

## Briefing Note

# Recommendations on QEC CIPP policy application

**For:** John Main  
Chair of Committee on Oversight of Government Operations and Public Accounts

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**Re:** Commercial Institutional Power Production (CIPP) policy application proposed by Qulliq Energy Corporation (QEC) submitted to the Utility Rate Review Council May 2020

This briefing note is submitted by World Wildlife Fund Canada (WWF-Canada), Nunavut Nukkiqsautiit Corporation (NNC) and the Pembina Institute (Pembina). We support a robust energy policy framework that reduces diesel use through renewable energy investment that is Inuit-led and results in economic development opportunities for Inuit-led organizations and Nunavummiut. All three organizations submitted separate responses to the Utility Rate Review Council (URRC) on QEC's CIPP policy application in July 2020.

We appreciate QEC's effort to develop this CIPP policy to attempt to reduce the reliance on diesel, but the policy as laid out will do little to encourage the adoption of renewable energy systems in Nunavut and therefore contribute little to nothing to the Ikummatiit energy strategy or put Nunavut on a path of transition to renewable energy systems. As it currently stands, this CIPP policy may actually hinder local economic development and give allowance for non-Inuit companies to profit before Nunavut communities.

## Background

- With its remoteness and vast separation of communities, Nunavut has a unique energy landscape. It is 99% dependent on diesel for annual electricity and heating energy needs, the highest diesel dependency of all territories and provinces.<sup>1</sup>
- Economic opportunities within the Territory can be limited. The Government of Canada provides the majority of funding to the Government of Nunavut and communities often rely on federal funding transfers. Increasing local economic development activities within the Territory could lead to increased self-sufficiency and economic independence.

<sup>1</sup> <https://www.pembina.org/pub/diesel-reduction-progress-remote-communities>

- The Government of Nunavut's 2007 Ikummatiit Energy Policy<sup>2</sup> provided a vision of an energy system that is affordable, sustainable, reliable and environmentally responsible. This CIPP policy is a component that could support the Ikummatiit energy policy.
- The Government of Nunavut's 2016 Nunavummi Nangminiqaqtunik Ikajuuti policy<sup>3</sup> requires its organizations to follow regulated procurement practices that prioritize Inuit ownership and Inuit employment. This CIPP policy could offer similar prioritization to Nunavut Inuit.
- QEC has also stated a mandate to reduce diesel energy and to transition to renewable energy in Nunavut while providing safe, reliable and affordable electricity.
- The Qulliq Energy Corporation Act was amended in 2018 to allow electricity in Nunavut to be generated by independent power authorities (IPPs) and sold to QEC under a power purchase agreement (PPA).
- QEC has a net metering policy that allows the generation and sale of renewable energy.
- Continued diesel reliance contributes to climate change, local air quality issues, and land and water impacts from diesel spills, and has negative health impacts.
- Energy prices are currently subsidized in Nunavut by the Department of Finance and the Nunavut Housing Corporation; electricity generation from diesel is not profitable in the territory.
- Approximately half the costs associated with diesel energy goes to oil and gas companies outside of Nunavut.
- Over the 13 years since the release of Ikummatiit, energy policy has not encouraged and supported the development of renewable energy and sustainable energy systems that benefit Nunavummiut.
- Well-designed energy policy has the potential to ability to advance the renewable energy sector in Nunavut – creating jobs and revenue opportunities for Inuit organizations.

## Considerations to the Government of Nunavut

- The Government of Nunavut (GN) has a meaningful and important role to play alongside QEC in signalling the importance as well as developing and implementing energy policy in Nunavut.
- A robust, well-designed CIPP policy will require involvement from different departments of the GN (Ministry of Energy, Ministry of Community and Government Services (PDD division), Ministry of Finance). Involvement could include directives, changing legislated policy and/or regulations, or developing supportive programs that complement a CIPP policy.
- CIPP policy may require some regulatory changes to enable a more fair PPA price, and may require analysis of external costs outside of QEC and the incorporation of costs not currently considered within regulatory frameworks.

<sup>2</sup> <https://gov.nu.ca/edt/documents/ikummatiit-energy-strategy>

<sup>3</sup> <https://nni.gov.nu.ca/sites/nni.gov.nu.ca/files/English%20Policy%20for%20April%2001%202017.pdf>

- This CIPP policy is an evolution of the GN's policy mandate in support of energy sovereignty as a government priority. Leadership is needed to eliminate the barriers that currently impede renewable energy development.

## Recommendations around the CIPP policy

- The Government of Nunavut should work with QEC on the following changes to the CIPP policy:
  - **Promote Inuit ownership in renewable energy projects** – This policy currently does not mandate any aspect of Inuit-led projects or the creation of local jobs and employment.
  - **Develop community-specific PPA price** – IPPs should be compensated at a varying rate depending on the variable costs in each community.
  - **PPA rate should be much higher** – The PPA rates should be increased to between \$0.50 and \$0.62 per kWh. A fair PPA rate would reflect cost savings to QEC, the GN and possibly the federal government including avoided operational and maintenance costs. WWF-Canada / NNC / Pembina would be happy to share further details and guidance around what a fair PPA rate would entail and how an increase in PPA rates can be achieved.
  - **Include technical aspects** – The policy should include “adders” for battery energy storage technologies, and must mandate grid reliability and define the interconnection process.

An example of a PPA rate that incorporates Inuit ownership value, O&M savings, locational value and diesel subsidies is included in Annex 1 (from NNC's URRC submission).

- Complementary to this CIPP policy, the GN could offer rebates or incentives to support the capital investment necessary to develop these projects.

## Conclusion

The Government of Nunavut should take the lead in developing in collaboration with QEC an effective CIPP policy and providing safeguards against price increases. Without meaningful changes to the current CIPP policy, little advancement of renewable energy will occur.

We would be happy to provide the Standing Committee with more information, policy examples, research and analysis backing our recommendations to show how a well-designed policy can advance renewable energy and create jobs and economic opportunities for Inuit-led renewable energy projects. We would also be happy to convene a working session to answer any questions you have, or provide further guidance as to what steps are necessary to remove some of the barriers restricting the ability to adopt good energy policy.

The Government of Nunavut's priorities, outlined in *Turaaqtavut*, speak to working towards “the well-being and self-reliance of our people and our communities” and to developing “our infrastructure and economy in ways that support a positive future for our people, our

communities, and our land". The GN needs to provide leadership and direction in the development of a CIPP policy to ensure it reflects these priorities.

## Annex #1 – PPA rate submission submitted by NNC

Table 5.1 – Proposed Fair Power Purchase Rate

Power purchase rate components	Avoided Costs (\$/kWh)	Transferred to Power Pricing Structure	Power Purchase Rate (\$/kWh)	Contributor
<b>Avoided Costs components</b>				
<i>QEC Plant Operations</i>	\$ 0.0583	60%	\$ 0.0350	QEC
<i>QEC Production Fuel</i>	\$ 0.2553	100%	\$ 0.2553	QEC
<i>QEC Technical Support Operations</i>	\$ 0.1019	60%	\$ 0.0612	QEC
<i>QEC Capital</i>	\$ 0.1734	60%	\$ 0.1041	QEC
<i>PPD O&amp;M</i>	\$ 0.0405	60%	\$ 0.0243	GN
<i>PPD Capital</i>	\$ 0.0094	60%	\$ 0.0056	GN
<i>PPD Environmental</i>	\$ 0.0016	100%	\$ 0.0016	GN
<b>Total Avoided Costs Components</b>	<b>\$ 0.6404</b>		<b>\$ 0.4870</b>	
<b>Value Added Components</b>				
		<b>Upset Limit</b>	<b>Lower Limit</b>	
<i>Inuit Ownership Value</i>		\$ 0.0465	\$ 0.0000	GN
<i>Locational Value</i>		\$ 0.0627	\$ 0.0000	QEC
<i>GN Subsidy Value</i>		\$ 0.0330	\$ 0.0330	GN
<b>Total Value Added Components</b>		<b>\$ 0.1422</b>	<b>\$ 0.0330</b>	
<b>TOTAL POWER PURCHASE PRICE</b>		<b>\$0.6292</b>	<b>\$0.5200</b>	

Table 5.2 – Summary and Proportional Share of Proposed Fair Power Purchase Rate

	Upset Limit (100% Inuit Owned project in Grise Fiord) - \$/kWh	Lower Limit (0% Inuit Owned Project in Iqaluit) - \$/kWh
<i>QEC Contribution</i>	\$ 0.5182	\$ 0.4555
<i>GN Contribution</i>	\$ 0.1110	\$ 0.0645
<b>FAIR POWER PURCHASE PRICE</b>	<b>\$ 0.6292</b>	<b>\$ 0.5200</b>