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EXECUTIVE SUMMARY EXECUTIVE SUMMARY

KEEWATIN RESUPPLY OPTIONS TECHNICAL REPORT

PREPARED BY THE NEXUS GROUP
FEBRUARY 9, 1997

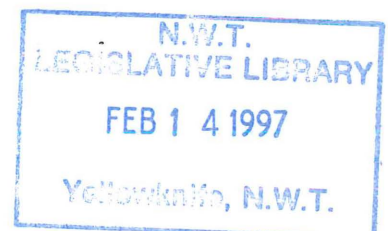


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- Cameron Clement, Geoff Armitstead and Lynette Storoz, NTCL
- Peter and Mel Woodward, from the Woodward's Group of Companies
- Colin Crosbie, CA Crosbie Limited
- Rosaire and Daniel Degagnes, Groupe Degagnes Inc.
- John Jardine, Gateway North Transportation Systems
- Mike Spense, Mayor and Cory Young, Municipality of Churchill
- John Spacek, Government of Manitoba
- David Wilson, Arctic Co-operatives

The information contained within this document is based on actual 1995 volumes and rates. The estimated savings for each of the options are based on rate forecasts provided the carriers. These rates have not been tested in a competitive environment. We would expect that the estimates for each option would change in an actual competitive bid process. Consequently, they should be considered only as benchmarks for planning purposes.

DEFINITIONS

Keewatin Resupply Steering Committee—(The Committee) A committee of elected officials representing the seven Keewatin communities appointed by the Ministers of Transportation and Public Works (PWS) and Services (DOT).

Keewatin Resupply Working Group—A group of officials from PWS and DOT chaired by Director, Transportation Planning, Department of Transportation to the oversee the technical research.

Fuel Carriers—Marine-shipping companies who submitted rates for transporting fuel—Northern Transportation Company Limited NTCL, Groupe Desgagnes and the Woodward Group of Companies.

Dry Cargo Carriers—Marine shipping companies who submitted rates for transporting dry cargo to Keewatin Communities—Northern Transportation Company Limited, Groupe Desgagnes Inc. CA Crosbie Shipping Lines Ltd., and Igloodik Transport,

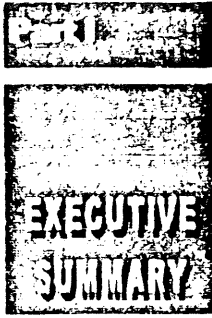
Stakeholders—Companies and individuals with a vested interest in the outcome of the study.

Affected communities—Communities receiving fuel and dry goods through the Port Churchill—Arviat, Rankin Inlet, Baker Lake, Chesterfield Inlet, Coral Harbour, and Whale Cove. Repulse Bay receives its fuel as part of the eastern arctic sealift.

EXECUTIVE SUMMARY

**KEEWATIN RESUPPLY OPTIONS
TECHNICAL REPORT**

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A. PROJECT MISSION

To advise the Ministers of Transportation and Public Works and Services on the infrastructure and system changes needed to reduce marine transportation costs and to improve systems for transporting fuel and dry cargo to Keewatin communities.

B. MANDATE—APPENDIX I

To examine and report on the following;

- Alternate marine transportation systems,
- Differences in marine transportation rates between alternative systems,
- Capital improvements to the fuel distribution system and harbour facilities,
- Consequences of abandoning the CN "Bayline" route to Churchill and the Port of Churchill, and
- Adequacy of information regarding marine navigation charts for making decisions on alternate resupply systems.

C. COMMITTEE RECOMMENDATIONS—APPENDIX II

The Committee's held three meetings between June 1996 and January 1997 to hear views from the public on issues arising out of plans for changing the Keewatin resupply system. During the course of the review, the committee asked for and received input from a wide range of stakeholders. A summary of the analysis upon which the motion was based is attached—Appendix III.

At the Committee's last consultation meeting in Yellowknife on January 8th, committee members unanimously passed the following motion:

"In view of Division in 1999, I move that we not enter into any contracts, pertaining to the tank farm, beyond 1999, and that we stay with the status quo and work toward a direct resupply for the Keewatin.

To achieve this we must address the following areas:

- Carrier of Choice
- Hydrographic mapping of all Keewatin Communities
- Work toward the Memorandum of Understanding (M.O.U) signed by Manitoba and the NWT."

D. FINDINGS

The findings are based on rate proposals received from the following carriers: Northern Transportation Company Ltd. (NTCL), C.A. Crosbie Shipping Ltd., The Woodward Group of Companies, and Groupe Desgagnes Inc.

The Working Group was assisted by the following companies; CJ Marine & Associates Ltd., The Mariport Group, and Roosdahl Engineering Enterprises. Each company provided research and analysis within their respective areas of specialization.

The research was greatly enriched by the input received from the public at meetings held in Arviat and Baker Lake and Yellowknife:

The findings are listed below:

- It is possible to reduce transportation cost by:
 - Redesigning the process for tendering the fuel transportation contracts for the Keewatin and the Eastern Arctic when they expire in 1998.
 - Conducting hydrographic surveys of the approaches to Coral Harbour, Whale Cove, Arviat, Chesterfield Narrows and Chesterfield Inlet.
 - Investing in improvements to the harbour approaches and to the fuel distribution systems to improve navigation and to allow maximum flexibility in discharge either by tanker or by barge.

Marginal savings may be possible without changing the system by reducing plant administration, handling and inventory costs in Churchill.

Insufficient information is available to make decisions on investments in transportation and fuel distribution infrastructure. Specifically, more information is needed in respect to:

- * cargo and fuel rates to be published by OmniTRAX,
- * Impact on the resupply system if privatization of the Petroleum Products Division is privatized, and
- * government policy regarding the setting or regulating prices for fuel.

E. IMPLEMENTATION

It is recommended the following steps be undertaken:

1. The Government of the Northwest Territories publish its guidelines for tendering fuel contracts in 1998 and beyond. Procedures respecting fuel contract extensions in Nunavut should be vetted by Interim Commissioner for Nunavut.
2. The Department of Transportation should enter an agreement with the federal government to cost-share a hydrographic mapping program in the communities identified in the CJ Marine & Associates study in 1997.
3. After the results of the hydrographic studies are known, the DOT and PWS should arrange a "pre-bidding" conference to inform carriers on the guidelines for tendering fuel contracts when they expire in 1998.
4. PWS should advise Public Works and Government Services Canada, on the need for the Churchill tank farm after the current contract expires, on March 31, 1998.
5. If privatization of fuel products proceeds, there should be a moratorium on changes to the pipeline infrastructure, until hydrographic surveys have been completed.

F. DECISION FACTORS

In making decisions consideration should be given to the following:

a) Existing Contracts

Marine Resupply—NTCL has a contract to resupply Keewatin communities up to and including the 1998-shipping season. This includes an option to resupply Rankin Inlet as part of the Eastern Arctic Resupply for 1998.

Operation of the Churchill tank farm—Imperial Oil has a lease to operate and maintain the Churchill tank farm until March 31, 1998.

b) Privatization Initiatives

POL Privatization—The Government of the NWT has begun the process. may lead to the privatization of the fuel storage and distribution assets of the Petroleum Products Division (P.P.D.). The target date for a decision for privatization is uncertain.

CN Rail Line—Canadian National Railway (CN) has sold its "Bayline" (The rail-line from Yorkton to Churchill) to OmniTRAX Inc. New rate structures and levels of service may affect Churchill's competitiveness with East Coast Ports.

Churchill Tank Farm—The Federal Government (Public Works and Government Services) has announced its intention to privatize or abandon the Churchill Tank Farm facilities. An environmental base line assessment was conducted in the summer of 1996. The target date for the selling the assets or decommissioning the tank farm, is April 1, 1998. The initial cost estimate for remediating the tank farm to current standards is estimated at over 3.8 million dollars. This may impact on the timing and cost of privatization.

c) GNWT-Government of Manitoba Memorandum of Understanding

In June 1996, the Premiers of the NWT and Manitoba signed a co-operation agreement on joint initiatives to foster the development of the Keewatin-Northern Manitoba region.

APPENDICES

ORIGINAL TERMS OF REFERENCE

FRAMEWORK

KEEWATIN RESUPPLY STEERING COMMITTEE TERMS OF REFERENCE

Background

At the February 21, 1996 discussion with the Caucus, the Ministers of Public Works & Services and Transportation indicated that a fresh review of Keewatin resupply strategies would be undertaken in consultation with the region's MLAs and communities. A Ministerial Statement to the Legislative Assembly on March 20, 1996, formally announced the establishment of a Keewatin Resupply Steering Committee to undertake the review. These terms of reference are being provided as a framework for the Steering Committee.

Objective of the Steering Committee

To review and assess feasible options for improving the cost-effectiveness of community resupply operations in the Keewatin Region. The Committee will recommend a new long term resupply strategy for reducing Keewatin transportation costs, promoting economic development, increasing business and employment opportunities for northern residents and addressing related community concerns.

Steering Committee Membership

A Steering Committee consisting of the following will direct the study of Keewatin resupply options:

- Mr. Kevin O'Brien, MLA Kivallivik (Chair)
- Ms. Manitok Thompson, MLA Aivilik
- Mr. John Todd, MLA Keewatin Central
- Representative of the Kivallivik Inuit Association
- Representative of the Keewatin Chamber of Commerce
- One representative from each Keewatin community

Study Timeframe

The study will be initiated in April 1996 and the study report will be presented to the Ministers of Transportation and Public Works & Services by the end of September 1996.

This timetable is suggested because of several factors. The GNWT's current resupply contract for Keewatin utilizing the fuel storage tanks at Churchill expires at the end of the resupply season in 1997. The recently awarded three-year GNWT contract for the resupply of fuel to the Eastern Arctic includes fuel for Keewatin, starting in 1998 whether this fuel gets delivered to Churchill, Rankin Inlet or another location(s) will need to be determined in 1996 and/or infrastructure can be put in place. The recently awarded three-year contract for Eastern Arctic Fuel Resupply includes Keewatin's fuel starting in 1998. This in turn requires a decision by the end of summer 1996 about the Keewatin resupply option to be implemented.

Another issue is the lead time required to obtain necessary environmental and development permits for the recommended option.

Given the current fiscal circumstances, the GNWT wants to start realizing savings in Keewatin resupply as soon as possible so that these savings can be passed on to the residents of the Keewatin.

Committee Budget

The Department of Transportation and Public Works & Services will allocate a reasonable amount to cover the costs of the study.

The Chairman of the Steering Committee will submit the estimated budget requirements along with the proposed work plan and schedule to the Ministers of Transportation and Public Works & Services.

Honoraria will not be paid to the Steering Committee members or others attending committee meetings.

General Work Plan

The Steering Committee will develop a detailed work plan and schedule. The following is a suggested broad outline:

- 1) Describe the current resupply system in the Keewatin Region (including routes, operators, volumes and costs) and identify problems, issues and opportunities.
- 2) Examine all relevant issues and opportunities affecting Keewatin resupply (e.g. future prospects for Churchill, Keewatin community concerns, potential mineral developments, implications to the existing Eastern Arctic Fuel Resupply and Churchill contracts).
- 3) Consult with stakeholders on options and issues. Stakeholders include: the Keewatin public, businesses and mining interests, Northern Transportation Company Limited, CN Rail, Port of Churchill, Gateway North Marketing Agency, Federal departments such as Transport and Fisheries & Oceans, concerned departments and agencies of the GNWT and Manitoba, and others the Steering Committee deems appropriate.
- 4) Define future resupply needs and options, and estimate freight and infrastructure costs.
- 5) Assess various options in terms of feasibility, costs, benefits, pros and cons, and other relevant factors.
- 6) Recommend a long term resupply strategy for the Keewatin.

Detailed Work Plan

It is recommended that the Steering Committee consider hiring a consultant to undertake the Keewatin Resupply Study. The staff of the Departments of Transportation and Public Works & Services had prepared draft terms of reference for a consultant study. These are attached for the Steering Committee's consideration.

Staff of the Departments of Transportation and Public Works & Services are available to assist the Steering Committee with its work.

**EXCERPTS TAKEN FROM NOTES OF:
LAST MEETING OF KEEWATIN RESUPPLY COMMITTEE**

**Caucus Room of the Legislative Assembly Bldg.
Yellowknife, NT.**

Wednesday, January 8, 1997.

Re:

Formal Motions Passed at Committee's Final Meeting

Final Meeting of the Keewatin Resupply Meeting (Continued)

- ◆ **The mayor of Arviat, Peter Kritaqliluk, declined to comment at this time but stated that he would be putting a formal motion forward after all the Committee members had spoken.**
- ◆ **His Worship, Mayor William Noah, of Baker Lake, noted that his community had passed Resolution #326, that effectively stated that Baker Lake had several other concerns such as health care and social programs and that the issue of fuel resupply was not a priority for his community.**
- ◆ **Mayor John Hickes, of Rankin Inlet, stated his community's support for the status quo - with the proviso that work should continue toward solving the obstacles to other resupply options.**
- ◆ **The president of the Keewatin Inuit Association, Mr. Paul Kaludjak, said his organization stated that staying with the status quo would not help economic conditions in the region and they requested that the GNWT should continue to pursue an efficient transportation system for the Keewatin.**
- ◆ **Mr. Jack Angoo, the mayor of Whale Cove, said his community supports the status quo. They feel it is time to conclude this Committee's work and they would support re-opening the discussion when the Nunavut government has been formed.**
- ◆ **Mr. Glenn McLean, president of the Keewatin Chamber of Commerce, noted that his organization supports the status quo but would like to see further studies on the Direct Resupply Option.**
- ◆ **MAYOR PETER KRITAQLILUK, OF ARVIAT, MADE THE FOLLOWING (AMENDED) MOTION: "IN VIEW OF DIVISION IN 1999, I MAKE A MOTION THAT WE NOT ENTER INTO ANY CONTRACTS, PERTAINING TO THE TANK FARM, BEYOND 1999 AND THAT WE STAY WITH THE STATUS QUO AND WORK TOWARD A DIRECT RESUPPLY FOR THE KEEWATIN REGION."**

The Final Meeting of the Keewatin Resupply Committee (Continued)

- **TO ACHIEVE THIS, WE MUST ADDRESS THE FOLLOWING AREAS:**
- **CARRIER OF CHOICE;**
- **HYDROGRAPHIC MAPPING OF ALL KEEWATIN COMMUNITIES;**
- **WORKING TOWARD THE M.O.U. SIGNED BY MANITOBA AND THE NORTHWEST TERRITORIES.”**

The amended motion was seconded by Mr. William Noah, the mayor of Baker Lake. The motion, as amended, was carried.

- ◆ **MR. GLENN MCLEAN, PRESIDENT OF THE KEEWATIN CHAMBER OF COMMERCE MADE THE FOLLOWING MOTION: “I MAKE A MOTION THAT THE PRIVATIZATION OF PETROLEUM PRODUCTS NOT PROCEED UNTIL THERE IS MORE PUBLIC AND COMMUNITY CONSULTATION.”**
- ◆ **The motion was seconded by His Worship, Mayor Jack Angoo of Whale Cove. The motion was carried.**

In concluding, the Chairman Mr. Kevin O’Brien, thanked all those present for attending and for making valuable contributions to this and all previous committee meetings.

He noted that the committee’s findings and their suggestions will be included at a later date, in the final report and recommendations to be presented to the Honourable James Antoine, Minister of Transportation.

The meeting was adjourned.

TABLES

Table 1: Summary of Capital Investments Required

	OPTION 1	OPTION 2	OPTION 3	OPTION 4	OPTION 5
Short Description	Status Quo	Rankin Full Hub	Split Hub	Direct Delivery	Hybrid
<i>Infrastructure- Initial costs</i>					
<i>(1) Tankage required</i>					
Rankin Inlet 1		4,865,000	4,865,000		
Churchill upgrade 2	3,800,000				3,800,000
<i>(2) Pipeline extensions</i>					
Rankin Inlet 3		2,800,000	2,800,000	1,865,000	1,865,000
Other Communities 4				6,320,000	
<i>(3) On-shore improvements</i>					
Wharf Improvements	n/c	n/c			
Rankin Inlet -tanker moorage			900,000	900,000	900,000
Rankin Inlet-terminal 5		8,500,000			
Rankin Inlet-warehouse		1,500,000			
Total Capital	\$ 3,800,000	\$ 16,252,000	\$ 7,565,000	\$ 9,085,000	\$ 6,565,000

Table 2: Comparison of Resupply Options versus the Base Case

SHORT DESCRIPTION	BASE CASE	STATUS QUO MODIFIED	RANKIN FULL HUB	SPLIT HUB	DIRECT DELIVERY	MIXED
	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)
1) TRANSPORTATION-FUEL	4,933	4,921	4,610	4,610	2,634	4,505
2) TRANSSHIPMENT-FUEL	841	791	448	448	144	513
SUB TOTAL	5,774	5,712	5,058	5,058	2,778	5,017
3) TRANSPORTATION-DRY GOODS	3,542	3,542	4,195	3,542	2,856	3,542
SUB TOTAL	9,316	9,254	9,253	8,600	5,634	8,560
4. INFRASTRUCTURE-CAPITAL AMORTIZED	93	93	1,266	858	864	241
5) OPERATION, REPAIR AND MAINTENANCE			200	50	300	
6) CHURCHILL LEASE COST*	321	321				321
TOTAL COST	9,730	9,668	10,719	9,508	6,798	8,883
DIFFERENCE BETWEEN OPTIONS		(62)	969	(222)	(2,932)	(847)