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3  
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5  
6 August 13, 2010

7  
8 Mr. Joe Acorn  
9 Chair of the Board  
10 NWT Public Utilities Board  
11 #203-62 Woodland Drive  
12 PO Box 4211  
13 Hay River, NT X0E 1G1

14  
15 Dear Mr. Acorn:

16  
17 **Re: Application to Implement Electricity Rate Policy Guidelines**

18  
19 **INTRODUCTION AND REQUESTED APPROVALS**

20  
21 In accordance with the GNWT Electricity Rate Policy Guidelines issued July 9, 2010,  
22 and the Northwest Territories Public Utilities Board (“Board” or “PUB”) letter dated July  
23 26, 2010, the Northwest Territories Power Corporation (“NTPC” or “the Corporation”)  
24 hereby makes application to the PUB for adjustments to its base rates and existing rate  
25 riders.<sup>1</sup>

26  
27 This Application sets out the Corporation’s proposed approach to implementing the  
28 Electricity Rate Policy Guidelines. The Application addresses the following requested  
29 approvals:

- 30
- 31 • **Adjustments to Base Rates:** The Corporation’s proposed adjustments to Base  
32 Rates are set out in Schedule 1.1. Base rates proposals have been developed  
33 consistent with the GNWT Electricity Rate Policy Guidelines. Under these  
34 proposed Base Rates, many non-government customers in the Thermal Zone will  
35 see a rate decrease and no customer classes will see a rate increase relative to  
36 rates in place October 1, 2009. Schedules 1.3 through 1.9 set out additional  
37 detail in support of the requested Base Rate adjustments.
- 38

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<sup>1</sup> A copy of the Board’s letter and the GNWT guidelines are included in Attachment A to this Application.

- 1 • **Terminate Existing Shortfall Riders:** The Corporation is applying to terminate  
2 the existing shortfall rider and discharge the remaining balance in the account.  
3 Further details are provided in Schedule 2.1.  
4
- 5 • **Rate Stabilization Fund Adjustments and Termination of Riders:** The  
6 Corporation is proposing certain changes to the existing fuel and water  
7 stabilization funds, consistent with the Guidelines. The Corporation is also  
8 applying to terminate the existing rate stabilization fund riders. Further details in  
9 support of these changes are provided in Schedules 3.1 through 3.13.  
10
- 11 • **Confirmation of Accounting Treatment for Rate Stabilization Fund:** The  
12 Corporation seeks approval and confirmation from the PUB to maintain the  
13 stabilization fund as per established accounting practice, for the benefit of  
14 ratepayers.  
15

16 The GNWT Electricity Rate Policy Guidelines provide the following broad policy  
17 guidelines for the review of the Corporation's rates:  
18

- 19 1. Electricity rates are to be set on a zoned basis for four zones (Snare, Taltson,  
20 Norman Wells and Thermal).  
21
- 22 2. Electricity rates for rate classes are to be the same in each zone, with the  
23 exception of Government customer rate classes.  
24
- 25 3. Government customers may have higher rates than non-government customers  
26 of the same class and will continue to vary by community.  
27
- 28 4. All costs included in a utility's revenue requirement that do not relate specifically  
29 to providing service in a single community or zone should be shared among all of  
30 the utility's zones, equally weighted by energy sales (per kWh).  
31
- 32 5. In assessing the fair return on the ratebase of NTPC, the Board should permit  
33 NTPC to request a downward adjustment in the return on equity in the Thermal  
34 Zone as compared to a fair level of return on equity.  
35
- 36 6. The Board should consider establishing territorial fuel and low water riders on a  
37 per utility basis.  
38

1 7. In implementing the GNWT Electricity Rate Policy Guidelines, should the Board  
2 find it necessary to deviate from the Guidelines, the Board should provide such  
3 recommendation to the Minister Responsible for the Public Utilities Board.  
4

5 8. Transition Provisions including:

6 a. The Board should implement the Electricity Rate Policy Guidelines by  
7 October, 2010.

8 b. In implementing the electricity rate policy transition, the Board should  
9 ensure electricity Base Rates for all NTPC customers following the initial  
10 electricity rate adjustments will not exceed the levels of electricity Base  
11 Rates plus Rate Riders applicable for the same level of consumption  
12 effective on October 1, 2009.

13 c. Until such time as NTPC's next GRA, Norman Wells should remain as its  
14 own zone and not part of the Thermal Zone. The Board should ensure  
15 electricity base rates for Norman Wells customer classes following the  
16 initial electricity rate adjustments will equal the levels of electricity Base  
17 Rates plus Rate Riders applicable for the same level of consumption  
18 effective on October 1, 2009.

19 d. In implementing the electricity rate policy transition, the Board should  
20 seek to target an Interest Coverage Ratio of 1.5 on NTPC's Thermal Zone  
21 rate base.  
22

23 In its letter dated July 26, 2010, the Board provided the following additional information  
24 for consideration:  
25

26 • Guideline 1: NUL-YK is a part of the Snare Zone and NUL-NWT hydro is a part of  
27 the Taltson Zone.  
28

29 • Guideline 4: To be consistent, head office and general operational costs are to  
30 be apportioned to customer classes within a zone according to the same per  
31 kWh method as used to allocate those costs to the zones.  
32

33 • Guideline 6: NTPC is to propose a threshold for activation of the new territorial  
34 fuel and water rider. NTPC is also to use the new threshold, the base fuel prices  
35 and updated fuel forecasts for the next year to assess whether or not the  
36 territorial fuel and water rider will need to be active as of the implementation date  
37 of the new rates. If yes, at what level.  
38

- 1       • Guideline 7: If the implementation of these guidelines creates a revenue shortfall  
2       or other issues such that compliance cannot be achieved then the NTPC is to  
3       inform the Board in the application and propose possible alternatives to establish  
4       a clear track record of the changes in revenues and rates.  
5

6       The Board also provided the following guidance in its July 26, 2010 letter:  
7

- 8       • The proceeding is only a rate rebalancing exercise. The Board is not requesting  
9       or seeking updated forecasts on sales, costs, revenues, capital projects etc.  
10       Similarly the Board is not seeking or expecting a comparison of actuals to  
11       forecasts since the previous general rate application.  
12
- 13       • NTPC is to use its approved revenue requirement and forecasts from the  
14       previous GRA to rebalance the rates in accordance with these guidelines. In  
15       setting the rates, Board standards limiting the magnitude of rate changes do not  
16       apply.  
17
- 18       • NTPC is also to set the rates such that each zone and customer class has rates  
19       set to 100% of the revenue cost ratio for each zone and for each customer class  
20       within that zone.  
21

22       In developing its proposals, the Corporation has attempted to satisfy all of the GNWT  
23       and Board guidelines. Where the Corporation was unable to completely implement a  
24       guideline, further details are provided.  
25

## 26       **PROPOSED CHANGES TO BASE RATES** 27

28       The Corporation's proposed Base Rates and supporting details are set out in Schedules  
29       1.1 through 1.9. The Corporation has developed Base Rate proposals consistent with  
30       the GNWT Guidelines. Information used to prepare the Application is based on the  
31       2007/08 test year forecasts reviewed and approved by the Board. It should be noted the  
32       Corporation has not been able to complete a redesign of its cost-of-service model to fully  
33       implement the necessary methodology changes at the rate class level. Instead, the  
34       Corporation is providing a series of supporting schedules illustrating rate zone level  
35       information.  
36

37       Based on the foregoing, the Corporation has prepared the following schedules that  
38       illustrate the changes to base rates proposed for December 1, 2010:  
39

- 1       • **Schedule 1.1: Proposed Rate and Rider Change Summary** – This schedule  
2 shows, by community, the base rates by class, fuel riders, water stabilization  
3 fund riders, and shortfall riders in place effective October 1, 2009 and compares  
4 them to the proposed base rates that would take effect December 1, 2010.  
5
- 6       • **Schedule 1.2: Proposed Rate and Rider [Percentage] Change Summary** –  
7 This Schedule shows the percentage change from rates and riders in place  
8 effective October 1, 2009 to the proposed base rates by community and rate  
9 class.  
10
- 11       • **Schedule 1.3: NTPC Approved 2007/08 Revenue Requirement** - This  
12 schedule illustrates the current revenue requirement components by rate zone,  
13 including the allocation of Head Office costs to each rate zone, based on  
14 approvals in Board Decisions 19-2007 and 16-2008.<sup>2</sup>  
15
- 16       • **Schedule 1.4: Proposed Adjustments to NTPC 2007/08 Approved Revenue**  
17 **Requirement by Rate Zone** – This schedule shows the proposed revenue  
18 requirement adjustments by rate zone that result from implementing the  
19 Electricity Rate Policy Guidelines. Specifically, Schedule 1.4 reflects the following  
20 adjustments:  
21       – Consistent with Guideline 4, Head Office costs have been reallocated to each  
22 rate zone based on the share of energy sales in kWh. More details on these  
23 adjustments are provided in Schedule 1.5.  
24       – Consistent with Guidelines 5 and 8 (d), return on ratebase has been adjusted  
25 to remove the return on equity allowance (ROE) for the Thermal Zone and  
26 replace it with a 1.5 interest coverage allowance. More details on these  
27 adjustments are provided in Schedule 1.6.  
28
- 29       • **Schedule 1.5: Head Office Costs Reallocation by Rate Zone** – This schedule  
30 shows the reallocation of head office costs required to implement Guideline 4:  
31       – First total energy sales (kWh) from the 2007/08 test year are used to  
32 calculate the energy allocator by rate zone (Columns A and B).  
33       – Columns C through F show the existing 2007/08 Head Office cost allocations  
34 broken out by Ratebase; O&M (including Amortization Expense) and Return  
35 on Ratebase.

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<sup>2</sup> Schedule 1.3 has been adjusted relative to information filed in NTPC's 2006/08 Phase II Application to correct certain minor errors in the allocation of some costs and revenues to specific communities. The adjustments do not affect total Corporate wide approved revenue requirements.

- 1           - Columns G through J show the reallocation of these costs to each rate zone  
2           based on the energy allocator in Column B.
- 3           - Columns K through L show the net adjustments in dollar terms and  
4           percentage terms.
- 5           -
- 6           • **Schedule 1.6: Return on Equity and Interest Coverage Adjustment**  
7           **Summary by Rate Zone** – This schedule shows the adjustments to return on  
8           ratebase required to implement Guidelines 5 and 8 (d):
- 9           - Columns A through E show the 2007/08 approved total ratebase by rate  
10          zone, the adjustments to rate base by rate zone illustrated in Schedule 1.5  
11          and the resulting return on ratebase by rate zone, further breaking it down by  
12          Head Office and Operations &Support, and Plant Specific assets in Columns  
13          D and E.
- 14          - Columns F through H calculate the revised return on ratebase, with the total  
15          given in Column F and again further breaking it down by Head Office and  
16          Operations & Support, and Plant Specific Assets in Columns G and H.
- 17          - Column I removes the ROE allowance from the return on ratebase for Plant  
18          Specific Assets only for the Thermal Zone.<sup>3</sup>
- 19          - Column J calculates a 1.5 interest coverage allowance to replace the ROE  
20          allowance subtracted from Plant Specific Assets for the Thermal Zone.
- 21          - Column K shows the revised return on ratebase by rate zone and Column L  
22          shows the total dollar value of adjustments to return on ratebase by zone.
- 23
- 24          • **Schedule 1.7: Summary of Revenue Requirement Adjustments by Rate**  
25          **Zone** – This schedule summarizes the changes to revenue requirement by rate  
26          zone. The net effect of the adjustments reduces the Corporation’s overall  
27          revenue requirement by \$1.120 million (as a result of replacing the ROE  
28          allowance with an interest coverage allowance for the Thermal Zone).
- 29
- 30          • **Schedule 1.8: Proof of Revenue by Communities**– This schedule shows the  
31          revenue forecast by community and rate class at proposed rates:
- 32          - Columns A through G show the 2007/08 Energy Sales in MWh. Forecast  
33          energy sales have been split between Government and Non-Government  
34          customers based on 2005/06 actual Government and Non-Government  
35          shares of total sales.
- 36          - Columns H through N show the forecast revenue from proposed energy  
37          rates.

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<sup>3</sup> 48.36% equity and 9.25% ROE approved in Board Decision 19-2007 for 2007/08 test year.

- 1           - Columns O through S show the forecast revenues from customer charges
- 2           and demand charges.
- 3           - Columns T through X show the total forecast revenues at proposed rates.
- 4           - Columns Y through AB show the forecast revenues at proposed rates
- 5           compared to revenue requirement and the resulting revenue to cost coverage
- 6           ratios.

7

8           • **Schedule 1.9: Revenue Cost Coverage Comparison** – This schedule  
9           compares the revised rate revenues and revenue requirements by rate zone. The  
10          following observations can be made with respect to the revenue to cost coverage  
11          ratios:

- 12          - The proposed base rate adjustments achieve Guideline 8 (b) which indicates  
13          Base Rates following the initial electricity rate adjustments will not exceed the  
14          levels of electricity Base Rates plus Rate Riders applicable for the same level  
15          of consumption effective on October 1, 2009.
- 16          - The proposed base rate adjustments result in revenue to cost coverage ratios  
17          for the Snare, Taltson, and Thermal Zones between 95% to 105%; within the  
18          Board's traditional zone of reasonableness.
- 19          - The revenue to cost coverage ratio for the Norman Wells Zone exceeds  
20          105%. However, adjustments to base rates in this zone are precluded by  
21          Guideline 8 (c) which states: "The Board should ensure electricity base rates  
22          for Norman Wells customer classes following the initial electricity rate  
23          adjustments will equal the levels of electricity Base Rates plus Rate Riders  
24          applicable for the same level of consumption effective on October 1, 2009.
- 25          - The Corporation was not able to achieve the Board's request that rates for  
26          each zone and customer class be at 100% revenue to cost coverage ratios.  
27          This outcome could not be achieved combined with the requirements of  
28          Guidelines 8 (b) and 8 (c).

29

30

31          With respect to Norman Wells, Recommendation #8 of the "Creating a Brighter Future"  
32          Report<sup>4</sup> report recommended establishing three rate zones, with Norman Wells included  
33          in the Thermal Zone. On a transition basis, the GNWT Guidelines indicate that Norman  
34          Wells should remain as its own rate zone until such time as NTPC's next GRA.  
35          Therefore the revenue to cost coverage ratio for the Norman Wells Zone is a transitional  
36          issue that would be resolved at the time of NTPC's next GRA when Norman Wells is  
37          merged with the Thermal Zone.

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<sup>4</sup> Creating a Brighter Future: A review of electricity regulation, rates and subsidy programs in the Northwest Territories, September, 2009.

1 **PROPOSED CHANGES TO SHORTFALL RIDERS**

2  
3 Shortfall riders related to the 2006/07 and 2007/08 test years have been in place since  
4 January 1, 2008 as first approved in Decision 20-2007. Adjustments to the shortfall  
5 riders were approved in Decision 26-2008 and have been in place since November 1,  
6 2008.

7  
8 At present, the shortfall riders have fully collected the outstanding shortfall amounts. As  
9 a result, a surplus owing to customers is accumulating. Schedule 2.1 shows the  
10 estimated shortfall surplus forecast as of November 30, 2010.

11  
12 NTPC is proposing to terminate the shortfall Rate Riders concurrent with the  
13 implementation of the proposed Base Rates. This will facilitate rate stability for  
14 customers when Base Rate adjustments are implemented. NTPC proposes to assign the  
15 surplus in the shortfall rider account against the balances in the territorial fuel and water  
16 stabilization fund. The Corporation will file a reconciliation of the shortfall rider collections  
17 and the transfer to the Territorial Fuel and Water Stabilization Fund within 60 days of the  
18 implementation of the Base Rate adjustments.

19  
20 **PROPOSED CHANGES TO RATE STABILIZATION FUND RIDERS**

21  
22 The Corporation currently maintains six rate stabilization funds: the Diesel Communities  
23 Fuel Fund, Inuvik Fuel Fund, Norman Wells Fuel Fund, the Fort Smith Fuel Fund, the  
24 Snare-Yellowknife Fuel Fund, and the Snare-Yellowknife Water Fund. There are  
25 currently Rate Riders in place for each Fund that were approved in Decision 26-2008.

26  
27 Schedule 3.1 shows the forecast balance in the funds effective December 1, 2010.  
28 NTPC is proposing the following revisions to the Stabilization Funds:

- 29  
30 1. Effective December 1, 2010, establish one Territory-wide Fuel and Water  
31 Stabilization Fund. The balance in the fund would continue to be calculated  
32 based on approved fuel prices, fuel efficiencies and long-term average hydro  
33 generation.  
34  
35 2. Effective December 1, 2010, transfer the surplus in the shortfall rider account to  
36 the Territory-wide Stabilization Fund.  
37

1           3. Establish a new trigger level for the Territory-wide Stabilization Fund of +/- \$5  
2           million. NTPC will monitor the effects of the proposed trigger level and review at  
3           the next GRA.  
4

5           Schedule 3.1 sets out the forecast balances as a result of these changes effective  
6           December 1, 2010. The forecast balance in the consolidated fund at December 1, 2010  
7           is estimated at approximately \$7.0 million, above the proposed trigger of \$5.0 million.  
8

9           However, in its response to the Brighter Futures Report, the GNWT committed \$6.0  
10          million in funding to offset the balances in the stabilization funds. To date, NTPC has not  
11          received any of this funding and understands further government approvals are required  
12          to formalize the funding commitment. It is expected the final approvals will be in place  
13          prior to the PUB issuing its Decision regarding rates effective December 1, 2010. For  
14          illustrative purposes, the Corporation has included forecast balances with and without  
15          the \$6.0 million (\$3.0 million in 2010/11 and \$3.0 million in 2011/12) GNWT financial  
16          contribution.  
17

18          Assuming the GNWT funding can be confirmed, the stabilization fund balances at  
19          December 1, 2010 would be below the proposed trigger level of \$5.0 million. At this time,  
20          the Corporation is applying to terminate the existing Stabilization Fund Riders  
21          concurrently with the implementation of the proposed Base Rate adjustments. The  
22          Corporation will continue to file Rate Stabilization Fund updates with the Board every six  
23          months, consistent with Decision 26-2008. NTPC will also provide an update to the  
24          Board when the GWNT funding commitment is confirmed and file updated schedules for  
25          the stabilization fund.  
26

27          In the event riders related to the consolidated fund are required in the future, NTPC  
28          would calculate the required riders on an equal cents per kWh basis for all customers,  
29          with the exception of NUL-NWT. At present, there is no Taltson water stabilization fund  
30          and NUL-NWT provides its own diesel generation. In the future, in the event a Taltson  
31          water stabilization fund becomes necessary, the Corporation would revisit the inclusion  
32          of sales to NUL-NWT in the calculation of the stabilization fund rider.

1 **PROPOSED CHANGES TO PROCEEDING SCHEDULE**

2

3 The Corporation has reviewed the Board's proceeding schedule. Due to the  
4 unavailability of key personnel during the proposed IR process, the Corporation is  
5 providing an alternative proposal. In the Corporation's view the alternative schedule  
6 would still provide sufficient time after receipt of the Board's decision to allow  
7 implementation effective December 1, 2010.

8

<b>Filing of NTPC Application</b>	<b>Aug. 13<sup>th</sup></b>
<b>IRs to NTPC</b>	<b>Sept. 8<sup>th</sup></b>
<b>NTPC Response to IRs</b>	<b>Sept. 15<sup>th</sup></b>
<b>Intervener Evidence</b>	<b>Sept. 22<sup>nd</sup></b>
<b>IRs to Interveners</b>	<b>Sept. 29<sup>th</sup></b>
<b>Interveners Response to IRs</b>	<b>Oct. 6<sup>th</sup></b>
<b>Argument</b>	<b>Oct. 20<sup>th</sup></b>
<b>Reply Argument</b>	<b>Oct. 27<sup>th</sup></b>
<b>Board Decision</b>	<b>Nov. 10<sup>th</sup></b>
<b>Implementation</b>	<b>Dec. 1<sup>st</sup></b>

9

10 In summary, it is the Corporation's view that the proposed adjustments to Base Rates  
11 represent a fair and transparent implementation of the Electricity Rate Policy Guidelines.  
12 Approving the proposed Base Rate adjustments, concurrent with terminating the existing  
13 Shortfall and Stabilization Fund Rate Riders will facilitate rate stability for customers.

14

15 Respectfully submitted,



16

17 Terence Courtoreille

18 Acting Director Finance & CFO