



# **Standing Committee on Oversight of Government Operations and Public Accounts**

## ***Report on the Review of the 2016-2017 Annual Report and 2017-2021 Corporate Plan of the Qulliq Energy Corporation***

**2<sup>nd</sup> Session of the 5<sup>th</sup> Legislative Assembly of Nunavut  
Spring 2019 Sitting**

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## Introduction

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The Standing Committee on Oversight of Government Operations and Public Accounts held a hearing on the 2016-2017 annual report and the 2017-2021 corporate plan of the Qulliq Energy Corporation from September 27-28, 2018.

The standing committee's hearing was held in the Chamber of the Legislative Assembly and was televised live across the territory. The hearing was open to the public and news media to observe from the Visitors' Gallery. The transcript from the standing committee's hearing may be downloaded from the Legislative Assembly's website.

The standing committee notes its appreciation to the President of the Qulliq Energy Corporation for appearing before the standing committee.



# Observations and Recommendations

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**Issue: Board Governance and Status of the Establishment of a Qulliq Fuel Corporation**

The issue of statutorily establishing an audit committee of the board of directors of the Qulliq Energy Corporation was raised during the standing committee's hearing. Subsequent to the standing committee's hearing, Bill 12, *An Act to Amend the Qulliq Energy Corporation Act*, was introduced in the Legislative Assembly. The Bill received Assent on November 8, 2018. Among other measures, the Bill added the following provision to the parent statute:

**Audit committee**

(3) The Board shall establish an audit committee to ensure the critical and objective oversight of the Corporation's

(a) reporting of financial information; and

(b) practices of strategic management and financial control.

**Other committees**

(4) The Board may establish any other committee it considers appropriate.

On May 16, 2002, the Government of Nunavut's Ikuma II Report was tabled in the Legislative Assembly. This report recommended the establishment of a new "Qulliq Fuel Corporation," which would assume the responsibilities of the Petroleum Products Division of the Department of Community and Government Services and which would operate alongside the power corporation. During the standing committee's hearing, the Qulliq Energy Corporation's lead witness provided the following testimony:

"If the government approached us to do that, I would certainly be willing to explore that option and see if it was the best option for the Petroleum Products Division, us, and Nunavummiut. I'm not opposed to it. As you can imagine, I'm trying to measure what I say in terms of a response to that question. We're open to it. We're not opposed to it."

**Standing Committee Recommendation #1:**

**The standing committee recommends** that the Government of Nunavut's response to this report include a detailed update on the membership and activities undertaken to date by the audit committee of the board of directors of the Qulliq Energy Corporation.

**The standing committee further recommends** that the Government of Nunavut's response to this report clarify its position concerning the establishment of a Qulliq Fuel Corporation.

**Issue: Human Resources Management**

A number of issues concerning human resources management at the Qulliq Energy Corporation were raised during the standing committee's hearing.

The Qulliq Energy Corporation's 2017-2021 corporate plan indicated that the Board of Directors was to "undertake a policy review process to ensure the corporate policies recognize the Qulliq Energy Corporation's operational requirements and to the fullest extent possible align with the Government of Nunavut's *Financial Administration Manual, Human Resources Manual* and all other Government of Nunavut policies, as applicable." This was to have been accomplished through an initiative to "review human resources policies to assess and revise to ensure alignment with the Government of Nunavut." It also indicated that one of the corporation's priorities has been to "ensure employee overtime is more effectively measured and reflected in the corporate financial statements." The Qulliq Energy Corporation's 2018-2021 corporate plan indicated that "A policy committee was established to review and revise current human resources policies. The committee will develop a plan to adopt Government of Nunavut directives applicable to the Qulliq Energy Corporation and draft new policies to align with the Government of Nunavut."

**Standing Committee Recommendation #2:**

**The standing committee recommends that** that the Government of Nunavut's response to this report describe, in detail, the results of the Qulliq Energy Corporation's review of its human resources policies that was referred to in its 2017-2021 and 2018-2021 corporate plans.

**The standing committee further recommends** that the Government of Nunavut's response to this report describe, in detail, the Qulliq Energy Corporation's casual staffing process, including the process for advertising casual employment opportunities; clarify the extent to which the process conforms to Directive 515 ("Casual Employment") of the Government of Nunavut's *Human Resources Manual*; and provide a detailed listing of casual appointments made during the 2017-2018 and 2018-2019 fiscal years.

**The standing committee further recommends** that the Qulliq Energy Corporation make its corporate and human resources policies publicly available through posting on its website.

**The standing committee further recommends** that the Government of Nunavut's response to this report provide, in a comparable format to that which was included in Return to Written Question 3-5(2), a detailed breakdown of the Qulliq Energy Corporation's expenditures on overtime pay during the 2017-2018 and 2018-2019 fiscal years; and that this information be included in future annual reports of the Qulliq Energy Corporation.

**Issue:           Reviews of the Nunavut Electricity Subsidy Program, the  
Public Housing Support Program and the Affordable Energy Fund**

Information published by the Qulliq Energy Corporation in its most current corporate plan indicates that:

“Two subsidies offered through the Government of Nunavut are the User Pay Program (also known as the Public Housing Power Support Program) and the Nunavut Electricity Subsidy Program. Residential customers in public housing are able to access the User Pay Program. Eligible customers in the program are billed at a rate of 6.0¢/kWh for their power usage. The Qulliq Energy Corporation invoices the Nunavut Housing Corporation for the difference between the approved residential rate and the 6.0¢/kWh for customers in this program. The Nunavut Electricity Subsidy Program (NESP) is offered to all other qualifying residential customers across the territory. The subsidy is based on 50% of the Iqaluit residential electricity rate and it is applied on the first 700 kWh consumed each month between April and September, and on the first 1,000 kWh consumed each month between October and March. The Qulliq Energy Corporation applies the NESP subsidy directly to qualifying customers’ power bills and invoices the GN Department of Finance for the difference between the approved residential rate and the NESP subsidy.”

On June 1, 2018, the Qulliq Energy Corporation announced that:

“The Qulliq Energy Corporation’s proposal to shift from the current varied rate structure to a territory-wide rate structure was not approved ... after consideration of the Utility Rates Review Council’s final report on the General Rate Application, the Qulliq Energy Corporation lowered its proposed rate increase from 7.6% to 6.6%. The increase will affect all residential and commercial customers, with the exception of customers in public housing. As a result of the decision to keep the current rate structure, the Executive Council recommended a review of the Nunavut Electricity Subsidy Program to evaluate the range of different rates currently charged to each community ... As instructed by [the Minister], the Qulliq Energy Corporation is committed to working closely with the Government of Nunavut to assess the current subsidy program administered through the Department of Finance.”

The Qulliq Energy Corporation’s 2017-2018 annual report, which was published subsequent to the standing committee’s hearing, indicates that:

“The Qulliq Energy Corporation wrote off uncollectable and statute-barred receivables with values greater than \$500.00, amounting to \$1,867,079.20 for the fiscal year ending March 31, 2018. The amount reported for the Nunavut Housing Corporation [\$748,872.67] represents 257 very old accounts.”

On November 1, 2007, the provisions in the *Qulliq Energy Corporation Act* providing for the creation of an Affordable Energy Fund came into force. Under this legislation, the purpose of the Affordable Energy Fund is to “hold money appropriated to it in order, directly or indirectly, to subsidize the cost of energy or otherwise make energy more affordable.” In 2014, a standing committee of the Legislative Assembly held a televised hearing on the most recent annual report and corporate plan of the Qulliq Energy Corporation. One of the standing committee’s recommendations was that the government should clarify responsibility for the administration of the Affordable Energy Fund. The formal response to the standing committee indicated that the government “... has questioned whether such a Fund is allowed under the *Financial Administration Act* .... Finance plans to work with QEC to remove this reference from the *Qulliq Energy Corporation Act*.”

During the standing committee’s September 2018 hearing, the Qulliq Energy Corporation’s lead witness provided the following testimony:

“... the *Qulliq Energy Corporation Act* is currently being revised and will be before the legislature certainly by the winter sitting. Part of the discussion was surrounding removing that provision from the Act. After discussion with the Government of Nunavut, it was decided to leave the reference to the fund in the Act in case it became applicable at some point in the future. The discussion in terms of whose position it was, it was really the Government of Nunavut’s position that going forward there may be some application to that fund. The Qulliq Energy Corporation’s position is that we thought that because there was no activity in that fund, it may be reasonable to have it removed from the Act, but it is not going through as part of this revision.”

**Standing Committee Recommendation #3:**

**The standing committee recommends** that the Government of Nunavut’s response to this report include a detailed update on the status of its review of the Nunavut Electricity Subsidy Program.

**The standing committee further recommends** that the Government of Nunavut’s response to this report include a detailed update on the status of the Public Housing Support Program, including the current status of arrears.

**The standing committee further recommends** that the Government of Nunavut’s response to this report include a detailed update on the status of the Affordable Energy Fund.

**Issue: Environmental Remediation of Contaminated Sites**

Significant discussion took place during the standing committee's hearing concerning the issue of environmental remediation of contaminated sites. The Qulliq Energy Corporation's 2017-2018 annual report, which was published subsequent to the standing committee's hearing, indicates that:

"The corporation has identified 27 sites (2016-2017: 25 sites) where the concentration of petroleum hydrocarbons and other pollutants in the soil exceeds environmental standards. The contamination of certain of these sites occurred when other parties were responsible for the use of and/or held tenure to the sites. Management has estimated that remediation would cost approximately \$39.0 million (2016-2017: \$38.0 million). No environmental liability provision for remediation of these sites has been recognized in these financial statements as there is no legal requirement to remediate these sites; nor does management have the intention to remediate any of the sites. Going forward, an environmental liability provision for the remediation of any of these sites will be recognized if it is determined that public health is at risk. The corporation has a monitoring program in place to ensure that the identified contaminated sites do not harm persons or the environment."

The extent to which the federal government will assume responsibility for the cost of any or all of the remediation work remains unclear. During the standing committee's hearing, the Qulliq Energy Corporation's lead witness provided the following testimony:

"A number of years ago it was decided that the Government of Nunavut would take the lead on this file, in part because their issue is larger than the issue that the Qulliq Energy Corporation faces on this very same issue. It was decided that they would pursue any further action with the Government of Canada. I can't comment on more that stands. Unfortunately I have not been briefed on where that file stands currently with the Government of Nunavut and the Government of Canada."

**Standing Committee Recommendation #4:**

**The standing committee recommends** that the Government of Nunavut's response to this report include a detailed update on the status of remediation work in relation to the Qulliq Energy Corporation's inventory of 27 contaminated sites.

**The standing committee further recommends** that the Government of Nunavut's response to this report include a detailed chronology of actions taken by the Government of Nunavut and the Qulliq Energy Corporation since April 1, 2015, to resolve outstanding jurisdictional issues with the Government of Canada related to responsibility for the Qulliq Energy Corporation's inventory of contaminated sites that were inherited from the Northern Canada Power Commission.

**Issue:           Alternative Energy and the Arctic Energy Fund**

Significant discussion took place during the standing committee's September 2018 hearing concerning the issue of alternative energy. This issue was also discussed on the occasion of the standing committee's televised hearing on the 2018 *Report of the Auditor General of Canada - Climate Change in Nunavut*, which was held from April 30, 2018-May 1, 2018.

The government's response to the standing committee's report on its review of the report of the Auditor General of Canada was tabled in the House on October 23, 2018. It indicated that:

“The Qulliq Energy Corporation will actively participate in the Government of Nunavut's action plan for the territory's renewable energy priorities and targets. Once a clear plan has been established, QEC will review the territorial objectives within the context of the Corporation's unique operating environment, and develop a QEC specific action plan and report accordingly. QEC anticipates that its small rate base, along with financial, geographical, and technical challenges, will impact the deployment of renewable energy technology and subsequently any related GHG reduction targets. The achievement of these targets will need to be reconciled with the Corporation's primary objective of delivering reliable and affordable energy in an Arctic setting. Renewable energy targets that increase Nunavut's electricity rates, already the highest in the country, will directly affect customers across the territory. Outside of the larger GN framework, the Corporation has already started renewable energy initiatives that do not affect electricity rates. These practical solutions will be important in meeting any proposed GHG reduction targets. The Net Metering program, whereby qualified customers are able to receive credits towards their power bill for renewable energy they produce and feed back into the grid, officially launched in April and QEC continues to accept applications. More ambitiously, with legislative approval, QEC expects to commence its Independent Power Producer program in 2019, enabling further renewable energy generation capacity in Nunavut and reductions in GHG emissions. Working within these technical and financial limitations, incorporating a larger share of renewable energy in Nunavut's generation capacity mix is a jointly held goal of QEC and the GN. To date, QEC has completed, or is in the process of undertaking, multiple feasibility and cost surveys for renewable and alternative technologies. Most prominently, these technologies include Wind and Solar, Hydroelectric, Geothermal, Biomass/Waste, and Nuclear.”

In January of 2019, the Government of Nunavut submitted its Long-Term Infrastructure Plan to the federal government under its Investing in Canada Infrastructure Program.



On May 21, 2019, the federal and territorial governments jointly announced that:

“The first two projects will see the replacement of seven diesel power generators in six communities: Rankin Inlet, Coral Harbour, Chesterfield Inlet, Pond Inlet, Clyde River and Whale Cove. These projects will improve energy efficiency and reliability while increasing the overall energy production capacity. The third project consists of building a renewable solar energy and storage system that will be connected to the power plant in Kugluktuk. This project, the first hybrid solar/diesel power plant managed by the Qulliq Energy Corporation in Nunavut, will be used to demonstrate the viability and performance of this hybrid technology in an Arctic climate. It will also provide an alternative source of energy for the community, which currently relies on diesel-powered generators. The fourth project will rehabilitate the sewage lagoon in Kugaaruk in order to increase the existing capacity to treat and manage wastewater. The project includes the construction of a temporary wastewater management system that will be used to remove content from the current lagoon to ensure proper cleaning and preparation for full construction. As a result, residents will have more reliable wastewater treatment services. The Government of Canada is investing more than \$18.6 million in three green energy projects through the Arctic Energy Fund and in one project under the Green Infrastructure Stream of the Investing in Canada infrastructure plan. The Government Nunavut is contributing over \$1.6 million for the wastewater project while Qulliq Energy Corporation is contributing more than \$7.6 million in the energy projects.”

**Standing Committee Recommendation #5:**

**The standing committee recommends** that the Government of Nunavut’s response to this report include a detailed update on the status of its “action plan for the territory’s renewable energy priorities and targets.”

**The standing committee further recommends** that the Government of Nunavut’s response to this report include a detailed update on the status of the Qulliq Energy Corporation’s net metering and independent power producer programs, including the number and location of participants and/or projects to date.

**The standing committee further recommends** that the Government of Nunavut’s response to this report include a detailed update on the status of the Qulliq Energy Corporation’s current initiatives related to wind/solar, geothermal, nuclear, waste/biomass and hydroelectric power.

**The standing committee further recommends** that the Government of Nunavut’s response to this report include a detailed update on the status of its submissions on behalf of the Qulliq Energy Corporation to the Arctic Energy Fund stream of the federal government’s Investing in Canada Infrastructure Program.