

June 7, 2023

Hon. PJ Akeeagok

Minister Responsible for the Qulliq Energy Corporation

Legislative Assembly of Nunavut

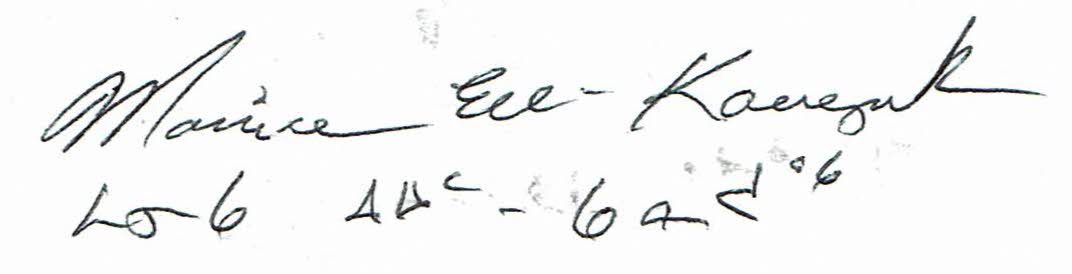
P.O. Box 2410

Iqaluit, NU X0A 0H0

Dear Minister Akeeagok,

Regarding QEC’s Fuel Stabilization Rate refund rider Application dated March 27, 2023 and pursuant to your request for a review of the Application dated April 3, 2023, please find attached Utility Rates Review Council of Nunavut report 2023-02 summarizing the Council’s consideration of the matter.

Yours truly,



Monica Ell-Kanayuk

Chair

Utility Rates Review Council of Nunavut

CC: Honourable David Joanasie, Minister Responsible for the URRC

Jimi Onalik, Deputy Minister, Executive & Intergovernmental Affairs

Rick Hunt, President, Qulliq Energy Corporation

Laurie-Anne White, Executive Director, Utility Rates Review Council

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



# 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, 2023 to September 30, 2023**

**Report 2023-02**

**June 7, 2023**

**UTILITY RATES REVIEW COUNCIL OF NUNAVUT**

## 

## PANEL MEMBERS

Monica Ell-Kanayuk Chair

Graham Lock Vice-Chair

Nadia Ciccone Member

## SUPPORT

Laurie-Anne White Executive Director

Wade Vienneau Consultant

## LIST OF ABBREVIATIONS

|  |  |
| --- | --- |
|  |  |
| 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 27, 2023, QEC applied to the Minister for QEC, requesting approval for a Fuel Stabilization Rate (FSR) rider of 7.33 cents per kilowatt hour (kWh), from April 1, 2023 to September 30, 2023. QEC also requested approval of an interim refundable FSR rider for the period between April 1, 2023 and the final approval date of the FSR rider. By letter dated April 3, 2023, the Minister for QEC requested advice from the URRC with respect to the Application.
4. BACKGROUND
5. The existing base energy rates were approved effective October 1, 2022, in accordance with Ministerial Instruction dated September 8, 2022, as part of QEC’s 2022/12 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 existing base rates reflects 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. 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.
7. The current application is for an FSR rider of 7.33 cents per kWh effective April 1, 2023 to September 30, 2023. The fuel cost reconciliation filed as part of the Application compares the GRA forecast average fuel cost of $0.96 per litre with the actual to date and forecast fuel costs, for the period April 1, 2023 to September 30, 2023. Based on the fuel cost reconciliation QEC has projected a balance owing to QEC of $6.8 million as of September 30, 2023.
8. 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 need for an 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 7.33 cents per kWh. In the Application, QEC also requested approval of the 7.33 cents per kWh FSR rider on an interim refundable basis, effective April 1, 2023.
9. The URRC reviewed the Application and, by letter dated April 5, 2023, recommended approval of an interim FSR rider of 7.33 cents per kWh for the period from April 1, 2023 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.
10. Upon the recommendation of the URRC as summarized above, on April 5, 2023, the Minister for the Review Council approved an FSR rider of 7.33 cents per kWh effective April 1, 2023 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.”
11. PROCESS
12. 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, 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 5, 2023. No written submissions were received from the public or any other party with respect to the Application by that date.
4. The URRC reviewed the Application and determined that additional information was required. Information requests were made to QEC on April 17, 2023 and QEC provided its responses on May 2, 2023.
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, 2023, 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 are based on the 2022 resupply season actuals. Price forecasts are based on information provided by the PPD.
     2. Nominated Fuel Prices: Actual nominated fuel prices were used up to December 2022. 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 January through September 2023 forecast period reflect prices provided by the PPD that became effective December 4, 2022. 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 announced by the GN on December 4, 2022, would increase the forecast FSR Fund balance owing to QEC to $6.8 million as of September 30, 2023. This was primarily due to a 20 cents/litre increase in nominated fuel prices.
9. QEC stated the rider of 7.33 cents per kWh was calculated to target a zero FSR Fund balance by September 30, 2023. QEC stated approval of the proposed fuel rider would mean a bill increase of approximately $38.48 (including GST) per month to non-government residential customers using 500 kWh per month in addition to base rates.
10. 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 an adjustment related to fuel prices increases since December 2022.
11. The URRC questioned QEC about possible improvements to its future FSR and GRA forecast of diesel cost, as well as possible changes to the Nunavut Electricity Subsidy Program (NESP). The URRC notes that the NESP provides support for customers based on the GRA approved Iqaluit base energy rate, and that the FSR mechanism keeps customers ‘whole’ regarding differences between the GRA approved fuel cost and the actual fuel cost. Notwithstanding, the URRC notes that the long-term use of FSR riders may cause the NESP to over/under compensate customers.
12. QEC responded that it has no access to fuel forecast data or information other than what is available from the PPD. QEC stated that it confirms bulk and nominated fuel prices with PPD and uses the most recent information before filing FSR and GRA applications. QEC stated that it generally files GRA applications in three year intervals, reflecting ‘current’ fuel prices, and that fuel prices are difficult to predict. The FSR mechanism is used to adjust for changes in fuel prices, rather than applying for a change to the GRA forecast.
13. QEC stated that the current NESP structure provides a reliable budgeting approach for the GN, and that QEC has not considered requesting changes to the NESP to incorporate the FSR.
14. The URRC agrees that the FSR is a good method for keeping FSR eligible customers whole respecting changes in fuel prices. If the changes in fuel prices are short term, then it is probably preferable to file an FSR application, rather than updating the GRA. However, if the changes in fuel prices are long term, then the URRC considers that QEC should apply for updated base rates. The URRC observes that not all customers are eligible for the NESP, and that the NESP structure is based on the most recently approved GRA.
15. The URRC notes the level of the applied for FSR rider is relatively high. In view of this, the URRC also questioned QEC in URRC-QEC-1-1 whether or not QEC would be receptive to the option of spreading the collection over a longer period of time. QEC responded that it was following the 2014 Ministerial Instruction, and that spreading out the FSR rider over a period longer than six months increased the risk of intergenerational cost transfer.
16. The URRC notes QEC’s response that the FSR application followed the direction in the 2014 Ministerial Instruction and that spreading out the FSR rider over a period longer than six months could result in intergenerational cost transfer. However, the URRC also notes that for most of the time from April 2021 through October 2022 the FSR Fund exceeded the $1 million threshold, which could also result in intergenerational cost transfer. This suggests to the URRC that QEC has applied some judgement regarding the filing of FSR applications, notwithstanding the 2014 Ministerial Instruction. The FSR Fund eventually went below the $1 million threshold in November 2022. The URRC notes that QEC’s judgement regarding the filing/non-filing of an FSR application appears to have been justified. The URRC also notes that during the April 2021 through October 2022 timeframe QEC filed an FSR fund/balance update[[2]](#footnote-2) and a GRA. The URRC observes that the Ministerial Instruction directs QEC to file an FSR application “if at any point in time the forecasts indicate the fund balance will exceed the threshold of plus or minus $1 million within a six month period.”
17. The URRC agrees that QEC is required to follow the 2014 Ministerial Instruction. The URRC also considers that the Minister responsible for QEC has the discretion to set the FSR rider. The URRC considers that the Application is in compliance with the 2014 Ministerial Instruction. The URRC notes that the Minister could consider a longer recovery period which could reduce the billing impact on customers if fuel prices are expected to return to GRA forecast levels. However, if fuel prices are expected to remain above GRA forecast levels, a longer recovery period only defers the billing impact(s). If QEC expects fuel prices to remain above the GRA forecast, then it may be preferable to file an adjustment to the GRA (with respect to fuel prices). In the absence of a longer term forecast of diesel prices from PPD it is not possible to determine what the best course of action should be for QEC, other than a six month FSR rider.
18. On balance, the URRC recommends approval of the request to collect the deficiency in the FSR Fund balance by September 30, 2023. Accordingly, the URRC concludes that the FSR rider as proposed for the period April 1, 2023, to September 30, 2023 is reasonable and in the public interest.
19. URRC RECOMMENDATIONS
20. Section 13 (1) of the URRC Act states:

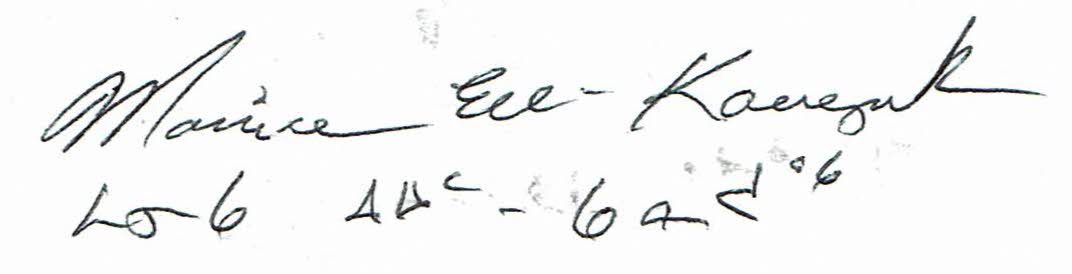
The Review Council, shall report to the responsible Minister its recommendation that:

* 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. In accordance with the above, the URRC recommends that a fuel stabilization rate rider of 7.33 cents per kWh be approved for QEC, for the period April 1, 2023 to September 30, 2023.
2. 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



**DATED: June 7, 2023**

**Monica Ell-Kanayuk, Chair**

**Utility Rates Review Council of Nunavut**

1. Rounded to the nearest cent [↑](#footnote-ref-1)
2. QEC letter from Tosin Omole to Laurie-Anne White dated February 25, 2022. [↑](#footnote-ref-2)