

**THE PUBLIC UTILITIES BOARD
OF THE
NORTHWEST TERRITORIES**

DECISION 16-2008

May 12, 2008

IN THE MATTER OF the Public Utilities Act, being Chapter 110 of the Revised Statutes of the Northwest Territories, 1988(Supp.), as amended.

AND IN THE MATTER OF an application by the Northwest Territories Power Corporation, for changes in the existing rates, tolls and charges for electrical energy and related services provided by the Northwest Territories Power Corporation to their customers within the Northwest Territories, more specifically seeking approval of the 2006/08 General Rate Application shortfalls and the charging of interest on the shortfalls.

THE PUBLIC UTILITIES BOARD

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Raj Retnanandan	Board Consultant
John Donihee	Board Counsel

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1. BACKGROUND

On December 31, 2007, the Northwest Territories Public Utilities Board (“**the Board**”) issued Decision 19-2007 with respect to the Northwest Territories Power Corporation’s (“**NTPC**”) 2nd refiling of its 2006/07 and 2007/08 Phase 1 General Rate Application. In this Decision, the Board determined that the NTPC’s revenue requirements were \$76.906 million and \$81.389 million for the test years 2006/07 and 2007/08, respectively.

Also on December 31, 2007, the Board issued Decision 20-2007 with respect to the NTPC application for interim rates pursuant to Decision 17-2007 Directive 12. The 06/07 and 07/08 revenue requirements that were approved by the Board in Decision 19-2007 were the basis for Decision 20-2007. In this Decision, the Board determined that the NTPC should collect the remaining 06/07 revenue shortfall of \$2.085 million by continuing the existing 06/07 shortfall riders for another 12 months, commencing January 1, 2008. The Board also approved an interim adjustment of the base rates starting January 1, 2008 to allow for full collection of the NTPC 07/08 revenue requirement on a go-forward basis. The 07/08 revenue shortfall that accumulated in the period between April 1, 2007 and January 1, 2008 would be the subject of a future NTPC application.

On January 30, 2008, the Board issued Decision 4-2008 with respect to the NTPC application for a review and variance of Directives 15 and 45 from Decision 13-2007. These two directives concerned the NTPC’s past and forecast brushing expenditures. In its Decision, the Board decided to vacate both Directives 15 and 45, as was requested by the NTPC. However, the Board also decided to vary Directive 14. Directive 14 originally approved brushing expenditures of \$393,000 for 06/07 and \$401,000 for 07/08. In Decision 4-2008, the Board varied Directive 14 by directing the NTPC to calculate its total 06/07

and 07/08 supplies and services expenses using forecast brushing expenses of \$126,000 for 06/07 and \$129,000 for 07/08.

The effect of this variance of Directive 14 was that there was a corresponding reduction in the overall 06/07 and 07/08 revenue requirements which were approved in Decision 19-2007. The reduced revenue requirements were \$76.639 million for 06/07 and \$81.117 million for 07/08. The Board directed the NTPC to reflect these reduced revenue requirements when the NTPC applied to the Board for the 07/08 shortfall rider.

2. APPLICATION

By letter dated March 31, 2008, NTPC submitted an application, pursuant to Decision 20-2007 and Decision 4-2008, requesting approval for the following:

- An **Adjustment to the 2006/07 and 2007/08 Revenue Requirements** for communities to reflect the revised brushing expenses in the test years 2006/07 and 2007/08.
- **Revised 2006/07 Shortfall Balance** reflecting short-term interest for the period April 1, 2007 through December 31, 2007 as well as approval to charge short-term interest to the outstanding balance of the shortfall receivable on a monthly basis.
- **Confirmation of 2007/08 Shortfall** reflecting amounts outstanding related to the 2007/08 Shortfall. The Corporation also seeks approval to charge short-term interest on the 2007/08 shortfall.

By letter dated April 7, 2008, the Board requested all interested parties to provide their comments regarding NTPC's application by April 14, 2008.

The Town of Inuvik ("**Inuvik**") provided their comments, by letter dated April 8, 2008 and the Board provided a response by letter, dated April 10, 2008.

By letter dated April 11, 2008, the consultant for the Thermal Generation Communities ("**TGC**") provided their comments. The Village of Fort Simpson ("**Fort Simpson**"), by letter dated April 14, 2008, provided their comments requesting that the Board dismiss the NTPC application.

By letter dated April 17, 2008, the NTPC provided a response to the comments by the TGC, the Village of Fort Simpson and the Town of Inuvik.

Adjustments to the 06/07 and 07/08 Revenue Requirements

The effect of Decision 4-2008 was to reduce the 06/07 revenue requirement by \$267,000 and the 07/08 revenue requirement by \$272,000. These reductions to the brushing expenditures were dealt with by the NTPC by distributing them amongst the communities in the same proportions as brushing expenditures had been assigned in the original Phase 1 application. These community-specific brushing reductions were detailed by the NTPC in Schedule 1.

NTPC 2006/07 and 2007/08 GRA Shortfall Interest Filing - March 2008
Schedule 1: 2006/07 & 2007/08 Revenue Requirement Adjustment for Brushing Expense

		2006/07			2007/08		
Plant Number	Community	2006/07 Brushing Expense Included in Refiling November 2007 (\$000s)	Board Approved 2006/07 Brushing Expense per Decision 4-2008 (\$000s)	Adjustment to 2006/07 Revenue Requirement (\$000s)	2007/08 Brushing Expense Included in Refiling November 2007 (\$000s)	Board Approved 2007/08 Brushing Expense per Decision 4-2008 (\$000s)	Adjustment to 2007/08 Revenue Requirement (\$000s)
101/108/109	YK Snare System	138	44	-94	141	45	-96
104	Wha Ti	0	0	0	0	0	0
105	Gameti	0	0	0	0	0	0
110	Lutsel K'e	0	0	0	0	0	0
201/203	Taltson System	173	55	-118	176	57	-119
205	Fort Simpson	4	1	-3	4	1	-3
206	Fort Liard	15	5	-10	16	5	-11
207	Wrigley	2	1	-1	2	1	-1
208	Nahanni Butte	0	0	0	0	0	0
209	Jean Marie River	1	0	-1	1	0	-1
301	Inuvik	60	19	-41	61	20	-41
304	Norman Wells	0	0	0	0	0	0
305	Tuktoyaktuk	0	0	0	0	0	0
306	Fort McPherson	0	0	0	0	0	0
307	Aklavik	0	0	0	0	0	0
308	Deline	0	0	0	0	0	0
309	Fort Good Hope	0	0	0	0	0	0
310	Tulit'a	0	0	0	0	0	0
311	Paulatuk	0	0	0	0	0	0
312	Sachs Harbour	0	0	0	0	0	0
313	Tsiigehtchie	0	0	0	0	0	0
314	Colville Lake	0	0	0	0	0	0
315	Ulukhaktok	0	0	0	0	0	0
	Total	393	126	-267	401	129	-272

Inuvik and Fort Simpson did not mention the allocation of the brushing expenditure reductions in their letters. The TGC stated in its letter that it agreed with the allocation method used by the NTPC.

06/07 Shortfall Balance

Taking the brushing expenditure reduction into account, the 06/07 shortfall balance at December 31, 2007 has been reduced from the \$2.085 million from Decision 20-2007 down to \$1.818 million. The calculations were shown in Columns A to H of Schedule 2.

NTPC 2006/07 and 2007/08 GRA Shortfall Interest Filing - March 2008
Schedule 2: 2006/07 Revenue Requirement & Shortfall Recovery

Plant Number	Community	2006/07 Revenue Under/Over Recovery		2006/07 Revenue Transferred from fuel riders at March 31, 2007 (\$000's)	Remaining 2006/07 Revenue Receivable (Payable) at March 31, 2007 per Column G of Schedule 1 from Decision 20-2007 (\$000's)	Receivable at March 31, 2007 Less: Brushing Adjustment (\$000's)	2006/07 Forecast Interim Rider Collection April 1, 2007 to December 31, 2007 per Column H of Schedule 1 from Decision 20-2007 (\$000's)	2006/07 Receivable at December 31, 2007 per Column I of Schedule 1 from Decision 20-2007 (\$000's)	Forecast Receivable at December 31, 2007 Less: Brushing Adjustment (\$000's)	Interest on Average Balance from April 1, 2007 through December 31, 2007 (\$000's)	I = (E-H)/2 * 4.53%	Balance Including Interest at December 31, 2007 (\$000's)
		2006/07 Shortfall Per Column D of Schedule 1 from Decision 20-2007 (\$000's)	received (paid back) thru interim rider to March 31, 2007 (\$000's)									
A	B	C	D = A - B - C	E	F	G	H	I	J = H + I			
101/106/109	Yk Snare System	3,503	692	0	2,811	2,717		891	797		81	878
104	Wha Ti	21	-4	123	-98	-98		-31	-31		-3	-34
105	Garnett	183	17	89	95	95		31	31		3	33
110	Lutsel K'e	97	-4	86	14	14		5	5		0	5
201/203	Taitson System	1,357	236	66	1,055	938		334	217		27	244
205	Fort Simpson	1,960	39	582	1,339	1,335		424	422		41	463
206	Fort Liars	607	18	204	386	376		122	112		11	123
207	Wrigley	275	13	51	212	210		67	66		6	72
208	Nahanni Butte	221	11	28	183	183		58	58		6	64
209	Jean Marie River	178	7	20	151	150		48	47		5	52
301	Inuvik	2,802	302	793	1,707	1,666		541	500		50	550
304	Norman Wells	592	-41	1,048	-416	-416		-132	-132		-13	-144
305	Tuktoyaktuk	-13	-52	305	-266	-266		-84	-84		-8	-92
306	Fort McPherson	453	35	241	178	178		66	66		6	62
307	Aklavik	-262	-39	205	-429	-429		-136	-136		-13	-149
308	Delina	206	3	187	16	16		5	5		0	6
309	Fort Good Hope	75	-32	204	-97	-97		-31	-31		-3	-34
310	Tulita	65	12	172	-119	-119		-38	-38		-4	-41
311	Pauiatuk	206	21	113	71	71		23	23		2	25
312	Sache Harbour	152	16	65	72	72		23	23		2	25
313	Tuigahtonio	15	-7	51	-29	-29		-9	-9		-1	-10
314	Coolville Lake	-124	-17	24	-131	-131		-41	-41		-4	-45
315	Ulukhaktok	-16	-21	138	-130	-130		-41	-41		-4	-45
	Total	12,554	1,295	4,773	6,577	6,310	4,492	2,085	1,818	188		2,006

No party disputed the NTPC's calculation of the 06/07 shortfall as being \$1.818 million as of December 31, 2007.

Interest on 06/07 Shortfall

The NTPC is seeking Board approval to apply short-term interest to the 06/07 shortfall for the period from April 1, 2007 to December 31, 2007 as well as approval to charge short-term interest to the outstanding balance of the shortfall on a monthly basis beyond December 31, 2007 until full collection.

For the period from April 1, 2007 to December 31, 2007, the NTPC calculated the average short-term interest rate using the weighted average of the Bank of

Canada Prime Business Interest Rate for the April to December 2007 period.
The calculation is shown in Table 1.

Table 1.
Weighted Average Bank of Canada Prime Business Interest Rate
April 2007 through December 2007²

Month	Days	Bank of Canada Prime Business Interest Rate
April	30	6.00%
May	31	6.00%
June	30	6.00%
July	31	6.25%
Aug	31	6.25%
Sept	30	6.25%
Oct	31	6.25%
Nov	30	6.25%
Dec	31	6.00%
Weighted Avg		6.14%
Pro-rated from Apr 07		4.63%

The application of the 4.63% interest rate is shown in Columns I and J of Schedule 2. The impact is that the 06/07 shortfall balance is increased by \$188,000 to \$2.006 million as of December 31, 2007.

For the period after December 31, 2007, the NTPC proposes to continue to apply short-term interest to the actual outstanding receivable monthly, using the Bank of Canada Prime Business interest rate. The NTPC will provide a reconciliation of the shortfall collections, monthly balances and interest once the shortfall is fully collected.

As support for the application of short-term interest, the NTPC refers to Decision 8-2002, in which the Board stated the following.

The Board considers it appropriate to consider granting carrying costs if there has been a significant regulatory lag and the carrying costs involved are material. Further, the regulatory lag before implementation of the rate adjustment should exceed a period of 12 months as short term situations will normally not involve amounts of material consequence.¹

The NTPC asserts that the interest on the 06/07 shortfall is material.

Inuvik and Fort Simpson both opposed the NTPC request for approval to charge short-term interest on the shortfalls and suggested that this application is the result of poor management of the NTPC. Inuvik suggested that the NTPC should look to recover these costs internally such as by eliminating the management bonuses.

The TGC provided a more detailed response which outlined the reasons that the TGC was opposing the NTPC application for approval to charge short-term interest. The TGC outlined 3 reasons for its opposition to the charging of short-term interest.

The TGC submit NTPC's proposals respecting interest collections on revenue shortfall amounts have no merit and should be rejected for the following reasons:

a) *The TGC note the 2006/08 GRA was filed on November 24, 2006, almost 8 months after the start of its first Test Year 2006/2007. Had it filed this GRA earlier in the first Test Year 2006/07, or even before this Test Year commenced, it would have received a Board Decision on final Revenue Requirements much earlier. We note, for example, Decision 13-2007 was issued on August 29, 2007; this is about 9 months after the GRA filing date. Hence, if NTPC had filed its GRA on March 1, 2006, the first date of its Test Year 2006/2007, it is likely the Board would have issued its Phase 1 Decision by November 2006, assuming the same 9-month lag period. That is, it would have received its Phase 1 Decision well within the first Test Year.*

Hence, the regulatory lag, if any, is caused strictly by the decision of management in choosing when to file the 2006/08 GRA. It could have filed earlier; it chose not to. If it had, it is likely most of the 2006/2007 shortfall would have been collected within the test year. Further, all of the 2007/08 shortfall would have been collected within this fiscal year, or soon thereafter. Therefore,

for it to now ask customers to pay interest on shortfall balances that arise from its decision to file late in the first Test Year is entirely unjustified. Management should not ask customers to pay for carrying costs that arise directly as a consequence of when the utility decides to come before the Board for rate relief. If the Board accepts the NTPC Application, there is no incentive for NTPC to file earlier in the first Test Year, or before this Test Year even commences.

b) The timing of NTPC's request to seek recovery is also somewhat surprising. It knew of the shortfall in the Test Years when it filed its GRA in November 2006, but decided not to ask for any interest in the GRA. Further, when it filed its first re-filing Application on October 1, 2007 in response to Board's Phase 1 Decision 13-2007, again there was no mention of any interest on outstanding shortfall balances. One must question why it took 6 months from the date of its first 2006/2008 re-filing Application to bring the issue of interest for the Board to consider. The TGC submit it is not an efficient use of the Board and intervenor resources to review and consider matters which could have been raised much earlier in the process.

c) NTPC's references previous Board Decisions where the Board has allowed recovery of interest on shortfalls. By its own admission, the Board has allowed the collection of such interest when the "shortfall balances...are collected over a substantial period." As noted previously, the only reason why part of the 2006/07 shortfall balance is still outstanding as at December 31, 2007 is because NTPC decided to delay its GRA filing some 8 months after the start of its first Test Year 2006/2007. A regulatory lag can only arise, in our view, if the regulatory process including the time taken by the regulator to issue its Decisions, is unreasonably long. This is consistent with the position of the Board in Decision 8-2002 that "carrying costs are only appropriate if there has been a significant regulatory lag and the carrying costs are material." In our view, the Board's process has been an efficient one in that it was able to complete the Phase 1 hearing and render its Decision within 9 months from the date of the 2006/2008 GRA filing. The regulatory lag in this instance only arises because of NTPC's decision to file late in the first Test Year.

The NTPC provided the following response to the TGC.

Regarding the question of regulatory lag, the Corporation noted the reasons for filing its 2006/08 GRA when it did in response to BR.NTPC-2(c). Specifically, the Corporation took the necessary time to address what would have been a significant increase in its revenue requirement and a corresponding shortfall in existing rates by examining:

... ways to reduce this shortfall, including, among other measures, choosing not to implement the higher amortization rates recommended by the amortization review. As a result, revenue requirement was reduced to \$79.9 million. This is a reduction of approximately \$5 million from the Corporation's original draft revenue requirement.

The Corporation's customers directly benefited from the additional time it took for Corporation to reduce its original draft revenue requirement. Further, the Board has already accounted for the timing of the Corporation's 2006108 GRA filing by reducing the Corporation's allowed 2006107 return on equity by 40 basis points. To now disallow collection of interest on the 2006107 shortfall is unreasonable as it would penalize the Corporation twice for the same issue.

The TGC also notes the nine months that elapsed between the Corporation filing its 2006/08 GRA (November 24, 2006) and the Board issuing its Decision 13-2007 (August 29, 2007). In the Corporation's view, that nine months, plus the additional four months that elapsed in between Decision 13-2007 and the Board's decision on the Corporation's 2nd Phase I Refiling (Decision 19-2007, December 31, 2007), could have been significantly reduced if a hearing and the consequent Phase I Refilings were avoided by a negotiated settlement. The Corporation understands, however, that the Board was of the view that an oral hearing of the Corporation's 2006/08 GRA was prudent because the Corporation's prior two GRA Phase I proceedings had been resolved by negotiated settlement. While the Corporation does not question the Board's view on an oral hearing, the Corporation should not bear the consequences of the time required to complete a litigated process.

Regarding the TGC's second reason that the Corporation failed to seek recovery of interest on its shortfalls when filing its 2006/08 GRA or its 1st Phase I Refiling, the Corporation notes that the Board, in Decision 20-2007, extended the Corporation's proposed collection period for the 2006107 shortfall balance from approximately 3.6 months to 12 months. The Board, in extending the collection period to 12 months, implicitly raised the question of who should bear the carrying costs related to a longer period. As noted above, the recovery of interest on revenue shortfalls merely keeps the Corporation whole on expenses it incurs in advance of collection through the shortfall rider. It would not be reasonable for the Board to require the Corporation to finance the carrying costs related to revenue shortfalls. That result would not be consistent with the Board's past decisions, including Decision 8-2002, and the TGC's submission should be dismissed.

07/08 Shortfall Balance

The NTPC is requesting Board confirmation of the 07/08 shortfall balance of \$11.856 million at March 31, 2008. The calculation of the 07/08 shortfall was shown in Columns A to I of Schedule 3. As later corrected by the NTPC, the formula for Column H should be “H = G – B” although the numbers in the column are correct.

NTPC 2006/07 and 2007/08 GRA Shortfall Interest Filing - March 2008
Schedule 3: 2007/08 Shortfall

Plant Number	Community	Forecast Revenue		Misc. Revenues (\$000's)	Revenue Under/(Over) Recovery in 2007/08 = 2007/08 Shortfall as at December 31, 2007 Filing (\$000's)	Less: Brushing Expense Adjustment per Decision 4-2008 (\$000's)	Adjusted 2007/08 Revenue Requirement (\$000's)	Revenues at Existing Rates per Decision 20-2007 (Schedule 4) (\$000's)	Increase in Revenue as a result of January 1, 2008 Rate Adjustment	Shortfall Including Brushing Revenue Requirement Adjustment and Estimated Interest on Mid-Year Balance (\$000's)	2007/08 Shortfall Including Interest as at March 31, 2008 (\$000's)	
		2007/08 Revenue Requirement by Community (Schedule 16 December 18 Filing) (\$000's)	April 1, 2007 to March 31, 2008 at existing rates per Schedule 2 of Filing (\$000's)									A
101/106/109	Yuk. Share System	27,479	22,763	132	4,584	-86	27,354	24,170	1,407	3,081	92	3,174
104	Wha Ti	1,320	1,236	13	71	0	1,320	1,265	42	42	1	43
105	Garnet	1,074	818	13	242	0	1,074	891	73	170	5	175
110	Lutsel K'e	1,094	937	13	144	0	1,094	990	53	91	3	94
201/203	Taltson System	6,676	4,935	141	1,601	-119	6,557	5,448	514	968	29	997
205	Fort Simpson	5,256	2,758	50	2,449	-3	5,254	3,116	359	2,087	63	2,150
206	Fort Liard	1,705	1,023	13	669	-11	1,694	1,133	110	548	16	564
207	Wrigley	888	538	10	339	-1	886	577	38	300	9	309
208	Nahanni Butte	632	384	6	242	0	632	386	2	240	7	247
209	Jean Marie River	484	271	5	208	-1	483	288	17	190	6	196
301	Inuvik	14,521	10,710	288	3,523	-41	14,479	11,777	1,066	2,415	72	2,487
304	Norman Wells	3,222	2,549	32	642	0	3,222	2,745	196	446	13	460
305	Tuktoyaktuk	2,538	2,406	22	210	0	2,538	2,454	58	152	5	157
306	Fort McPherson	2,257	1,685	21	551	0	2,257	1,841	196	395	12	407
307	Aklavik	1,650	1,546	20	104	0	1,650	1,587	41	63	2	65
308	Dehne	1,794	1,408	14	372	0	1,794	1,525	117	255	8	263
309	Fort Good Hope	1,788	1,654	12	121	0	1,788	1,707	63	69	2	70
310	Tulita	1,681	1,574	13	93	0	1,681	1,614	39	54	2	56
311	Paulatuk	1,383	1,158	9	216	0	1,383	1,225	68	148	4	152
312	Sachs Harbour	1,029	742	7	280	0	1,029	825	63	177	5	182
313	Tsigiletoic	811	744	10	56	0	811	766	22	34	1	35
314	Colville Lake	683	755	6	-77	0	683	737	-17	-60	-2	-62
315	Ukhnaotok	1,306	1,320	13	-27	0	1,306	1,321	1	-28	-1	-29
Total		81,389	63,915	862	16,612	-272	81,117	68,389	4,485	11,856	356	12,211

The TGC did not dispute the \$11.856 million as the amount of the 07/08 shortfall but stated that the TGC did not see how the amounts in Column H were calculated. This matter was clarified by the NTPC in its response by providing the correct formula for Column H.

Interest on 07/08 Shortfall

The NTPC is seeking Board approval to apply short-term interest to the 07/08 shortfall on a mid-year basis for 2007/08 as well as approval to charge short-term interest on the full balance of the shortfall effective April 1, 2008.

The NTPC calculated the short-term interest rate applicable on the mid-year balance for 2007/08 in Table 2.

Table 2.
Weighted Average Bank of Canada Prime Business Interest Rate
April 2007 through March 2008

<u>Month</u>	<u>Days</u>	<u>Bank of Canada Prime Business Interest Rate</u>
April	30	6.00%
May	31	6.00%
June	30	6.00%
July	31	6.25%
Aug	31	6.25%
Sept	30	6.25%
Oct	31	6.25%
Nov	30	6.25%
Dec	31	6.00%
Jan	31	5.75%
Feb	29	5.75%
Mar	31	5.25%
Weighted Avg		6.00%

The application of the 6.00% interest rate is shown in Columns J and K of Schedule 3. The impact is that the 07/08 shortfall balance is increased by \$356,000 to \$12.211 million as of March 31, 2008. After March 31, 2008, the NTPC proposes to continue to apply short-term interest to the actual outstanding receivable monthly, using the Bank of Canada Prime Business interest rate.

The arguments by the TGC against the charging of interest and the response by the NTPC are already provided in an earlier section and so are not repeated here.

3. DECISION

The Board has considered the NTPC application and the submission from the interveners. The Board's decision on each matter is explained in the following sections.

Adjustments to the 06/07 and 07/08 Revenue Requirements

As detailed in Schedule 1 of the application, the Board approves of the NTPC method for allocating the brushing expenditure reductions amongst the communities.

06/07 Shortfall Balance

The Board accepts the NTPC calculation of the 06/07 shortfall as being \$1.818 million as of December 31, 2007.

Interest on 06/07 Shortfall

The Board agrees with the TGC that there has not been any significant regulatory lag associated with the review of the Phase 1 GRA. Given that Decision 8-2002 is explicit in stating that significant regulatory lag is a key factor in deciding to award carrying costs, the Board is not convinced by the NTPC argument that denying approval to charge short-term interest in this case would be at odds with Decision 8-2002. The Board does recognize that consistency in decision-making contributes to regulatory certainty, but such consistency can only be expected in cases based on similar facts.

It is clear, however, due to Board Decision 1-2007 which only allowed the NTPC to collect 75% of the revenue deficiency, subject to a 15% rate cap, that the timely submission of the GRA before, or early in, the 06/07 test year could not have entirely prevented the 06/07 shortfall. As pointed out by the TGC though,

the Board finds that if the NTPC had filed its GRA earlier in the test year that the size of the 06/07 shortfall would have been greatly reduced. In that case, most of the shortfall would have been collected using interim rates within the 06/07 test year.

The NTPC asserts that the 8 month delay in filing was due to the corporation's efforts to reduce the revenue requirement prior to filing the GRA and so the customers benefited from the delay. The Board has no evidence which it can use to verify this argument. In the end it was an NTPC decision on when to file its application and the NTPC, by choosing to file when it did, accepted the potential consequences. In the Board's view this includes the risk of a large shortfall in the year when the application was filed. The Board is not of the view that the ratepayer should be required to accept all of the risk for this NTPC decision to file late.

The NTPC states that if the Board were to now disallow the collection of interest now, that the NTPC would be "penalized twice" for the same matter as the Board already reduced the NTPC's 06/07 return on equity (ROE) by 40 basis points.

The NTPC is mistaken in characterizing the 40 basis point reduction in the 06/07 return on equity as a penalty. The ROE reduction was applied to reflect the reduced risk to the NTPC by filing late into the test year. The reduction was not applied as a penalty and this argument is not relevant to this decision on the charging of short-term interest on the 06/07 shortfall.

The NTPC also raises the Board's refusal to allow a negotiated settlement process as a contributor to the regulatory lag that resulted in the shortfall and a reason for supporting the charging of interest on the 06/07 shortfall. As has been indicated above, there was, in the Board's view, no significant regulatory lag. It

appears to the Board that the timing of the application has in large part contributed to the size of the shortfall. As such, the Board's refusal to accept a negotiated settlement process would not have had an impact upon the size of the 06/07 shortfall.

The Board does agree with the NTPC that the Board's decision to extend the collection period for the 06/07 shortfall from 3.6 months to 12 months needs to be given weight by the Board when deciding this question of charging interest on the shortfall.

In light of the above, it is the Board's view that while the NTPC could have significantly reduced the size of the 06/07 shortfall by filing its GRA in a timely manner, the Board also needs to consider the effects of its own decisions to only allow 75% recovery through the interim rates and to extend the term of collection of the shortfall to 12 months. In the Board's view, it would be unreasonable to deny the NTPC any carrying costs for 06/07 shortfall. It would be just as unreasonable to allow the NTPC to avoid the impact of its decision by authorizing full recovery of the shortfall carrying costs.

The Board notes that the interveners did not raise any objection to the use of the Bank of Canada Prime Business interest rate or the NTPC method of calculating the 4.63% that the NTPC wants to apply to the 06/07 shortfall for the period from April 1, 2007 to December 31, 2007.

Considering all of the above it is the Board's decision that the NTPC be allowed to charge interest at a rate of 2.31% on the 06/07 shortfall for the period from April 1, 2007 to December 31, 2007. For the period beyond December 31, 2007 until full collection of the 06/07 shortfall, the NTPC will be allowed to apply short-

term interest to the actual outstanding receivable monthly, at a level equal to 50% of the Bank of Canada Prime Business interest rate.

While the Board's decision does not turn on this point, the Board agrees with the TGC that this interest matter should have been brought to the Board's attention earlier. Specifically, this matter could have been dealt with more efficiently as part of the process leading to Decision 20-2007.

07/08 Shortfall Balance

The Board accepts the NTPC's calculation of the 07/08 shortfall as being \$11.856 million as of March 31, 2008.

Interest on 07/08 Shortfall

It is the Board's view that the NTPC bears as much responsibility for the existence and size of the 07/08 shortfall as it does for the 06/07 shortfall. Even with a fully litigated Phase 1 GRA, which took approximately 13 months, if the NTPC had filed its GRA in a timely manner before, or early in, the 06/07 test year, it is very likely that the full recovery interim rates would have been in place for the start of the 07/08 test year instead of January 1, 2008. If not eliminated completely, the 07/08 shortfall would at least have been significantly reduced from what it is now.

While the Board's acceptance of a negotiated settlement process would likely have allowed the full recovery interim rates to be in place sometime early in the 07/08 test year, it is inappropriate for the NTPC to imply any responsibility on the Board's part to try to avoid shortfalls by allowing negotiated settlements to speed up a process that was delayed by the NTPC's decision to file late. The Board does not accept its refusal to accept a negotiated settlement as a mitigating factor in favor of permitting the NTPC to charge interest on the 07/08 shortfall. It

is the NTPC's responsibility to try to avoid and minimize shortfalls by filing its GRAs in a timely manner.

The Board does accept as mitigating factors in the NTPC's favour the Board's use of interim riders designed to collect 75% of the revenue shortfall subject to the 15% rate cap and the Board's decision to extend the collection period of the 06/07 shortfall to 12 months. The two factors will create a material delay in the final collection of the 07/08 shortfall and so needs to be considered by the Board in reaching its decision on this matter.

It is the Board's decision that the NTPC will be allowed to charge interest at a rate of 3.00% on the 07/08 shortfall on a mid-year basis for 2007/08. For the period starting April 1, 2008 until full collection of the 07/08 shortfall, the NTPC will be allowed to apply short-term interest to the actual outstanding receivable monthly, at a level equal to 50% of the Bank of Canada Prime Business interest rate.

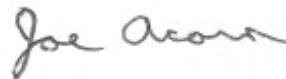
4. BOARD ORDER

NOW, THEREFORE IT IS ORDERED THAT:

1. As detailed in Schedule 1 of the application, the NTPC's method for allocating the brushing expenditure reductions amongst the communities is approved.
2. The NTPC's calculation of the 06/07 shortfall as being \$1.818 million as of December 31, 2007 is approved.
3. The NTPC will be allowed to charge interest at a rate of 2.31% on the 06/07 shortfall for the period from April 1, 2007 to December 31, 2007. For the period beyond December 31, 2007 until full collection of the 06/07 shortfall, the NTPC will be allowed to apply short-term interest to the actual outstanding receivable monthly, at a level equal to 50% of the Bank of Canada Prime Business interest rate.
4. The NTPC's calculation of the 07/08 shortfall as being \$11.856 million as of March 31, 2008 is approved.
5. The NTPC will be allowed to charge interest at a rate of 3.00% on the 07/08 shortfall on a mid-year basis for 2007/08. For the period starting April 1, 2008 until full collection of the 07/08 shortfall, the NTPC will be allowed to apply short-term interest to the actual outstanding receivable monthly, at a level equal to 50% of the Bank of Canada Prime Business interest rate.

6. Nothing in this Decision and Order shall bind, affect or prejudice the Board in its consideration of any other matter or question relating to the Northwest Territories Power Corporation.

**ON BEHALF OF THE
PUBLIC UTILITIES BOARD
OF THE NORTHWEST TERRITORIES**



**Joe Acorn
Chairman**

Dated May 12, 2008