

May 23, 2024

Hon. John Main

Minister Responsible for the Qulliq Energy Corporation

Legislative Assembly of Nunavut

926 Sivumugiaq, 2nd floor,

Iqaluit, Nunavut X0A 3H0

Dear Minister Main,

Regarding QEC’s Fuel Stabilization Rate Rider Application dated March 11, 2024, and pursuant to your request for a review of the Application dated March 14, 2024, please find attached Utility Rates Review Council Report 2024-02 summarizing the Council’s consideration of the matter.

Yours truly,



Paul Okalik

Chair

Utility Rates Review Council of Nunavut

CC: Honourable P.J. Akeeagok, Minister Responsible for the Utility Rates Review Council of Nunavut

Anna Fowler, Deputy Minister, Executive & Intergovernmental Affairs

Ernest Douglas, President and CEO, Qulliq Energy Corporation

Laurie-Anne White, Executive Director, URRC

P.O. Box 1000, Stn 200, Iqaluit, NU, X0A 0H0



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# Report to the Minister Responsible for the Qulliq Energy Corporation Respecting:

**An Application by the Qulliq Energy Corporation for**

**Approval of a Fuel Stabilization Rate**

**From**

**April 1, 2024 to September 30, 2024**

**Report 2024-02**

**May 23, 2024**

**UTILITY RATES REVIEW COUNCIL OF NUNAVUT**

## 

## PANEL MEMBERS

Paul Okalik Chair

Graham Lock Vice-Chair

Stanley Anablak Member

## SUPPORT

Laurie-Anne White Executive Director

Wade Vienneau Consultant

## LIST OF ABBREVIATIONS

|  |  |
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|  |  |
| GN | Government of Nunavut |
| GRA | General Rate Application |
| FSR | Fuel Stabilization Rate |
| FSR Fund | Fuel Stabilization Rate Fund |
| kWh | Kilowatt hour |
| NESP | Nunavut Electricity Subsidy Program |
| PPD | Petroleum Products Division |
| QEC | Qulliq Energy Corporation |
| SAO | Senior Administrative Officer |
| URRC | Utility Rates Review Council |
| URRC Act | *Utility Rates Review Council Act* |
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1. The APPLICATION
2. Qulliq Energy Corporation (QEC), as a designated utility, is required pursuant to Section 12 (1) of the *Utility Rates Review Council Act* (URRC Act), to seek approval from the Minister responsible for QEC (Minister for QEC), prior to imposing a rate or tariff. The Minister for QEC in turn is required pursuant to Section 12 (2) of the URRC Act, to seek the advice of the Utility Rates Review Council (URRC) on the utility’s request to impose a rate or tariff.
3. By letter dated March 11, 2024, QEC applied to the Minister for QEC, requesting approval for a Fuel Stabilization Rate (FSR) rider of 3.70 cents per kilowatt hour (kWh), from April 1, 2024 to September 30, 2024. QEC also requested approval of an interim refundable FSR rider for the period between April 1, 2024 and the final approval date of the FSR rider. By letter dated March 14, 2024, the Minister for QEC requested advice from the URRC with respect to the Application.
4. BACKGROUND
5. The base energy rates were initially approved effective October 1, 2022, in accordance with Ministerial Instruction dated September 8, 2022, as part of QEC’s 2022/23 Phase I General Rate Application (GRA). The weighted average fuel price assumption of $0.96[[1]](#footnote-1) per litre (weighted average across all communities) built into the base rates reflected the forecast of fuel inventory and mixture of bulk and nominated fuel prices consistent with previous QEC operating experience. Summer 2022 bulk fuel prices were based on information provided by the Petroleum Products Division (PPD) of the Department of Community and Government Services and 2022/23 forecast nominated prices were based on the actual retail fuel price adjustments announced by the GN effective February 6, 2022.
6. Subsequently, on October 1, 2023, the base energy rates were amended to reflect higher than forecast fuel prices. The weighted average fuel price assumption of $0.96[[2]](#footnote-2) per litre was increased to $1.20 per litre (weighted average across all communities). The increased 2023 bulk and nominated fuel prices were built into the amended base rates instead of using an FSR collection rider.
7. A Ministerial Instruction dated May 30, 2014 requires QEC to prepare forecasts of the balance in the Fuel Stabilization Rate Fund (FSR Fund), which accumulates the difference between the actual cost of fuel and the GRA weighted average fuel price assumption. As per the Minister’s Instruction, QEC is required to apply for a fuel rider if at any time the balance in the FSR Fund is expected to exceed the threshold of plus or minus $1 million within a six-month period.
8. The current application is for an FSR rider of 3.70 cents per kWh effective April 1, 2023 to September 30, 2023. The fuel cost reconciliation filed as part of the Application compares the amended GRA forecast average fuel cost of $1.20 per litre with the actual to date and forecast fuel costs, for the period April 1, 2024 to September 30, 2024. Based on the fuel cost reconciliation QEC has projected a balance owing to QEC of approximately $3.4 million as of September 30, 2024.
9. QEC has requested approval to collect any difference between fuel costs amassed through rates on a forecast basis and actual fuel costs, from customers through an FSR rider. There has been no FSR rider since energy rates were last approved as part of the 2022/23 GRA, however QEC has forecast that the FSR Fund would exceed the $1.0 million limit without the applied for rider of 3.70 cents per kWh. In the Application, QEC also requested approval of the 3.70 cents per kWh FSR rider on an interim refundable basis, effective April 1, 2024.
10. The URRC reviewed the Application and recommended to the Minister Responsible for the URRC that an interim rate be put in place. By letter dated March 22, 2024, the Minister Responsible for the URRC authorised QEC to implement an interim FSR rider of 3.70 cents per kWh for the period from April 1, 2024, to the final approval date of the Application. The URRC determined that implementation of the interim FSR rider was in the best interest of the public and was consistent with maintaining rate stability for all customers.
11. Upon the recommendation of the URRC as summarized above, on March 22, 2024, the Minister for the Review Council approved an FSR rider of 3.70 cents per kWh effective April 1, 2024 on an interim basis pursuant to Section 12.1 (1) of the URRC Act which states: “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 Minister for the Review Council may authorize the designated utility to impose the recommended interim rate or tariff.”
12. PROCESS
13. Section 13 (1.1) of the URRC Act provides that:

Where, in the opinion of the Review Council, the application for the proposed rate or tariff is a minor application, the Review Council shall report to the responsible Minister within 90 days of receiving the responsible Minister’s request for advice under subsection 12(2).

1. Upon review of QEC’s application, the URRC decided to treat it as a minor application.
2. The URRC provided notice of the Application through social media (online in Nunatsiaq), through the government liaison officers in each community, and by letter to each Member of the Legislative Assembly of Nunavut, mayors and senior administration officers (SAO) and assistant SAOs across Nunavut.
3. The URRC also provided an opportunity for the public to make written comments respecting the Application by the deadline of May 1, 2024. Two written submissions were received from the public with respect to the Application. QEC provided its responses to the submissions on April 27, 2024 and May 6, 2024.
4. The URRC reviewed the Application and determined that additional information was required. Information requests were made to QEC on April 5, 2024 and QEC provided its responses on April 19, 2024.
5. The URRC’s consideration of the matter is set out in this Report.
6. CONSIDERATION OF THE APPLICATION
7. QEC provided, as part of the Application, schedules summarizing the forecast monthly balances in the FSR Fund through to September 30, 2024, detailing the calculation of the proposed rider. QEC stated the schedules are based on the following information and assumptions:
   * 1. Bulk Fuel Prices: Bulk fuel deliveries and prices were based on the 2023 resupply season actuals. No updated bulk fuel price forecasts were used in the application.
     2. Nominated Fuel Prices: Actual nominated fuel prices were used up to January 2024. QEC purchases fuel at nominated prices through third parties contracted by PPD to manage Nunavut's fuel supply between bulk sealift supply periods. Nominated fuel prices for the February through September 2024 forecast period reflect prices provided by the PPD that became effective January 2024. These updated fuel prices reflect an increase to the average monthly fuel prices.
     3. Fuel Inventory: Forecast fuel prices reflect weighted average fuel prices based on fuel inventory and a mixture of bulk fuel and nominated fuel deliveries.
     4. Sales and Generation: QEC’s most recent generation and sales forecasts.
8. QEC stated the increase in forecast fuel prices, based on the January 2024 nominated fuel price and the November 2023 bulk fuel price, would increase the forecast FSR Fund balance owing to QEC to $3.4 million as of September 30, 2024. The January 2024 nominated fuel price is about 15 cents/litre higher than the amount included in base energy rates. Information included in the FSR schedules included in the Application show that weighted average fuel prices since January 2024 have fluctuated, but are expected to be higher than the $1.20/litre forecast by between 5 to 11 cents/litre from February thru September 2024.
9. QEC stated the rider of 3.70 cents per kWh was calculated to target a zero FSR Fund balance by September 30, 2024. QEC stated approval of the proposed fuel rider would mean a bill increase of approximately $19.41 (including GST) per month to non-government residential customers using 500 kWh per month in addition to base rates.
10. In addition to the Application and QEC’s responses to information requests, the URRC also reviewed the public submissions and QEC’s replies. The public submissions related primarily to QEC’s forecasting methods, the administration of the FSR to various types of customers and the effects of a customer’s conservation efforts on their electricity bill.
11. The URRC notes that QEC responded to each of the above-mentioned matters. QEC replied to questions about its forecasting methods by stating it was reasonable to use the FSR Fund (and related procedures) or adjust base energy rates when fuel prices fluctuate. QEC submitted it was/is reasonable to review and re-forecast fuel costs in six-month intervals to ensure only the current cost of fuel is being charged.
12. QEC also explained that the FSR is applied consistently to all customers in a rate class, and that a customer’s conservation efforts are rewarded by savings per kilowatt, calculated using both base energy rates and the FSR rate.
13. The URRC has questioned QEC’s forecasting methods in the past. The URRC notes QEC’s in submission that ‘whereas changes in fuel prices are unpredictable and forever changing, and fuel suppliers do not give any advance notice of price changes’ its use of the FSR Fund and related procedures was in the customers’ best interest.
14. In an effort to better understand, price volatility leading to FSR applications, the URRC has attempted over the years to encourage QEC to engage PPD to gain a better understanding of fuel prices and price setting. QEC has consistently advised that they are price takers with respect to fuel pricing and have been unable to provide the answers to some of URRC‘s request for the fuel price setting procedures that PPD uses.
15. The URRC has concluded that it would be very helpful for it to understand PPD’s price setting practices. This could lead to fewer FSR applications, especially if the forecast reflects and provides visibility to all components of providing fuel, for example, transportation, administration, and price at the contract source.
16. The URRC accepts that keeping customers whole with respect to fuel costs is a priority however it is also be important to minimize the frequency of rate changes. To that end, it appears that QEC and its customers would benefit from better, more timely price information from its fuel supplier(s). Until that occurs, both QEC and its customers are served well by the FSR Fund and related procedures.
17. The URRC has examined QEC’s calculation of the FSR rider, including the detailed schedules provided in the Application and is satisfied that the methods and calculations used are appropriate and consistent with past practice. The URRC also notes that the current filing reflects 2023 bulk fuel and January 2024 nominated fuel prices.
18. On balance, the URRC recommends approval of the request to collect the deficiency in the FSR Fund balance by September 30, 2024. Accordingly, the URRC concludes that the FSR rider as proposed for the period April 1, 2024 to September 30, 2024 is reasonable and in the public interest.
19. URRC RECOMMENDATIONS
20. Section 13 (1) of the URRC Act states:

The Review Council, shall report to the responsible Minister its recommendation that:

* 1. the imposition of the proposed rate or tariff should be allowed,
  2. the imposition of the proposed rate or tariff should not be allowed, or
  3. another rate or tariff specified by the Review Council should be imposed

1. The URRC recommends that information regarding the pricing and forecasting practices used by the PPD be made available and used by QEC in future rate or tariff applications from QEC related to the price/cost of diesel fuel.
2. In accordance with the above, the URRC recommends that a fuel stabilization rate rider of 3.70 cents per kWh be approved for QEC, for the period April 1, 2024 to September 30, 2024.
3. Nothing in this Report shall prejudice the URRC in its consideration of any other matters respecting QEC.

# ON BEHALF OF THE

# UTILITY RATES REVIEW COUNCIL OF NUNAVUT

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**DATED: May 23, 2024**

**Paul Okalik, Chair**

**Utility Rates Review Council**

1. Rounded to the nearest cent [↑](#footnote-ref-1)
2. Rounded to the nearest cent [↑](#footnote-ref-2)