

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

DECISION 26-2008

October 27, 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 Northwest Territories Power Corporation for changes in the existing rates, tolls and charges for electrical energy and related services provided to its customers within the Northwest Territories, by seeking approval of the Phase 2 General Rate Application.

THE PUBLIC UTILITIES BOARD

BOARD MEMBERS

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Louise Larocque	Board Secretary
Raj Retnanandan	Board Consultant
John Donihee	Board Counsel

ABBREVIATIONS

Application Board	Phase 2 General Rate Application
BR	Northwest Territories Public Utilities Board
Corporation	Board Information Request
CSA	Northwest Territories Power Corporation
GNWT	Customer Service Agreement
GRA	Government of the Northwest Territories
Hydro Communities	Phase 2 General Rate Application
HC	City of Yellowknife, Town of Hay River & Town of Fort Smith
IR	City of Yellowknife, Town of Hay River & Town of Fort Smith
kWh	Information Request
/.	Kilowatt-Hour
NTPC	Line
p.	Northwest Territories Power Corporation
R.S.N.W.T.	Page
TGC	Revised Statutes of the Northwest Territories
Thermal Generation Communities	Town of Inuvik, Village of Fort Simpson & Hamlet of Fort Liard
TPSP	Town of Inuvik, Village of Fort Simpson & Hamlet of Fort Liard
	Territorial Power Support Program

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1. BACKGROUND

By letter dated November 24, 2006, the Northwest Territories Power Corporation ("**NTPC, the Corporation**") submitted to the Northwest Territories Public Utilities Board ("**the Board**") its Phase 1 General Rate Application ("**Phase 1 Application**") for the fiscal years April 1, 2006 to March 31, 2007 and April 1, 2007 to March 31, 2008.

In its Phase 1 Application, the Corporation requested an order or orders of the Board to approve the 2006/07 and 2007/08 Revenue Requirement at \$79.909 million and \$84.331 million, respectively, including approval as required of the operating and maintenance expenses, amortization expenses and return on rate base. NTPC is also requesting an order or orders of the Board to approve the forecast 2006/07 and 2007/08 Rate Base, approve revised Terms and Conditions of Service, approve revised Maximum Corporation Investment levels, stabilization funds and accounting provisions.

The Board issued Decision 13-2007 dated August 29, 2007 addressing all matters arising from NTPC's Phase 1 Application. In this Decision, NTPC was requested to respond to a number of Board Directives.

By letter dated October 1, 2007, NTPC filed a response to Board Decision 13-2007 ("**Phase 1 Refiling**").

The Phase 1 Refiling was examined through a written process and the Board received written submissions from interested parties following NTPC's responses to interrogatories.

NTPC was directed to file its second Phase 1 refiling in accordance with the directions and approvals in Decision 17-2007 by November 30, 2007 together with rate schedules resulting from the Phase 1 second refiling.

By letter dated November 27, 2007, NTPC submitted responses to Decision 17-2007 addressing certain Board directives in Decisions 13-2007 and 17-2007, including the refiling schedules.

By letter dated December 5, 2007, the Board requested that interested parties provide their submissions by December 14, 2007 and NTPC will be allowed to respond by December 21, 2007.

The City of Yellowknife and the Towns of Hay River and Fort Smith ("**Hydro Communities**", "**HC**") filed their submission, by letter dated December 14, 2007 and the Town of Inuvik, Village of Fort Simpson and Hamlet of Fort Liard ("**Thermal Generation Communities**", "**TGC**") filed their submission, by letter dated December 17, 2007.

By letter dated December 21, 2007, NTPC filed a response to the interested parties' submission.

The Board had reviewed the information filed by NTPC and interested parties. The directions in Decisions 13-2007 and 17-2007 have been carried out to the Board's satisfaction. The Board issued Decision 19-2007 dated December 31, 2007 addressing all matters arising from NTPC's second Phase 1 refiling.

2. APPLICATION

On August 15, 2008, NTPC filed its Phase 2 General Rate Application (“**Application**”, “**GRA**”) for the fiscal year April 1, 2006 to March 31, 2007 and April 1, 2007 to March 31, 2008 to determine appropriate rates for their customers.

In its Application, NTPC requested order or orders of the Board to:

- a) Approving as final the Corporation’s interim retail, wholesale and industrial rates for 2006/07 and all previous periods.
- b) Approving as final the Corporation’s proposed 2007/08 retail, wholesale and industrial energy rates. The Corporation proposes to maintain the existing customer and demand charges for all rate classes.
- c) Approving the consolidation of the 2006/07 and 2007/08 General Rate Application shortfalls after transfers from the Diesel Communities Stabilization Fund; the Inuvik Stabilization Fund; the Norman Wells Stabilization Fund and the Taltson Fuel Stabilization Fund to offset the GRA Shortfall amounts.
- d) Approving the adjusted shortfall collection riders.
- e) Approving a change in the interest rate applicable to any outstanding shortfall balances in place beyond October 1, 2009. If the interest rate change is not approved then the Corporation is seeking to recover the shortfall balances over a 12-month period.
- f) Approving automatic fuel stabilization fund and automatic water stabilization fund riders.
- g) Approving standardized dates for stabilization fund applications.
- h) Approving the Stand-by Rate proposal.

- i) Approving the revisions to the Corporation's Terms and Conditions of Service.

NTPC stated the following in its Application:

The Corporation has developed its Phase II Application using a simplified approach. The Corporation has prioritized collecting outstanding balances related to the 2006/07 and 2007/08 GRA Shortfalls and the Stabilization Funds. The Corporation is proposing this simplified approach to Phase II in consideration of the 15% cap on base rate and shortfall rider increases; to reduce regulatory and administrative costs in light of the limited ability to rebalance rates between communities and rate classes and for reasons of intergenerational equity related to collecting shortfall and stabilization fund balances relating to costs already incurred to provide service to customers. Following the implementation of these rider adjustments, there would be very little ability for the Corporation to adjust base rates for most communities and rate classes. Therefore the Corporation is proposing only a very limited scope of base rate rebalancing.

(GRA, Executive Summary, p. ES-V)

Pursuant to the provisions of section 13.(1) of the Rules of Practice and Procedure, the Board, by letter dated August 19, 2008, directed NTPC to publish notice of the public hearing of the GRA in newspapers that circulate in the Northwest Territories. The notice provided details of the GRA and invited interested persons to file a request with the Board for intervener status. The notice also stated that any party already listed on the Phase 1 list will automatically be placed on the Phase 2 list.

The interested parties automatically placed on the Phase 2 list are the Hydro Communities, Thermal Generation Communities and Northland Utilities.

By letter dated August 19, 2008, the Board requested comments from NTPC and the interveners as to the required extent of the review process, including the need for an oral public hearing. In addition, the Board intends to combine the Phase 2 review with the review of NTPC's inter-affiliate code of conduct and conflict of interest guidelines (Directives 49 and 50 of Decision 13-2007).

After reviewing comments from all parties regarding the review process, the Board, by letter dated August 28, 2008, prepared a review schedule and requested comments. The Board received submission from HC, TGC and NTPC, all of which expressed no concerns with the schedule.

The Board, HC and TGC submitted information requests, to which NTPC responded on September 26, 2008.

On October 14, 2008, the Hydro Communities, the Thermal Generation Communities and NTPC filed their written argument. On October 21, 2008, HC, TGC and NTPC filed their written reply argument.

In this Decision, the Board will address all outstanding matters arising from NTPC's Phase 2 Application. The Board will issue a separate subsequent decision on the NTPC's proposed code of conduct.

3. FINALIZATION OF INTERIM RATES FOR 2006/07 AND ALL PREVIOUS PERIODS

In its Application, NTPC stated that it was seeking approval as final the NTPC's interim retail, wholesale and industrial rates for 2006/07 and all previous periods. NTPC provided a more detailed explanation of what it was seeking in its argument.

“Wholesale, retail and industrial rates for 2006/07 effective February 1, 2007 were granted interim approval in Board Decision 2-2007. The Corporation's Application notes that it is seeking final approval for interim retail, wholesale and industrial rates for 2006/07 and all previous periods.

Through an interrogatory to the Corporation, the HC inquired about the intent of the phrase "and all previous periods" in the Corporation's requested approval on page 1-1 of the Application. The Corporation's response noted that the statement was intended to ensure that there remain no outstanding matters related to rates charged in previous periods including final approval for industrial rates effective January 1, 2005 as approved on an interim basis in Board Order 4-2005.

The Corporation notes that the interim rates approved in Decision 2-2007 were subsequently adjusted, on an interim basis, by Order 20-2007. The Corporation also notes that variances between 2006/07 revenues at rates in place and approved 2006/07 test year revenue requirement will be addressed by way of shortfall riders. Therefore, the Corporation submits that its request for final approval of interim wholesale, retail and industrial rates for 2006/07 and all previous periods is prudent and reasonable, and should be approved by the Board.” (NTPC Argument, p. 6)

In their reply argument, the HC stated that they do not object to final approval of the 2006/07 interim rates that were in effect during that period.

Views of the Board

The Board approves as final the NTPC's interim retail, wholesale and industrial rates for 2006/07 and all previous periods

4. FINALIZATION OF 2007/2008 BASE RATES

The NTPC is seeking approval as final the Corporation's proposed 2007/08 retail, wholesale and industrial rates as outlined in Appendix A and Schedule A.2 of the Application. The Corporation proposes to maintain the existing customer and demand charges for all rate classes.

"In Appendix 2 to Board Order 20-2007, the Board provided a determination of interim base rate adjustments effective January 1, 2008. The interim base rate adjustments were designed to allow the Corporation to fully collect the 2007/08 revenue requirement of \$81.389 million approved in Board Decision 19-2007. In Decision 17-2007 the Board approved the Corporation's 2007/08 miscellaneous revenues of \$0.862 million. As a result, the revenues to be collected through base rate adjustments effective January 1, 2008 were designed to collect \$80.527 million at approved 2007/08 sales volumes.

In Decision 4-2008, the Board varied Directive 14 of Decision 13-2007 and directed the Corporation 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.

By letter dated March 31, 2008 the Corporation submitted an application that requested approval of a method for allocating the brushing expenditure reductions amongst the communities in the test years 2006/07 and 2007/08. These adjustments were outlined in Schedule 1 to that application. The Board approved this method in Decision 16-2008.

As a result of the brushing adjustments, the interim base rates effective January 1, 2008 that were approved in Decision 20-2007 overcollect the 2007/08 revenue requirement (as adjusted for the reduction to brushing expense) by approximately \$0.272 million. Therefore, the Corporation is applying to adjust the base rates in place effective January 1, 2008 to reflect the revised brushing expense." (GRA, p. A-1 and A-2)

In addition to the brushing adjustment, the NTPC is also applying for a limited amount of rate rebalancing between certain communities and customer classes

in the Hydro zones. The NTPC's explanation for just limited rate rebalancing is as follows.

“As a result of the considerable rate pressures facing the Corporation and its customers related to diesel fuel prices and the GRA shortfalls, there is little if any ability at present for the Corporation to propose rate rebalancing between communities and customers classes. As such, the Corporation has not completed a full analytical cost-of-service study for the 2007/08 test year as would typically be included in NTPC's Phase II GRAs. Preparing and reviewing a cost-of-service study when there is virtually no ability to propose rate rebalancing between communities and customer classes would be expensive and not in the best interests of ratepayers. In the Corporation's view, customers are better off with a rate design focusing on collecting outstanding amounts related to costs that have already been incurred and a more simplified approach to rate rebalancing between communities. This approach also saves the considerable costs of undertaking a full Phase II proceeding when there is limited ability to rebalance rates. Further, the GNWT is currently conducting a review of rate regulation and subsidies that may impact future rate rebalancing directions between customer classes and communities.” (GRA, p. 1-6 and 1-7)

The NTPC described the extent of the rate rebalancing.

“Following the calculation of the Shortfall rider, a very limited set of rate rebalancing was undertaken. The base energy rates for the communities of Dettah and Fort Resolution were raised as these communities had RCC ratios substantially below 95% while other customers on the Snare Yellowknife and Taltson systems had RCC ratios higher than 100%. Energy rates in Dettah and Fort Resolution were increased so that in combination with the shortfall riders in those communities there was a 15% increase over the base rates plus shortfall riders in place effective January 1, 2008.(Schedule 1.1).” (GRA, p. 1-6)

The HC stated the following in their argument.

“The January 1, 2008 Interim Rates as shown in Schedule 1.1 were adjusted downward by \$0.272 million to reflect the reduction to brushing

expenses approved by the Board in Decision 4-2008 and as shown in Schedule A.1. The proposed 2007/2008 base rates after the adjustments are also shown in Schedule 1.1. NTPC has applied for approval of these adjusted rates effective January 1, 2008. The Hydro Communities accept the adjusted base rates as shown in Schedule A.2.1 as reasonable.” (HC Argument, p. 4)

With regards to the rate rebalancing, the HC stated:

“Following the calculation of the shortfall riders, NTPC carried out a limited amount of rate rebalancing within the hydro communities to give effect to revenue to cost ratios for certain communities that were below the 95% target subject to the 15% cap based on a preliminary cost of service study that reflected the 2002/03 Board approved methods. In agreeing to a simplified process, the Hydro Communities had acknowledged in its letter of August 26, 2008 that a full review of the cost of service would provide little latitude for rate rebalancing between rate classes and communities. The limited rebalancing which NTPC has carried out appears reasonable to the Hydro Communities.” (HC Argument, p. 5)

The TGC did not comment on this matter in their argument or reply argument.

Views of the Board

The Board approves as final the Corporation’s proposed 2007/08 retail, wholesale and industrial rates as outlined in Appendix A and Schedule A.2 of the Application.

5. FINALIZATION OF SHORTFALL BALANCES AND RIDERS

5.1 Shortfall Balance

In compliance with a directive in Decision 20-2007, the NTPC is applying to consolidate the 2006/07 and 2007/08 shortfall balances into a single shortfall balance to be collected by community.

The calculation of the shortfall balances as of March. 31, 2008 is shown in Schedule B.1. The 2006/07 shortfall balance was \$1.462 million and the 2007/08 shortfall balance was \$7.877 million for a total combined shortfall of \$9.339 million.

Through the combined effect of the rider collections, the brushing adjustment and the interest, the forecast consolidated 2006/07 and 2007/08 balance by community as at September. 30, 2008 had declined to \$8.383 million, as shown by Schedule B.2.

In its argument, the NTPC stated the following.

“No intervenors posed interrogatories to the Corporation with respect to the consolidation of the 2006/07 and 2007/08 shortfalls or the calculation of the balance in the consolidated shortfall receivable at March 31, 2008. The Corporation submits that its calculation of the consolidated shortfall balance as at March 31, 2008 is consistent with the methods approved in Decision 16-2008 and should be approved.” (NTPC Argument, p. 7, l. 26-30)

Regarding the consolidated shortfall balance, the HC simply stated the following in its argument.

“The 2006/07 shortfall including interest to March 31, 2008 and the 2007/08 shortfall including interest to March 31, 2008 by community is shown in Schedule B.1 and the balances as at September 30, 2008 by community are shown in Schedule B.2. ...” (HC Argument, p. 4-5)

The HC did not express an opinion on the NTPC’s calculation of the consolidated shortfall rider however, since the shortfall riders flow directly from the shortfall balance; the HC seemed to implicitly approve the consolidated shortfall balance when they stated that they accept the shortfall riders as reasonable.

The TGC did not comment upon the consolidated shortfall balance.

Views of the Board

The Board approves the consolidation of the 2006/07 and 2007/08 shortfall balances into a single shortfall balance by community as calculated in Schedules B.1 and B.2 of the Application.

5.2 Shortfall Riders

The NTPC states in the Application that the shortfall riders currently in place, effective January 1, 2008, have been collecting revenue at a rate of about \$0.225 million/month. At that rate, it would take over three years to collect the consolidated shortfall balance plus approved interest. The NTPC states that this would lead to excessive intergenerational equity issues for the ratepayers.

The NTPC is applying for an increase to the existing shortfall rider to allow the recovery of the entire shortfall balance over an 18-month period from October 1,

2008 to March 31, 2010. The 18-month period was selected so that these riders would not overlap with the implementation of interim rates for the next GRA. Following the collection of the shortfall, the NTPC will file a reconciliation of rider collections and shortfall balances by community.

The calculation of the shortfall riders by community are shown in Schedule B.3.

NTPC 2006/07 and 2007/08 Phase II GRA Rate Finalization Application
Schedule B.3: Proposed Shortfall Rider at October 1, 2008

Plant Number	Community	Shortfall Balance at Oct. 1, 2008 ¹ (\$000's)	Forecast Sales From Oct. 1, 2008 - Mar. 31, 2010		Shortfall Rider with No Cap (¢/kWh)	Proposed Shortfall Rider at Oct. 1, 2008 with 15% Cap		Current Shortfall Rider per Board Order 20-2007 (¢/kWh)
			(MWh)			(¢/kWh)	(¢/kWh)	
		A	B		C	D	E	
101/106/109	YK Snare System	3,306	301,607		1.10	1.15	0.50	
104	Wha Ti	-92	2,303		(4.01)	(3.96)	(1.97)	
105	Gameti	120	1,260		9.49	9.55	3.58	
110	Lutzel K'e	-13	2,280		(0.57)	(0.52)	0.31	
201/203	Taltson System	914	96,247		0.93	0.96	0.58	
205	Fort Simpson	1,753	11,978		14.63	13.37	5.00	
206	Fort Liard	410	3,166		12.96	13.02	5.02	
207	Wrigley	286	864		33.15	28.50	11.01	
208	Nahanni Butte	240	538		44.52	39.77	19.11	
209	Jean Marie River	194	362		53.56	38.32	19.00	
301	Inuvik	2,127	46,857		4.54	4.59	1.91	
304	Norman Wells	-309	15,548		(1.99)	(1.93)	(1.63)	
305	Tuktoyaktuk	-186	5,453		(3.40)	(3.35)	(2.19)	
306	Fort McPherson	170	4,482		3.78	3.84	1.79	
307	Aklavik	-191	4,088		(4.67)	(4.61)	(5.34)	
308	Deline	74	3,751		1.98	2.03	0.22	
309	Fort Good Hope	-141	4,191		(3.36)	(3.30)	(1.17)	
310	Tulit'a	-121	2,132		(5.67)	(5.61)	(2.00)	
311	Paulatuk	46	1,145		4.00	4.06	1.86	
312	Sachs Harbour	118	1,023		11.58	11.63	2.97	
313	Tsiigehtchic	-25	491		(5.13)	(5.08)	(1.22)	
314	Colville Lake	-104	2,721		(3.83)	(3.77)	(14.48)	
315	Ulukhaktok	-194	3,476		(5.57)	(5.51)	(2.28)	
	Total	8,383	517,964					

Notes:

1. From Schedule B.2

The NTPC applied a 15% rate cap on the combined impact of the base rate adjustments and the shortfall rider increases. The non-recovered shortfall in those communities that reached the 15% cap was then distributed across the

other communities by means of a 0.05 cent/kwh increase to the shortfall riders in those communities that were below the cap.

The HC stated the following in their argument.

“...NTPC designed rate riders to recover/refund these shortfalls/surpluses over 18 months. In order to limit the increases in existing base rates to 15%, the deficiency was then spread among the remaining communities who did not exceed the 15% cap. As shown in Schedule B.3, the amount of subsidy to limit the maximum increase in the shortfall rider for any one community was 0.05 cents per kWh. The Hydro Communities do not consider this to be an unreasonable amount to limit the cap on base rate increases at 15% for all communities.

...

The Hydro Communities accept ... the GRA shortfall riders as reasonable.” (HC Argument, p. 5)

The TGC did not comment upon the calculation or magnitude of the shortfall riders as applied for in the Application.

Views of the Board

Effective November 1st, 2008, the Board directs the NTPC to apply the shortfall riders as calculated in Schedule B-3 of the Application subject to an adjustment to account for the reduced 17-month collection period from November 1, 2008 to March 31, 2010 as well as an update to the applicable interest rate to October 27th, 2008. The NTPC is to continue to apply the 15% rate cap on the combined impacts of adjustments to the base rates and the shortfall riders.

5.3 Shortfall Interest Rate

The NTPC has applied for an increase in the interest rate that it is allowed to apply to the shortfall balance from 50% of the Bank of Canada Prime Business interest rate, as approved in Decision 16-2008, to Prime less 50 basis points.

“It is important to note that this reflects a very low short-term interest rate. As a result, it is not reasonable to customers or the Corporation for these outstanding balances to remain in place for extended periods. One of the implications of allowing these balances to persist beyond the next 12 months is that the Corporation has a limited ability to obtain financing at short-term interest rates. Allowing these balances to continue indefinitely may impact the Corporation’s ability to manage its short-term financing and put pressure on other uses of short-term financing, including the Corporation’s capital program. This would ultimately threaten the ability of the Corporation to earn its approved return on ratebase. Accordingly, the Corporation is applying for approval to charge an interest rate of prime less 50 basis points on any shortfall balances outstanding beyond October 1, 2009. This is the same interest rate presently applied to the stabilization funds. In the event that the interest rate change after 12 months is not approved, the Corporation will seek to collect the outstanding shortfall amounts over a 12 month period instead of an 18 month period.” (GRA, p. B-2, l. 1-13)

The NTPC provided a more substantial explanation in its argument.

“...The 18-month collection period already strains the Corporation's access to short-term financing and without an adjustment to the interest rate effective October 1, 2009, the Corporation cannot propose to carry the GRA shortfall receivable beyond that period.

In response to an interrogatory from the TGC, the Corporation provided additional information related to its access to short-term financing. The Corporation noted that it has an unsecured \$20 million operating credit line with its financial institution. The Corporation also noted that if it were to increase its operating line it would likely be subject to standby fees for any funds not used. This would increase the Corporation's finance expense and overall cost of borrowing to the detriment of customers.

The Corporation's application noted that it is applying to collect approximately \$15.430 million in receivables related to the GRA shortfall and stabilization funds as at October 1, 2008. If three quarters of the credit line is being used to finance a regulatory shortfall, the Corporation's ability to use the operating line to fund capital investment (pending conversion to long-term debt) is limited. This could hinder the Corporation's ability to deliver capital investment that is required to maintain and improve the Corporation's infrastructure. Without access to the necessary level of short-term financing, the Corporation would have to delay, defer or forego capital projects it would otherwise pursue to maintain its service level to customers. Clearly this outcome would adversely affect customers and not be consistent with the guiding principles of utility regulation.

The Corporation respectfully submits that its proposal to collect the outstanding shortfalls over an 18 month period and change the interest rate applicable to the shortfall to a level equal to the Bank of Canada Prime Business rate less 50 basis points effective October 1, 2009 is a reasonable proposal. This proposal balances the rate impact of the shortfall collection with the limitations on the Corporation's access to short-term financing and should be approved." (NTPC Argument, p. 13, *l.* 32 – p. 14, *l.* 27)

The TGC stated in its argument that the basis upon which the Board applied the current interest rate has not changed and the Board should reject the requested interest rate increase.

The NTPC responded to the TGC in its reply argument.

"...The Corporation acknowledges the concern expressed by the Board in relation to the existence and size of the 2007/08 shortfall. However, contrary to TGC's assertion, NTPC is not attempting to undo the Board's direction. Whereas normally the collection period would be over 12 months, NTPC has applied to collect the shortfall balances over 18 months in order to mitigate the rate impacts on customers. However, that collection period is reasonable only with an increase in the interest rate. If the interest rate increase for months 13 through 18 is not approved, then NTPC is seeking to collect the balances over a 12 month period at the lower interest rate.

The Corporation is applying to collect approximately \$15.430 million in receivables related to the GRA shortfall and stabilization funds as at October 1, 2008 (which amounts to approximately three quarters of its operating line of credit). The present interest rate reflects a short-term interest rate, however NTPC has a limited ability to obtain financing at short-term interest rates and that access continues to tighten in the current financial market. When three quarters of NTPC's operating line is used to finance the regulatory shortfall, the Corporation has limited ability to use the operating line to fund capital investment." (NTPC Reply. p. 8, l. 21-35)

The HC also commented on this matter in its reply argument.

"It is clear that the Board reduced the interest rate on outstanding balances by one-half due to the late filing of the 2006/07/08 GRA. It should be further noted that the recovery of the remaining balances in the GRA shortfall represents one of the major reasons why some communities exceed the 15% cap on rate and rider increases and has led to the BR-NTPC-1 Proposal to recover the Balance Remaining Fuel Rider from all communities. The Hydro Communities submit that the shortfalls would have been materially less had the 2006/07/08 GRA been filed earlier thus avoiding the compounding collection of GRA and Fuel/Water shortfalls.

NTPC goes on to suggest that it ought to receive interest on outstanding shortfall balances at a rate of the Prime Business Rate less 50 basis points because the 18 month collection period strains its access to short term financing. NTPC exaggerates this situation when it claims that it is applying to collect \$15.4 million of short term receivables as at October 1, 2008. The decrease in diesel fuel prices will virtually eliminate the \$5.8 million required to "keep-up" with fuel price increases. Further, the HC have disputed the inclusion of the fuel costs related to the Bluefish capital improvements in the amount of about \$1.8 million. These two adjustments would significantly reduce the October 1, 2008 short term receivables. Finally, the remaining balances after these adjustments will have been reduced to about one-third by October 2009 assuming an 18 month shortfall recovery period for most communities." (HC Reply, Section 6)

Views of the Board

Given the extended 17-month collection period for the GRA shortfall, the Board approves the NTPC request to apply interest at the rate of Prime minus 50 basis points for the remaining shortfall balance after October 1, 2009.

6. ADJUSTMENTS TO STABILIZATION FUND BALANCES AND RIDERS

6.1 Rider Design

As described in Appendix B of the Application, the NTPC operates 6 stabilization funds, 5 for fuel and 1 for water. The 6 funds are listed below.

<u>Stabilization Fund</u>	<u>Balance at Oct. 1, 2008</u>	<u>Trigger</u>
Diesel Communities Fuel	\$2.375 million	\$1 million
Inuvik Fuel	\$0.859 million	\$0.250 million
Norman Wells Fuel	\$0.740 million	\$0.100 million
Fort Smith Fuel	\$0.050 million	\$0
Snare Fuel	\$1.369 million	\$1 million
Snare Water	\$4.654 million	\$3 million

The funds had all accumulated balances due to the increases in the cost of fuel and these balances would continue increasing unless the fund riders were adjusted to account for the higher fuel costs. The NTPC proposed increasing the fund riders with both “catch up” and “keep up” components. The “catch up” components would be designed to retire the existing fund balances (with the exception of the Snare water fund which was only to be brought down to its \$3 million trigger) by March 31, 2010 while the “keep up” components would track the differences between those assumed in the 2007/08 test year and current fuel prices.

The NTPC's intention was that the stabilization fund riders would be applied over and above the 15% cap for the rate base adjustment and shortfall riders. The total combined rate impact on a percentage basis was shown in Schedule 1.2.

NTPC 2006/07 and 2007/08 Phase II GRA Rate Finalization Application
Schedule 1.2: Rate and Rider Change Summary

Plant Number	Community	% Changes without stab fund riders					% Changes with stab fund riders					
		Residential	General Service	Lighting	Wholesale	Industrial	Residential	General Service	Lighting	Wholesale	Industrial	
		A	B	C	D	E	F	G	H	I	J	
101	Yellowknife				4.17%	1.68%					11.31%	10.76%
108	Behchoko	2.54%	2.03%	0.84%			6.79%	5.44%	2.27%			
109	Dettah	15.00%	15.00%	15.00%			19.25%	18.41%	16.90%			
104	Wha Ti	-2.43%	-2.64%	-1.46%			10.31%	11.11%	6.25%			
105	Gameti	5.07%	4.36%	3.86%			14.75%	12.70%	11.27%			
110	Lutsel K'e	-1.11%	-1.20%	-0.69%			12.91%	13.92%	8.03%			
201	Fort Smith	1.29%	1.60%	0.85%	0.21%		2.04%	2.56%	1.35%	1.64%		
203	Fort Resolution	15.00%	15.00%	15.00%			15.67%	15.77%	15.41%			
205	Fort Simpson	12.76%	15.00%	11.12%			29.07%	33.99%	25.44%			
206	Fort Liard	11.65%	13.22%	7.04%			27.07%	30.60%	16.56%			
207	Wrigley	15.00%	13.85%	10.20%			24.39%	22.55%	16.69%			
208	Nahanni Butte	15.00%	11.11%	9.11%			26.23%	19.55%	16.08%			
209	Jean Marie River	15.00%	10.55%	7.61%			26.49%	18.76%	13.60%			
301	Inuvik	4.65%	5.32%	3.91%			14.88%	16.89%	12.56%			
304	Norman Wells	-0.78%	-0.89%	-0.56%			60.84%	68.12%	43.66%			
305	Tuktoyaktuk	-1.74%	-1.97%	-1.26%			14.34%	16.21%	10.49%			
306	Fort McPherson	2.77%	3.05%	2.46%			17.04%	18.75%	15.15%			
307	Aklavik	1.24%	1.31%	0.90%			20.11%	21.11%	14.67%			
308	Deline	2.40%	2.55%	2.84%			16.69%	17.75%	19.68%			
309	Fort Good Hope	-3.08%	-3.55%	-2.63%			12.45%	14.24%	10.66%			
310	Tulita	-4.22%	-4.39%	-3.64%			8.74%	9.05%	7.56%			
311	Paulatuk	1.88%	1.99%	1.69%			11.54%	12.24%	10.40%			
312	Sachs Harbour	6.27%	6.74%	5.81%			15.18%	16.29%	14.09%			
313	Tsiigehtchic	-3.56%	-4.03%	-2.78%			6.92%	7.84%	5.44%			
314	Colville Lake	4.64%	5.33%	1.87%			10.26%	11.77%	4.16%			
315	Ulukhaktok	-4.60%	-5.07%	-3.47%			10.58%	11.67%	8.06%			

The Board was concerned about the high proposed increases with the extreme case being Norman Wells with total increases of over 60%. For the Diesel Communities, Inuvik and Norman Wells fuel funds, the largest components of the rate rider increases related to the "keep up" portion of the riders, as shown below, so the bulk of the increases were driven by current fuel prices as opposed to the accumulated balances.

<u>Stabilization Fund</u>	<u>Keep Up</u>	<u>Catch Up</u>	<u>Total Rider</u>
Diesel Communities	8.58 cents/kwh	4.04 cents/kwh	12.62 cents/kwh
Inuvik	5.86 cents/kwh	1.83 cents/kwh	7.70 cents/kwh
Norman Wells	18.75 cents/kwh	4.76 cents/kwh	23.51 cents/kwh

The Board sent the NTPC a number of information requests concerning alternative rate design options with the most significant being the question of whether or not the increase in fuel prices in 2008 could be considered an extraordinary event that would justify deviating from strict community-based ratemaking by sharing some costs equally (on a cents/kwh basis) across all NTPC communities and customer classes.

The NTPC responded by combining the various design options in the Board's IRs into a new alternative rate design for the Phase 2 GRA. The NTPC described this alternative option in its response to IR BR-NTPC-1.

"The Application seeks to address a major rate adjustment requirement that faces NTPC and its customers. The scale of adjustment required is such that the rate design criteria traditionally applied by NTPC and the Board could not all be met simultaneously. As a result, NTPC applied rate design criteria based on the following sequence:

- 1) **Collect utility costs within a reasonable period of time:** In this regard, rates were designed to include the following amounts:
 - a. Approximately \$5.8 million in annualized riders related to increases in fuel prices since the last NTPC GRA to the present time (the "keep up" component of the diesel communities, Inuvik and Norman Wells fuel funds (the "primary power fuel funds")); plus
 - b. One time amounts of approximately \$15.4 million comprised of \$8.4 million for GRA shortfalls per Schedule B.2, \$2.4 million for the Diesel Communities Fuel Fund, \$0.9 million for the Inuvik Fuel Fund, \$0.8 million for the Norman Wells Fuel

Fund, \$1.4 million for the Yellowknife Fuel Fund, \$0.05 million for the Ft. Smith Fuel Fund, plus \$1.7 million to bring the Snare-Yellowknife Water Fund to the trigger level.

All of which yields an annualized amount of approximately \$16.065 million. While this does not precisely yield \$0 balances for each of the funds 18 months out (due to both interest being charged, as well as: i) for the primary power fuel funds, forecast changes to fuel prices over the coming 18 months, and ii) for the water and standby fuel funds, anticipated charges to the funds over the coming 18 months) it does provide a reasonable basis to begin to implement the rolling 6 months stabilization fund revision process proposed by NTPC.

- 2) **Must avoid inter-community cross-subsidization where possible:** NTPC proposes to recover all noted amounts from the communities or groups of communities where the costs arise, consistent with the strict interpretation of community-based rates applied in NWT to date.
- 3) **Within the above two constraints, must seek to not raise rates to any given customer class by more than 15%:** While this criteria could be met for the shortfall component of the application, it was not possible to achieve this rate impact constraint with respect to fuel fund riders.

In response to BR.NTPC-2, a number of alternative scenarios are provided that set out variations in respect of the management of the stabilization funds.

A comprehensive alternative approach to the application can be developed to reprioritize the above rate design criteria plus adopt certain key variations in the rate design methodologies for implementation as at November 1, 2008, as follows (in sequence):

- 1) **Base Rate Adjustments:** Implement the required base rate adjustments for the brushing expense adjustment, as set out in the GRA Phase II Application.
- 2) **Stabilization Funds:** Per BR.NTPC-2(b) and BR.NTPC-4 (update for new fuel prices, Nov 1 implementation, and other adjustments

as described in that response), implement two stabilization fund adjustment mechanisms:

- a. **Crystallized “Catch-up”**: Per BR.NTPC-2(b), crystallize all fuel fund balances as at October 31, 2008, as well as the amounts to which the Snare-YK water fund exceeds the trigger levels as of that date, and charge to all customers on the system (including industrial and wholesale including NUL(NWT)) on an equal cents/kW.h basis over 17 months (now must assume November 1, 2008 rate implementation date through approximately March 31, 2010, or until fully collected). The levelized rider to be applied is 1.62 cents/kW.h.
 - b. **“Keep up”**: Adopt an “iterative” approach to stabilization funds to target approximately \$0 balances 17 months out (March 31, 2010) for all funds except the Snare-YK water fund, which would target approximately the \$3 million trigger level. In preparing this forecast, use updated fuel price forecasts for current price levels (effective as of September 19, 2008) which are approximately US\$103/bbl (approximately US\$19/bbl lower than in the Application).
- 3) **GRA Shortfall Riders**: Implement GRA shortfall riders as per the application with the exception of those communities and customer classes which would see cumulative rate changes in excess of 15% at the time of implementation (November 1, 2008) including all riders and stabilization fund amounts – those customer classes and communities would be:
- a. **At November 1, 2008**, have their GRA shortfall rider set such that their overall rate change is capped at 15%.
 - b. **At April 1, 2009**, implement a further increase as needed to target collection of the full shortfall within 12 months from that date, but in any event no more than 10%, (consistent with Board Decision 11-2008). Maintain all the shortfall riders in place until the full NTPC companywide GRA shortfall balance is collected (i.e., do not turn off riders community by community).

This alternative scenario exhibits some areas of significant benefit compared to the NTPC Application, with the exception that it does not

strictly adhere to the “no cross-subsidization between communities” criteria. In any event, it is an approach that can be readily implemented if preferred by the Board, and deserves due consideration in this regard.” (IR Response BR-NTPC-1)

The driving factor behind this alternative rate design scenario is the NTPC’s response to IR BR-NTPC-2(a):

“In the Corporation’s view it would be reasonable to consider the significant increase in diesel cost in the past 12 months to be an extraordinary event with the impacts shared across all NTPC communities and rate classes.”(IR Response BR-NTPC-2(a))

The impact of the new alternative scenario versus the original Application was shown In Table 1 from NTPC’s September 26, 2008 IR cover letter.

Table 1: Rate Impacts - percentage change including all riders and rate changes

	Original Application			BR-1 Scenario					
	Oct 1, 2008 Rate Impact			Nov 1, 2008 Rate Impact			Add'l Apr 1, 2009 Rate Impact		
	Resid	GS	Streetlig	Resid	GS	Streetlig	Resid	GS	Streetlig
Behchoko	6.8%	5.4%	2.3%	11.4%	9.1%	3.8%			
Dettah	19.3%	18.4%	16.9%	11.3%	9.1%	5.1%			
Wha Ti	10.3%	11.1%	6.2%	1.8%	1.9%	1.1%			
Gameti	14.8%	12.7%	11.3%	8.0%	6.9%	6.1%			
Lutsel K'e	12.9%	13.9%	8.0%	3.5%	3.7%	2.2%			
Fort Smith	2.0%	2.6%	1.4%	11.5%	14.7%	7.7%			
Fort Resolution	15.7%	15.8%	15.4%	10.2%	11.8%	6.2%			
Fort Simpson	29.1%	34.0%	25.4%	15.0%	15.0%	15.0%	6.1%	10.0%	3.0%
Fort Liard	27.1%	30.6%	16.6%	15.0%	15.0%	10.1%	1.8%	4.4%	
Wrigley	24.4%	22.6%	16.7%	15.0%	15.0%	14.9%	8.4%	6.3%	
Nahanni Butte	26.2%	19.5%	16.1%	15.0%	15.0%	13.0%	7.7%	1.0%	
Jean Marie River	26.5%	18.8%	13.6%	15.0%	15.0%	15.0%	10.0%	7.8%	0.6%
Inuvik	14.9%	16.9%	12.6%	9.7%	11.0%	8.2%			
Norman Wells	60.8%	68.1%	43.7%	15.0%	15.0%	12.8%	3.5%	6.1%	
Tuktoyaktuk	14.3%	16.2%	10.5%	3.5%	3.9%	2.5%			
Fort McPherson	17.0%	18.7%	15.1%	7.3%	8.0%	6.5%			
Aklavik	20.1%	21.1%	14.7%	7.1%	7.5%	5.2%			
Deline	16.7%	17.7%	19.7%	6.9%	7.3%	8.1%			
Fort Good Hope	12.5%	14.2%	10.7%	2.0%	2.2%	1.7%			
Tulita	8.7%	9.0%	7.6%	0.0%	0.0%	0.0%			
Paulatuk	11.5%	12.2%	10.4%	4.9%	5.2%	4.4%			
Sachs Harbour	15.2%	16.3%	14.1%	8.9%	9.5%	8.2%			
Tsiigehtchic	6.9%	7.8%	5.4%	-0.2%	-0.2%	-0.2%			
Colville Lake	10.3%	11.8%	4.2%	6.3%	7.2%	2.5%			
Ulukhaktok	10.6%	11.7%	8.1%	0.4%	0.4%	0.3%			
Yellowknife Wholesale		11.3%			15.0%			5.0%	
NUL (NWT) Wholesale		10.8%			15.0%			10.0%	
Industrial		1.6%			15.0%			8.6%	

In preparing the original Application and this alternative scenario, the NTPC used forecast fuel prices for January 2009. In developing the alternative scenario, the NTPC updated that January 2009 forecast from August 5th (oil at \$122/bbl) to September 26th (oil at \$103/bbl). The 2007/08 test year forecast was \$75/bbl.

In its argument, the NTPC stated the following.

“Although it does not strictly adhere to the longstanding “no cross-subsidization between communities” rate design criterion normally employed in the NWT, this alternative scenario exhibits some areas of significant merit. In particular, this rate design option recognizes the extraordinary circumstances surrounding fuel price increases in 2008 and implements an equal cents per kilowatt-hour for all communities and rate classes to retire existing balances in all fuel stabilization funds and to return the Snare-Yellowknife water stabilization fund to the trigger level. In situations where fuel costs have increased to this degree, maintaining a 15% cap on rate increases requires a mechanism to share some fuel costs across systems. Further, as the Corporation noted in its Application, the magnitude of cost pressures related to fuel price increases and the 2007/08 shortfall indicates that there is little to no ability to undertake rate rebalancing between communities and rate classes. This places pressure on the long-standing rate design objective to move toward revenue to cost coverage ratios of 95% to 105%. However, in the current circumstances the Corporation believes there is merit in the approach described in BR.NTPC-1. Rate design is always an exercise in achieving balance between sometimes competing rate objectives.

The Corporation notes that other utility regulators faced with extraordinary circumstances have implemented rates that do not necessarily conform to the normal rate design criteria employed in the jurisdiction. In its Application the Corporation provided an example from the Manitoba Public Utilities Board where that Board implemented an across the board rate increase to all rate classes in recognition of an unusually severe drought.

In the Corporation's view, the alternative rate design approach summarised in BR.NTPC-1 is preferable to the approach included in the Application. The Corporation submits that the rates summarised in Table 1 and Table 2 can be readily implemented if preferred by the Board, and deserve due consideration in this regard.” (NTPC Argument, p. 12, *l.* 5 – p. 13, *l.* 7)

The HC stated the following in their argument.

“While the changes in fuel prices as noted in the original Application may have constituted an “extraordinary event,” the changes in fuel prices must now be evaluated in the extraordinary circumstances of the financial markets and oil prices that have occurred over the last couple of weeks. NTPC states that “World oil prices and diesel fuel prices have risen

substantially since the 2006/07 and 2007/08 test year. This places further pressure on rates.” The footnote to this statement says “As an example, the 2007/08 fuel forecast assumed a NYMEX price of \$75/bbl (\$US) for the 2007/08 summer resupply season. NYMEX forecasts available August 5, 2008 are approximately \$120/bbl (\$US).” It must be noted at this point that the NYMEX price for crude oil by the September 26, 2008 update had decreased to \$107/bbl (\$US) and on October 13, 2008 was \$81.40 for November, \$81.89 for December, averaged \$82.93bbl (\$US) for January-June 2009 or several dollars above the GRA forecast levels.

...

The Hydro Communities submit that recent events (oil prices) have dramatically reduced the “keep-up” portion of the proposed Stabilization Fund Riders as shown in Schedule C.1 to the point where the fuel price changes from the GRA should no longer be considered to be an “extraordinary event.” The HC consider that the “Balance Retirement Component” may be reasonably reflective of costs incurred up to September 30, 2008 but should still be updated and designed for recovery over 18 months. However, the updated “Keep-Up” or Fuel Price Variance component of the shortfalls and rider amounts no longer warrant the averaging or sharing concepts reflected in the examples provided in BR-NTPC-1, 2 and 4. The Hydro Communities submit that it is essential that Schedule C.1 be updated by way of a compliance filing to reflect the latest actual and forecast fuel costs.

The Hydro Communities are strongly opposed to the “collective” or “crystallized” proposals outlined in BR-NTPC-1, 2 and 4 and submit that much of the rationale for such an approach has been eliminated due to recent drastic reductions in world crude oil and diesel fuel prices.

...

In conclusion, the Hydro Communities submit that each Stabilization Fund should continue to be treated on a stand-alone basis, the Balance Retirement Component in each fund should be recovered the 17 month period November 2008 through March 2009 and the Price Variance Component in each fund should be designed to bring the Fuel Stabilization Funds to zero and the Water Stabilization Funds to the trigger amount over the 17 month period November 2008 through March 2009 based on the latest diesel fuel price information available at the time of a compliance filing...” (HC Argument, p. 6-9)

The TGC stated the following in its argument.

“The TGC note NTPC has addressed in detail how it can adhere to the above noted Board determination and keep the total rate increase limited to 15% i.e. by way of a “comprehensive alternative approach to the application”.

The TGC recommend NTPC be directed to re-file in compliance with Decision 11-2008 such that the total rate increase is limited to 15%, using the “comprehensive alternative approach to the application.” As part of this exercise, the TGC recommend the Board direct the Corporation to use the most recent fuel price forecasts to compute the “keep up” amounts; the current fuel prices are significantly lower than the US \$103/bbl cited by NTPC.” (TGC Argument, p. 12)

The NTPC responded to the HC by acknowledging that the alternative rate design would increase rates in Yellowknife from what had originally been proposed in the Application and so the ratepayers under the Territorial Power Support Program (“**TPSP**”) would be affected. The NTPC estimates that the TPSP ratepayers who use 700 kwh/month would see their rates increase from \$12 in the Application to \$16 in the alternative design. The NTPC points out however, that residential users above 700 kwh and many commercial customers would not be protected from the high rate increases in the Application. Commercial ratepayers would likely pass the increases on to their customers in these communities.

The NTPC also points out that the City of Yellowknife has in the past supported sharing costs across rate zones and refers specifically to Decision 12-94 in which the City argued in favor of costs being spread across the Northwest Territories to avoid rate shock in Yellowknife.

The NTPC concluded by stating:

“NTPC continues to seek approval of its Application. However, as noted in its Written Argument, in the Corporation's view, the rate design approach illustrated in BR.NTPC-1 has considerable merit and should be given due consideration by the Board. Further, a combination of NTPC's proposal and the scenario outlined in NTPC's response in BR.NTPC-1 may also be a reasonable alternative.

NTPC reiterates its position that the extreme volatility in fuel prices constitutes an extraordinary event. However, NTPC does not believe that further updates to the price of fuel are warranted at this time for several reasons. Approximately 73% of the annual re-supply prices have already been set and were set when fuel prices were higher. Further, NTPC updated its fuel prices during the IR process. Those prices were updated to September 26, 2008 based upon the best information available to the Corporation at the time. NTPC submits that continual updating is impractical and gives no certainty. In addition, changes in world fuel price are not immediately reflected in costs to NTPC but are subject to a time lag.” (NTPC Reply, p. 3, *l.* 13-26)

In its reply argument, the HC devotes considerable discussion to the unfairness of the Board's consideration and potential implementation of the alternative rate design when the HC had agreed to participate in this simplified process with no knowledge that it would be faced with such a proposal.

The HC reinforces its earlier argument that the declining price of fuel has decreased, and perhaps now eliminated, the “keep up” portion of the fund riders with the price of oil dropping close to or below the reference price of \$75/bbl for the 2007/08 test year. The HC argues again that the fuel prices need to be updated to give a true evaluation of the current situation and provide some sample calculations to support its position.

The HC also suggests that perhaps the 15% rate cap can be maintained for all communities by spreading out the combined increased of all adjustments and riders to a longer period such as 24 months instead of the 17 months now available to March 31, 2010.

The HC summarizes its position as follows:

“The question that must be asked is whether these reduced shortfalls still constitute an “extraordinary event” or whether there is a viable alternative solution. The Hydro Communities submit that the updated pricing shows that the extraordinary event has been largely mitigated by the recent reductions in crude oil and diesel fuel prices. Further, the existing TPSP will largely mitigate these increases for most residential customers and mitigate it to some degree for general service customers. However, if the Board does not wish to recognize the subsidy programs that will be in place at least until the GNWT Rate Review is completed then it could consider a longer recovery period of say 24 months to limit increases to 15% or less. The Hydro Communities submit that cross-subsidies between rate zones can and should be avoided at least until such time as the GNWT has completed its Rate Review in 2009.” (HC Reply, Section 5)

The TGC argue in their reply in favor of the alternative rate design. They point out that although prices are currently low, the price is volatile and subject to large swings that are difficult to predict.

The TGC also argue that the Board and other regulators have deviated from their normal rate design criteria when faced with extraordinary circumstances.

Views of the Board

In Decision 20-2008, the Board stated the following:

“Beyond the concepts of rate stability and intergenerational equity, there must also be a general fairness to the method of determining rates. It is the Board’s view that, under certain circumstances, maintaining a fair regulatory system could require deviating from the Board’s current practice of community-based rates in favor of sharing costs across all communities and customer classes in the event of extraordinary conditions or events.” (Board Decision 20-2008, p. 4)

It is the Board's view that the significant increase in the cost of fuel from late 2007 to the summer of 2008 constitutes just such an extraordinary event as was contemplated by the Board in Decision 20-2008. Had fuel prices stayed where they were in the summer of 2008, the Board would be fully justified in deviating from its normal practice of community-based rates in favor of sharing costs across all communities and customer classes in an effort to retire the existing fuel fund balances and ease the burden upon the highly impacted communities.

However, the Board cannot ignore more recent world events. The extraordinary crisis in the world economy has produced swift and large decreases in the cost of fuel as well as decreases in interest rates. Essentially one extraordinary event has been overtaken, and substantially mitigated, by another.

The Board agrees with the HC that the large decreases in the price of fuel will significantly decrease or even eliminate the "keep up" components of the fuel riders. As the "keep up" components constituted the majority of the proposed fuel rider increases, the impacts upon those communities have been substantially lessened to the point that the total percent increases will have declined to much more reasonable levels than was proposed in the Application.

In light of the improved situation, the Board cannot now justify deviating from its normal practice of community-based rate design in favor of sharing costs across all communities and customer classes. The Board will not approve the alternative rate design as proposed by the NTPC in its response to IR BR-NTPC-1.

Having made that decision, the Board still needs to deal with the fact that some communities would still be faced with total rate increases on November 1st which exceed the 15% rate increase cap that the Board has adopted. The HC

suggested extending the collection period beyond March 31, 2010 to allow a longer period of collection such as 24 months to keep the rate increase lower.

Having removed cost sharing as an option, the Board is faced with either increasing the collection period or increasing the allowed rate cap. The Board would prefer for the full collection of all shortfalls to occur prior to any new interim rate riders coming into effect from the next Phase 1 GRA so the Board would prefer to maintain the March 31, 2010 target. To accommodate this desire, the Board is prepared this time to allow the total combined rate increase on November 1st for any community or customer class to be 20%.

Another factor in favor of increasing the rate cap to 20% is that the decreased cost of fuel and the reduction/elimination of the “keep up” component of the riders provides an opportune time to try to reduce/eliminate the stabilization fund balances. Fuel costs will inevitably rise again and it would be best if the stabilization fund balances had been significantly reduced or eliminated before this occurs.

While maintaining the 15% cap on adjustments to base rates and the shortfall riders, the Board directs NTPC to apply a 20% total cap to the combined impact of adjustments to base rates, shortfall riders and stabilization fund riders.

The Board agrees with the HC and directs the NTPC to design the stabilization fund riders to bring the fuel fund balances to \$0 and the Snare water fund balance to its trigger amount by March 31, 2010.

The Board notes that the price of oil has now dropped below \$70/bbl and agrees with the HC and the TGC that more recent forecast should be used by the NTPC. The Board directs the NTPC to use an updated oil price and interest rate from

October 27, 2008 when designing the stabilization fund rate riders for implementation on November 1, 2008.

While the Board has not approved cost sharing in this instance, that does not mean that this matter will not be considered by the Board again. The Board recognizes that this decision is taking advantage of the currently lower prices of fuel. Given the volatile state of the world economy, fuel prices might just as quickly start rising and again place some of the communities into the very difficult position of trying to eliminate fuel fund balances while at the same time trying to keep up with rising fuel prices. The Board expects the NTPC to closely watch this situation and, if necessary and regardless of any schedule, to come back to the Board with suggested rate designs, potentially including cost sharing, should the situation start getting out of hand again.

6.2 Standardized Dates for Rider Adjustments

The NTPC is requesting approval to file applications by February 15 and August 15 for stabilization rider adjustments to be effective April 1 and October 1. The NTPC states:

“In the Corporation’s view, this will benefit customers by providing more regular and predictable price changes. It will also ensure fairness to future customers by improving the timing between when fuel cost increases are incurred and when those costs are collected from customers. Further, the proposed timing of the rider changes avoid the summer and winter holiday periods. Finally, in the Corporation’s view this is consistent with the intent of the 1995/98 Phase I negotiated settlement that the rider adjustments be automatic, with Board review of the calculation of proposed riders as necessary.” (GRA, p. C-8, l. 1-7)

The NTPC provided additional information in its argument.

“Through interrogatories to the Corporation, intervenors requested additional information and clarification with respect to NTPC’s proposal for future rider adjustments. The Corporation provided additional information in this regard, stating:

To be specific, the Corporation’s proposal with respect to future revisions to stabilization funds is to make the process as routine and automatic as possible, as follows:

1) For the diesel communities, Inuvik and Norman Wells stabilization funds: Each 6 months (April 1 and October 1) implement new stabilization fund riders that comprise 2 components: 1) for the “keep up” (or fuel price variance) component, ensure the base riders in place (1.000 index) recovers the difference between the weighted average price for fuel (as at the date of application) and the most recent GRA price (and based on forecast 12 month generation and weighted average GRA plant efficiencies); and, 2) for the “catch up” (or balance retirement) component, take the full fund balance and divide by the forecast 12 months sales to determine the base rider (1.000 index). These values would be updated on a rolling basis at each 6 month update.

2) For the standby fuel funds (Fort Smith and Yellowknife): Each 6 months (April 1 and October 1) implement new stabilization fund riders that comprise only a “catch up” (balance retirement) component, based on recovering the full fund balance at the time of the application divided by the forecast 12 months sales to determine the base rider. These values would be updated on a rolling basis at each 6 month update.

3) For the Snare Yellowknife Water Stabilization Fund: Each 6 months (April 1 and October 1) implement new stabilization fund riders that comprise only a “catch up” (balance retirement) component, based on recovering the amount by which the fund exceeds the \$3 million trigger (plus or minus) at the time of the application divided by the forecast 12 months sales to determine the base rider. These values would be updated on a rolling basis at each 6 month update.

The approach proposed by NTPC under (3) above could lead to water stabilization fund riders being reduced, for example, if the fund was not used within a 6 month period, but the sales were higher than forecast so

collections were ahead of forecast.” (NTPC Argument, p. 15, *l.* 22- p. 16, *l.* 29)

The HC stated in its argument that fuel prices, fund balances and updated riders should be reviewed on a regular 6 month basis.

The TGC do not oppose the regular adjustment applications but recommend that the Board no longer permit the NTPC to collect interest of outstanding balances.

The NTPC responded to the TGC in its reply argument.

“The TGC appear to misunderstand the Corporation's proposal. The Corporation is simply proposing to review the status of the stabilization fund balances and riders every six months. This may lead to increases or decreases to riders or no change to the riders. It will not eliminate the lag between when fuel expenses are incurred and when the stabilization fund balances are collected or refunded. NTPC has not applied to change the trigger for these funds, therefore, even with a six month review of the stabilization fund riders there will still be material balances in the funds at times. This is demonstrated by a review of the stabilization fund balances using the iterative approach to calculating the stabilization fund riders in the Corporation's response to BR.NTPC-2. This clearly indicates the need for the Corporation to have access to financing for the balances in the stabilization funds.” (NTPC Reply, p. 9, *l.* 7-16)

Views of the Board

The Board will not accept the TGC recommendation regarding interest. The Board does not see how 6-month adjustments warrants removing the collection (or paying) of interest by the NTPC.

The Board approves the NTPC's request to file applications by February 15 and August 15 of each year for stabilization rider adjustments to be effective April 1 and October 1 of each year.

6.3 Yellowknife Fuel and Water Stabilization Funds

6.3.1 Fuel Stabilization Fund

The NTPC stated the forecast balance in the Snare/Yellowknife Fuel Stabilization Fund is \$1.369 million at October 1, 2008. The established trigger for the fund is \$1 million. The NTPC noted there was no diesel fuel expense built into the revenue requirement for the Snare/Yellowknife system in the 2006/07 & 2007/08 Phase I GRA. Since the primary generation source for this system is hydro generation, and rate changes in Yellowknife ultimately affect all residential customer through the TPSP, the Corporation proposed only a “catch-up” component to the rider to retire the balance in the fund.

The HC noted the primary cause for diesel generation in the months of October to December 2007 was due to capital projects work on the Bluefish generating station headgate. The HC considered that this work should have been carried out earlier in the year when system load was lower in order to minimize the amount of diesel generation during construction. The HC submitted that the incremental diesel generation attributable to the timing of the Bluefish capital work should be excluded from the Yellowknife Fuel Stabilization Fund, which captured the price variance component of this event.

In reply to the HC’s comments, the NTPC submitted that the Bluefish generating station headgate project was in fact planned and executed to minimize diesel generation and commenced as soon as practicable in the spring. The NTPC submitted that if the fuel costs related to the Bluefish headgate project are not included in the stabilization fund, these costs need to be added to the capital project. The NTPC submitted the HC’s request should be dismissed.

Views of the Board

The Board notes the NTPC's views, as set out in Decision 17-2007, that diesel generation expenses during outages related to hydro and transmission capital projects would be capitalized as part of project costs on an individual project-by-project basis. [Decision 17-2007; P. 20] Consistent with this view, the Board considers that the diesel fuel costs associated with the Bluefish generating station headgate project should be capitalized. The NTPC is directed to adjust the Snare/Yellowknife Fuel Stabilization Fund balance and rider accordingly.

6.3.2 Water Stabilization Fund

The NTPC stated that in addition to a rider for the Snare/Yellowknife Fuel Stabilization fund, a rider is also required to address the current balance in the Snare/Yellowknife Water Stabilization fund. The fund balance is forecast to be \$4.654 million at October 1, 2008. The established trigger for this fund is \$3 million. The NTPC's proposed rider was designed to bring the water stabilization balance to the \$3 million threshold. The NTPC indicated charges to the water stabilization fund arise as a result of the unavailability of hydro generation due to low water or other factors.

The HC expressed concern that the Water Stabilization Fund incorporates low water conditions for the period October 2008 to March 2009. The HC submitted that absent evidence to the contrary, the normal water flows should be relied upon for the months of October 2008 through March 2009. In any event, the HC submitted, this would be subject to review again in 6 months under the NTPC's proposal.

The HC also submitted that the diesel fuel costs (at the forecast diesel fuel prices), associated with the timing of the Bluefish generating station headgate project should be disallowed from the water stabilization fund. The HC considered that this work should have been carried out earlier in the year when system load was lower in order to minimize the amount of diesel generation during construction.

The NTPC submitted that the diesel generation forecasts included in the water stabilization fund reflect not only water conditions but also expected loads and other requirements for diesel generation. It would be inappropriate to update water flows without also updating load forecasts. The NTPC submitted that, with the current load levels in the Snare/Yellowknife system, higher water levels do not necessarily lead to reductions in diesel requirements.

Views of the Board

In view of the Board's determination in the preceding section (Section 6.3.1), the NTPC is directed to adjust the Snare/Yellowknife Water Stabilization Fund balance and rider to reflect capitalization of the diesel fuel costs associated with the Bluefish generating station headgate project.

The Board notes the NTPC's view that it would be inappropriate to update water flows without also updating load forecasts. The NTPC also indicates, with the current load levels in the Snare/Yellowknife system, higher water levels do not necessarily lead to reductions in diesel requirements. Given the Board's decision to review fund balances every six months and given the NTPC's explanations respecting the minimal impact of adjusting water levels, the Board accepts the NTPC's forecast of water levels for the purposes of calculating the water stabilization rider for this Decision.

7. STAND-BY RATE PROPOSAL

The NTPC proposed a rate of \$24/kW each month for standby service for all communities. The NTPC also requested final approval of the interconnection guidelines which were approved on an interim basis in Decision 13-2007.

The NTPC established the standby rate proposal based on the following rate design considerations:

1. The full-cost demand charge related to generation functions in the thermal communities. The full cost generation demand component is approximately \$24 each month.
2. The same demand charge in each community for reasons of customer understandability and ease of administration. This is consistent with the demand charges for general service customers, which are levelized across communities.

The HC submitted that the community of Fort Smith does not consider that ease of understanding and ease of administration are sufficient or compelling reasons to vary from the generation demand cost component by a factor of 4. The HC submitted that a charge of \$6/kW/month for standby would be more appropriate for General Service customers in Fort Smith regardless of whether they are expected to request stand-by service.

The NTPC submitted the \$24 per kW charge has been determined considering a number of factors including that the NTPC must have the capability of serving the full standby load during system peak. Further a significant amount of demand

related costs are recovered through the energy charge to general service customers.

Views of the Board

The Board considers the proposed standby charge to be a reasonable proxy for the cost of peaking generation. The Board accepts the proposed standby rate for purposes of this Decision.

There were no comments from parties respecting the proposed interconnection guidelines. The Board approves as final the interconnection guidelines that were approved on an interim basis in Decision 13-2007.

8. TERMS AND CONDITIONS OF SERVICE

As described in Appendix F, the NTPC applied to have changes to Clauses 4.1, 13.2 and 14.1 of its Terms and Conditions of Service. The NTPC later withdrew its proposed change to 14.1.

The change to 4.1 was to remove the provision to allow the NTPC to refuse to provide service if a former customer residing at the premises has existing arrears.

The change to 13.2 was to restate the limitations on the NTPC's limitation of liability.

The HC agrees with the proposed change to Clause 4.1. The HC also accept the proposed change to Clause 13.2 as long at that change is also reflected in the NTPC's Customer Service Agreement ("**CSA**").

Views of the Board

The Board approves the proposed changes to Clauses 4.1 and 13.2 of the Terms and Conditions of Service. The Board also expects the proposed change to Clause 13.2 to be mirrored in the NTPC's CSA.

9. OTHER MATTERS

9.1 Time of Use Rates

The NTPC indicated that the Corporation has considered the potential benefits of time of use rates on its own systems and determined that it would not be beneficial to pursue time of use rates at this time for the following reasons:

- At present, both the Snare/Yellowknife and Taltson hydro systems have very limited diesel generation requirements, related largely to times of hydro unavailability. These times are hard to predict and are not related to seasonal or daily use patterns, therefore there is little or no benefit to customers of shifting loads between daily or season periods. When diesel generation is required more frequently, a time-of-use rate structure might have more potential benefits.
- Similarly, in the thermal communities the Corporation's generation costs do not vary by daily or seasonal periods as they might in an interconnected system. Generation facilities are planned to meet the annual system peak. As a result there is little to no benefit in the thermal communities of shifting load between daily or seasonal periods.

The NTPC submitted that while there would be little to no cost savings as a result of time-of-use rates, there would be added costs including:

- More advanced metering technology to accommodate time-of-use rates.

- Writing a new billing software script to enable the Corporation's current billing system to accommodate time-of-use rates.

The NTPC indicated that it is not proposing time-of-use rates at this time. The NTPC submitted it is more prudent for its customers to focus on general conservation efforts, to reduce bills and generation requirements at any time of the day or season of the year, rather than develop a new rate structure that would be difficult or costly to implement. The Corporation indicated that it believes there are substantial benefits to customers, given the current rate structure, to pursue these types of conservation initiatives.

With respect to future directions on the topic of time-of-use rates, the Corporation indicated it, together with Northland Utilities has proposed a meeting with the Board to discuss the future directions on this topic

Views of the Board

The Board views the adoption of time of use rates to be one among a number of approaches for managing customer demands with a view to either avoiding or forestalling new plant additions needed to meet growth in peak demands. In the Board's view, peak demand drives the need for new plant and if measures can be adopted to mitigate demands during periods of peak usage, costs may be avoided or postponed. The Board recognizes that while it is desirable to mitigate peak demands, the benefits of measures designed to achieve demand management must be weighed against the costs of implementing such measures.

The NTPC as well as Northland Utilities have requested a meeting with the Board to address matters such as time of use rates. A determination on future

processes involving time of use rates or other demand management measures will therefore have to await the outcome of this meeting.

9.2 Revenue to Cost Ratios

In IR BR-NTPC-5, the Board asked the NTPC to comment on a potential Board direction to the NTPC on revenue to cost ratios for the next Phase 2 GRA. The NTPC discussed this matter in its argument.

“...The Corporation notes that many of the communities with revenue to cost ratios below 95%, including for example Fort Resolution, Jean Marie River and Nahanni Butte, received 15% rate increases as approved in Decision 8-2003 as well as substantial rate increases effective February 1,2007 and January 1,2008.

The Corporation's response indicated that such a direction could be issued by the Board as a future rate design criteria that NTPC could seek to meet. At that time, NTPC's proposals could be assessed by the Board based on the extent to which the proposed rates meet this criteria in light of other relevant criteria. The Corporation noted that it was likely that this new criteria could not be met simultaneously with the Board's other rate design criteria including a 15% cap on rate increases but that the balance between different rate design criteria was a suitable matter to be addressed at the time of the next GRA.

The Corporation also notes that many of the communities it serves have very small customer numbers and energy sales. When major capital projects are required, such as a new power plant or an extensive distribution upgrade, this can have an extreme impact on the community's revenue requirement and rates cannot be increased enough with a 15% cap to make up this revenue requirement shortfall. Further, when one community's rates are lower than 100% revenue to cost coverage it creates upward pressure on other community revenue to cost coverage ratios. Therefore, maintaining a 15% cap on rate increases in the future will mean that some communities will be outside of the 95% to 105% revenue to cost coverage ratio.” (NTPC Argument, p. 23, l. 14-34)

The TGC also discussed this matter in its argument.

“The TGC also note the results presented in Appendix E are not based on a current cost of service study and therefore, such results could vary materially if a proper cost of service reflecting cost causation is filed and tested. As well, there is currently a review by the GNWT of rate regulation and subsidies that may impact future rate rebalancing directions between customer classes and communities. Such review may have some significant impact on rate design and the ensuing RC ratios. **For these reasons, the TGC respectfully submit it may be premature to provide any direction to NTPC to transition communities to a 95-105% RC range in each of the years in the next Test Period.**” (TGC Argument, p. 15)

Views of the Board

The Board accepts that requiring communities with lower revenue to cost ratios to be brought to within the 95% to 105% range more quickly might require exceeding the 15% rate cap. However, it is the Board’s view that it is taking too long to get some communities within the appropriate range to the detriment of other communities that must cover the shortfalls. In particular, the Board is eager to end the situation in which higher cost communities are subsidizing lower cost communities.

The Board directs the NTPC, in its next Phase 2 GRA, to consider the following table, in conjunction with other rate design criteria, in setting the base rates.

Community/Customer	Present	Test Year 1	Test Year 2	Test Year 3
Fort Resolution	51.7%	70% minimum	90% minimum	95% minimum
Jean Marie River	69.2%	80% minimum	90% minimum	95% minimum
Nahanni Butte	75.2%	85% minimum	90% minimum	95% minimum
Fort Simpson	77.9%	85% minimum	90% minimum	95% minimum
Wrigley	80.6%	90% minimum	95% minimum	95% minimum

Dettah	85.9%	95% minimum	95% minimum	95% minimum
NUL(NWT)	130.2%	120% maximum	110% maximum	105% maximum
All Others	Various	Within 95% to 105% range		

9.3 Government of the Northwest Territories (“GNWT”) Electricity Review

The TGC recommends that the Board require the NTPC to quickly come forward with a new GRA to reflect the outcome of the GNWT electrical review if that review is completed prior to the NTPC’s next Phase 1 application.

Views of the Board

The Board expects that both it and the NTPC will be expected by the GNWT to quickly implement whatever recommendations are produced by the electrical review. The Board does not think that any direction is required.

9.4 Plant Efficiency

The TGC recommends that the Board require the NTPC to use actual plant heat rates to compute the fuel volumes for purposes of the stabilization funds.

Views of the Board

The Board considers this to be a Phase 1 matter that was already dealt with in Decision 13-2007. The Board will not consider this matter in this Decision.

10. SUMMARY OF BOARD DIRECTIONS

November 1, 2008 Implementation

1. The Board directs the NTPC to apply the shortfall riders as calculated in Schedule B-3 of the Application subject to an adjustment to account for the reduced 17-month collection period from November 1, 2008 to March 31, 2010 as well as an update to the applicable interest rate to October 27th, 2008. The NTPC is to continue to apply the 15% rate cap on the combined impacts of adjustments to the base rates and the shortfall riders.
2. While maintaining the 15% cap on adjustments to base rates and the shortfall riders, the Board directs NTPC to apply a 20% total cap to the combined impact of adjustments to base rates, shortfall riders and stabilization fund riders.
3. The Board directs the NTPC to design the stabilization fund riders to bring the fuel fund balances to \$0 and the Snare water fund balance to its trigger amount by March 31, 2010.
4. The Board directs the NTPC to use an updated oil price and interest rate from October 27, 2008 when designing the stabilization fund rate riders for implementation on November 1, 2008.
5. The Board considers that the diesel fuel costs associated with the Bluefish generating station headgate project should be capitalized. The NTPC is directed to adjust the Snare/Yellowknife Fuel Stabilization Fund balance and rider accordingly.

6. The NTPC is directed to adjust the Snare/Yellowknife Water Stabilization Fund balance and rider to reflect capitalization of the diesel fuel costs associated with the Bluefish generating station headgate project.

Next Phase 2 GRA

7. The Board directs the NTPC, in its next Phase 2 GRA, to consider the following table, in conjunction with other rate design criteria, in setting the base rates.

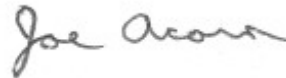
Community/Customer	Present	Test Year 1	Test Year 2	Test Year 3
Fort Resolution	51.7%	70% minimum	90% minimum	95% minimum
Jean Marie River	69.2%	80% minimum	90% minimum	95% minimum
Nahanni Butte	75.2%	85% minimum	90% minimum	95% minimum
Fort Simpson	77.9%	85% minimum	90% minimum	95% minimum
Wrigley	80.6%	90% minimum	95% minimum	95% minimum
Dettah	85.9%	95% minimum	95% minimum	95% minimum
NUL(NWT)	130.2%	120% maximum	110% maximum	105% maximum
All Others	Various	Within 95% to 105% range		

11. BOARD ORDER

NOW, THEREFORE IT IS ORDERED THAT:

1. The Board directs NTPC to implement the rate changes, as approved and directed in this Decision, on November 1, 2008.
2. The Board directs NTPC to provide the Board and other parties by Oct. 30, 2008 with a working model, in Excel format, of all Phase 2 GRA tables and schedules relating to the rate changes approved and directed by this Decision. The NTPC is also to provide the Board and other parties with an updated set of rate schedules.
3. Nothing in this Decision or Order shall bind, affect or prejudice this Board in its consideration of any other matter or question relating to Northland Utilities (Yellowknife) Limited.

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



**Joe Acorn
Chairman**

Dated October 27, 2008