost of the distribution and generation assets were funded by the Government of Canada through the Mushuau Innu Relocation Agreement.

Pursuant to MIFN's depreciation policies, the distribution assets are being depreciated on a straight line basis over a 40 year period and the generation assets are depreciated on a straight line basis over a 20 year period.

## Operation of the Generation Plant

Since the community was constructed, the generation plant has been operated by Newfoundland & Labrador Hydro (Hydro). Hydro bills MIFN on a full reimbursement basis for all their costs incurred in operating the plant including:

- Salaries
- Overtime
- Materials
- Insurance
- Travel
- Aircraft

There is no written contract between Hydro and MIFN documenting the terms of the arrangement to operate the plant.

Following is a breakdown of generation cost invoiced by Hydro as recorded in MIFN's accounting records:

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Labour	\$ 566,489	\$ 375,515	\$ 368,607	\$ 377,403
Materials	595,000	235,393	246,802	431,543
Insurance	8,434	6,908	6,116	
Travel	81,908	48,981	70,886	68,006
Other expenses	13,309	98,000	1,195	62,590
Aircraft	22,587	47,374	76,315	
	<b>\$ 1,287,725</b>	<b>\$ 812,171</b>	<b>\$ 769,921</b>	<b>\$ 939,542</b>

**Note:** Information for 2010 breakdown unavailable at the time of writing this report.

## Fuel Costs

MIFN is responsible for financing the purchase of fuel inventory. Fuel for the operation of the generation plant is purchased from Woodward's Oil Limited and is delivered to the community in the spring and the fall. The cost of the fuel may be eligible for reimbursement from AANDC funding only after it has been consumed for the generation of electricity. There is no funding provided to MIFN to assist with the cost of financing and carrying the fuel inventory.

Fuel inventory reported in MIFN's annual audited financial statements:

	Mar-31				
	2014	2013	2012	2011	2010
Fuel Inventory, at cost	\$942,799	\$914,173	\$1,019,300	\$1,445,605	\$984,645

## Fuel Delivery Costs

Fuel has to be trucked from the tank farm to the generation plant. This service is provided by Band employees and the costs are grouped with Operation and Maintenance expenditures on MIFN's books. An analysis of fuel delivery costs was done for 2014 and 2013 and an average of the two years was taken:

- Fuel truck maintenance costs were based on garage slips from O&M. Charges include the cost of parts and labour for work performed on the truck.
- Fuel consumption is based on fuel slips prepared by the garage when the trucks are re-fueled.
- Wages of fuel truck operators are based on 2014 T4's.
- 75% of fuel consumption in the community is used for electrification. The other 25% is supplied to other users
- AANDC will not reimburse MIFN for fuel delivery and MIFN has to use own source revenues to fund these costs.

	2014	2013	Average
<b>Expenses</b>			
Fuel Delivery Trucks			
Maintenance	\$ 5,047	\$ 10,195	\$ 7,621
Fuel	2,233	618	1,426
Employee wages	111,000	111,000	111,000
	<b>\$ 118,280</b>	<b>\$ 121,813</b>	<b>\$ 120,046</b>
Portion attributable to Electrification			75%
<b>Average fuel delivery cost</b>			<b>\$ 90,000</b>

## Allocation of Band Support Costs and Revenues

MIFN administrative costs are recorded in the Band Support category in the Mushuau Innu First Nation's audited financial statements. This department provides the overall administrative support for all the operating departments of the First Nation.

Band support costs and related contribution funding from AANDC have been allocated to Electrification Costs and Revenues based on the percentage derived from dividing Electrification Costs into the total Band program costs for the year:

### Allocation of Band Support Costs to Electrification

	2014	2013	2012	2011	2010
Total Band support expenditures per audit	\$ 3,172,065	\$ 3,683,467	\$ 4,337,120	\$ 4,883,716	\$ 3,072,677
Electrification costs	\$ 4,790,139	\$ 4,561,822	\$ 4,067,501	\$ 3,351,391	\$ 4,448,474
Total program expenditure for year excluding band support	\$24,091,744	\$23,580,342	\$22,926,689	\$ 22,380,093	\$22,568,960
Electrification costs as a % of total program expenditures	19.9%	19.3%	17.7%	15.0%	19.7%
<b>Electrification share of band support costs</b>	<b>\$ 630,699</b>	<b>\$ 712,599</b>	<b>\$ 769,463</b>	<b>\$ 731,330</b>	<b>\$ 605,643</b>

### Allocation of AANDC contributions to Band Support

AANDC contributions to Band Support	(794,131)	(670,554)	(711,338)	(1,518,099)	(755,502)
Portion attributable to electrification	19.9%	19.3%	17.7%	15.0%	19.7%
<b>AANDC band support towards electrification costs</b>	<b>(157,896)</b>	<b>(129,724)</b>	<b>(126,201)</b>	<b>(227,333)</b>	<b>(148,914)</b>

## **AANDC Funding**

AANDC funding for the cost of operating and maintaining the generation plant is provided through contribution funding arrangements. Contribution funding is discretionary funding on the part of AANDC that is dependent upon annual appropriations from Parliament. This funding can only be claimed after the expense has been incurred, and the funds are repayable if they are not spent for the purpose intended.

In 2012 MIFN was required to repay \$891,671 for overpayments of \$614,463 in 2010-11 fiscal year and \$277,208 in the 2011-12 fiscal year.

## **Electrical Sales to Third Parties**

MIFN invoices other organizations in the community for power usage. The invoices have been prepared based upon estimated usage rather than actual usage. While I understand from my discussions with MIFN Council that meters are being read by Hydro, PWC was unaware of this and Hydro has never provided this information to MIFN.

The rates invoiced have been based on the applicable rates established by the Public Utilities Board for coastal Labrador. In my opinion, this is incorrect and the invoices should be based on MIFN's full cost of providing the service as disclosed in this report.

Any revenues received for electrical sales to third parties reduce the cost of the fuel to MIFN and the amount of eligible contribution funding from AANDC. Therefore, MIFN does not benefit from this revenue as it simply reduces the amount that AANDC will fund under its contribution agreement.

## **Analysis of Electrification Costs & Revenues**

Attached as an appendix is a five year analysis of electrification costs and revenues incurred by MIFN. These costs have been extracted from MIFN accounting records and reconciled to the amounts reported in the MIFN annual audited financial statements.

The average cost of electrification over the five year period as reported in MIFN's annual audited financial statements was \$4.9 million or approximately<sup>1</sup> 57.4 cents a kWh.

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<sup>1</sup> The annual kwh production is reported on a calendar year basis whereas the costs are reported on a fiscal year basis for the year ended March 31.

My analysis indicates that over the past five years reimbursements are not adequate to cover all electrification costs and MIFN is required to use its own source revenues to fund some of these costs. Including depreciation, the average cost to MIFN over the past five years is approximately \$1.1 million annually.

## Summary

MIFN does not have the financial capacity to manage its own accounting systems and is required to hire, at its own expense, an outside accounting firm to maintain its accounting records and prepare financial reports. Similarly MIFN does not have the capacity to manage the generation and distribution of electricity in the community.

The revenues received from AANDC and third party users, are insufficient to cover all the costs incurred by MIFN (including depreciation on their capital assets).

MIFN is not accurately invoicing third party users in the community as the kWh usage is estimated and the rates used do not reflect the actual cost of generation and distribution in the community.

MIFN is not reimbursed for all the costs of generation and distribution and is required to pay for some of these costs from own source revenues.

We trust you will find the enclosed to be satisfactory

Yours very truly



Eric L. Coombs, B.Comm, C.F., F.C.A.

## Appendices

Summary of Electrification Costs and Revenues	I
Eric Coombs Curriculum Vitae	II
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## Appendix I

### Mushuau Innu First Nation Analysis of Electrification Costs & Revenues (as reported in annual audited financial statements)

	Average (five years)	Actual For the Twelve Months Ended March 31				
		2014	2013	2012	2011	2010
<b>Costs Extracted from Audited Financial Statements</b>						
<b>Electrical generation</b>						
Operation of generation plant	\$ 947,693	\$1,287,725	\$ 812,171	\$ 769,921	\$ 939,542	\$ 929,106
Fuel	2,692,415	2,898,656	3,145,893	2,693,822	1,808,092	2,915,611
	<b>3,640,108</b>	<b>4,186,381</b>	<b>3,958,064</b>	<b>3,463,744</b>	<b>2,747,634</b>	<b>3,844,717</b>
<b>Depreciation</b>						
Transmission system	208,012	208,012	208,012	208,012	208,012	208,012
Generation plant	305,745	305,745	305,745	305,745	305,745	305,745
	<b>513,758</b>	<b>513,758</b>	<b>513,758</b>	<b>513,758</b>	<b>513,758</b>	<b>513,758</b>
<b>Other Costs</b>						
Fuel delivery	90,000	90,000	90,000	90,000	90,000	90,000
<b>Total costs before allocation of overhead costs</b>	<b>4,243,866</b>	<b>4,790,139</b>	<b>4,561,822</b>	<b>4,067,501</b>	<b>3,351,391</b>	<b>4,448,474</b>
Allocation of band support costs	689,947	630,699	712,599	769,463	731,330	605,643
<b>Total electrification costs</b>	<b>\$ 4,933,812</b>	<b>\$5,420,838</b>	<b>\$5,274,420</b>	<b>\$4,836,965</b>	<b>\$4,082,722</b>	<b>\$5,054,117</b>
Production -kwh (for the 12 months ended Dec 31)	8,597,212	8,866,500	8,705,500	8,682,750	8,412,250	8,319,062
Estimated average cost per kwh	\$ 0.574	\$ 0.611	\$ 0.606	\$ 0.557	\$ 0.485	\$ 0.608
<b>Revenues</b>						
<b>AANDC contributions</b>						
Electrification costs	(3,525,794)	(3,817,872)	(3,689,143)	(2,901,936)	(3,718,304)	(3,501,716)
Band support costs	(158,014)	(157,896)	(129,724)	(126,201)	(227,333)	(148,914)
Electrical sales to third parties	(197,896)	(195,269)	(227,154)	(196,176)	(304,663)	(66,217)
<b>Total revenues</b>	<b>(3,881,704)</b>	<b>(4,171,037)</b>	<b>(4,046,021)</b>	<b>(3,224,313)</b>	<b>(4,250,301)</b>	<b>(3,716,847)</b>
<b>Net costs (income) related to Electrification</b>	<b>\$ 1,052,108</b>	<b>\$1,249,800</b>	<b>\$1,228,399</b>	<b>\$1,612,651</b>	<b>-\$ 167,579</b>	<b>\$1,337,270</b>

## Appendix II

### Eric L. Coombs, B.Comm, C.F. F.C.A.

#### Home:

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364-6804

#### Work:

ELC Consulting Inc.  
1033 Topsail Rd, Mount Pearl  
A1N 2C3  
709 685 5391 (cell)  
elcconsultinginc@gmail.com

#### Education

B.Comm. (MUN)	1978
C.A.	1981
F.C.A.	1998
C.F.	2013 -CICA Corporate Finance specialty

#### Professional Experience

- 2009 – Discontinued audit practice to specialize in aboriginal consulting through ELC Consulting Inc.
- 1984 to 2009, audit partner with Gardner Coombs Winsor Coombs, Chartered Accountants providing a full range of services in the areas of auditing, accounting, taxation, management and financial consulting,
- Audited Mushuau Innu First Nation financial statements for 25 years.

#### Professional activities

- Past Chair of the Discipline Committee of the Institute of Chartered Accountants of Newfoundland and Labrador.
- Past member of the Public Accountants Licensing Board of Newfoundland and Labrador
- Former member of the Board of Governors of Canadian Institute of Chartered Accountants
- Past President of the Institute of Chartered Accountants of Newfoundland.
- Former member of the Board of Directors for the Atlantic School of Chartered Accountancy

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- Past chairman of the Professional Development Committee of the Institute of Chartered Accountants of Newfoundland.
- Past chairman of the Institute of Chartered Accountants of Newfoundland Small Practices Committee.
- Past member of the Institute of Chartered Accountants Legislative and Tax Committee.
- Past member of the C.A. Inter-provincial Ethics Committee
- Served on the CICA Income Tax Practice Course Review Committee.

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**APPENDIX III**

**Report from PwC LLP In the capacity as Co-Manager for the Mushuau Innu First Nation**

**Mushuau Innu First Nation**  
Tel: (709)478-8827 Fax: (709)478-8920



P.O Box 190, Natuashish  
Labrador, NL A0P1A0

**Mushuau Innu Government Vision Statement**

To provide good government, that responds to the needs of the people and fosters unity, understanding and fairness to the Mushuau Innu.

June 17, 2015

Eric Coombs  
ECL Consulting Inc.  
1033 Topsail Road  
PO Box 301  
Mount Pearl, NL A1N 2C3

Dear Mr. Coombs:

***In the Matter of the Labrador Rate Hearing with the Public Utility Board of Newfoundland and Labrador***

The letter is written to provide you with information in relation to the above noted hearing. PwC LLP has been the co-manager of the Mushuau Innu First Nation ("MIFN") since April 2010. We have come to the knowledge contained herein primarily through examination of the MIFN books and records, reporting and discussions with Aboriginal Affairs and Northern Development Canada ("AANDC"), and discussions with Gregory Rich, Chief of the MIFN and Cajetan Rich, Director of Operations and Maintenance of the MIFN.

In regards to the tri-party electrification of Natuashish we provide the following information:

1. The Natuashish generation and distribution system is maintained by Newfoundland and Labrador Hydro ("NL Hydro") on behalf of the MIFN.
2. We are not aware of a formal contract governing the operation of the Natuashish generating facility between the Mushuau Innu First Nation ("MIFN") and Newfoundland and Labrador Hydro ("NL Hydro").
3. AANDC provides funding for the purchase of diesel fuel consumed in the generating station and operational costs as invoiced by NL Hydro.
4. AANDC does not guarantee funding for capital. Such projects, should they be required maybe funded by AANDC on application.

5. NL Hydro provides monthly invoices and the annual budget to the MIFN. No other reporting is provided to the MIFN.
6. NL Hydro does not seek approval for their expenses prior to incurring the costs, beyond the submission of the annual budget.
7. I am not aware of any long-term asset planning services provided by NL Hydro to the MIFN. No reporting is provided to the MIFN on this activity.
8. I am not aware of any system planning services provided by NL Hydro to the MIFN. No reporting is provided to the MIFN on this activity.
9. I am not aware of any load forecasts for Natuashish prepared by NL Hydro. No reporting is provided to the MIFN on this activity.
10. To the best of my knowledge, NL Hydro does not consult with the MIFN or the residents of Natuashish in preparing load forecasts, should they be prepared.
11. A fuel storage and delivery system in Natuashish are the responsibility of the MIFN, and is managed by the Director of Operations and Maintenance (“O&M”). AANDC provides certain operational funding.
12. Fuel deliveries are only possible from mid - June to late October / early November. In 2014, fuel rationing was required because the existing fuel storage capacity was inadequate to support all winter needs.
13. In 2014, fuel rationing did not affect electric generation. In the spring of 2014, Natuashish ran dangerously low on diesel fuel. Diesel is used to fuel the generation station, in addition to providing home heating fuel and powering heavy equipment. The diesel shortage that spring was attributed to a longer and colder winter of 2013/2014, unfavourable spring ice conditions in 2014, increasing demand from population and community growth, and no increase in storage capacity. The risk required consumption restrictions and advising key partners, such as AANDC and the Newfoundland and Labrador Emergency Measures Organization, of the risk. NL Hydro was not a party or participant in these discussions.
14. MIFN does not have the capacity to determine how this storage capacity shortage will evolve in the coming years, nor to predict whether or not there will be enough fuel to provide electric service throughout the winter without rationing.
15. NL Hydro does not participate in any planning with respect to fuel delivery or storage.
16. O&M is responsible for the planning associated with fuel purchases for the generating station.

17. NL Hydro does not report to the MIFN on any cost control activities (including labour costs). NL Hydro does appear to attempt to control costs where possible by timing repairs to occur over the shipping season to minimize shipping costs, and to minimize use of charter aircraft use to minimize travel costs.
18. We are not aware of any other governmental body providing advice to the MIFN to reduce the cost of electric service in Natuashish.
19. NL Hydro may read certain electrical meters in Natuashish from time to time, but, to the best of my knowledge, meters are not read systematically. To the best of my knowledge, NLH does not provide the MIFN with these readings.
20. NL Hydro, nor any other body or agency, does not appear to provide any electrical conservation or demand management services. No reporting is provided on this activity.

Regards,

PwC LLP, in the capacity as Co-Manager for the Mushuau Innu First Nation



Phil Clarke, CPA, CA, CIRP