

Dogrib Power Corporation

Presentation to the Public Utilities Board of the Northwest Territories

May 25, 2007

I. Introduction

My name is Jeff Baker and I am a partner at PricewaterhouseCoopers. PricewaterhouseCoopers are the auditors of Dogrib Power Corporation (“DPC”).

I am here today because management has asked me to:

- A. Provide some information on the Power Acquisition Agreement between DPC and the Northwest Territories Power Corporation (“NWTPC”). Because we are the auditors of DPC, we are familiar with this agreement; and
- B. Calculate a rate of return that the DPC is earning over the life of the lease based on the current arrangements and assumptions made by management.

II. Power Acquisition Agreement

The DPC constructed the Snare-Cascades hydro-electric generating station and then in 1996 entered into a lease arrangement with NWTPC for a period of 65 years. The cost of this facility was approximately \$26.3 million. To assist with the financing of the project, DPC borrowed approximately \$22.9 million from the NWT Energy Corporation Ltd.

The loan bears interest at 9.6%, has a term of 30 years and is expected to be repaid by July 2026.

The monthly payments made by the DPC over the term of the loan are \$195,068.

Under the lease terms, the DPC receives a payment each month from the NWTPC based on the following components:

- A. A component for the depreciation of the leased property in the amount of \$33,772. This is determined based on the cost of the asset divided by the number of months of the lease agreement.
- B. \$5,000 to cover operating costs of the DPC – note that there is no inflation component to this; it is \$5,000 per month over the 65 years.
- C. A component that represents interest on the debt that DPC borrowed from the NWT Energy Corporation Ltd.; and

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- D. A return on the DPC's equity in the project (which is calculated based on the return on equity that NWTPC is allowed, less .25%).

Over time, the monthly payments received by the DPC from the NWTPC are less than the required monthly payment to service the debt of \$195,068. Because of this, NWT Energy Corporation Ltd. required the DPC to establish a sinking fund such that when cash inflows were deficient, funds could be withdrawn from the sinking fund to meet the debt repayment requirements. It is anticipated that monies will need to be withdrawn from the sinking fund over a period of 13 years (2013 – 2026).

Each month DPC receives a cheque from the NWTPC that is net of the debt repayment of \$195,068 and the sinking fund contribution.

The monies in the sinking fund are invested in a bond fund.

III. Rate of Return

Management has asked me to calculate an estimated rate of return to the DPC over the life of the lease, based on the current arrangements and assumptions provided by management:

- Annual operating expenses of \$50,000 (this is based on an approximate average of the 2006 and 2005 expenses of DPC).
- Expenses are adjusted annually to take into account inflation. A 2% rate of inflation has been used. From information obtained from Statistics Canada, the average annual rate of inflation from 1997 to 2007 is 2.15% and the average annual rate of inflation from 1987 to 2007 is 2.52%. As well, the Conference Board of Canada has forecasted inflation to average 2.12% for the period from 2005 to 2025 with the rate of inflation estimated to be 2.30% in 2025 (see attachments).
- The sinking fund will earn 4.30% over the life of the fund.
 - 4.30% is the current benchmark for long-term bonds as noted by the Bank of Canada.
 - Since the DPC has been invested in the Bond Fund, its rate of return has been 4.19% to December 31, 2006.

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- Monies that DPC would have to borrow to fund the shortfall in cash on hand to the point in time the debt is repaid bears interest at 6%, note that 6% is the current prime lending rate. This assumes that the lender does not let the DPC have access to monies in the sinking fund until the loan is repaid.
- Once the debt is repaid, cash balances are invested and earn 4.30%, which is the long-term bond rate I mentioned earlier.

Using these assumptions, the estimated rate of return to the DPC over the life of the lease is only 2.212% which is not even keeping pace with inflation. If there were any reduction in the amounts paid to DPC over the life of the lease, the economics of the arrangement make even less sense.

This is the basis for management's conclusion that this is not a lucrative agreement for the Dogribs and they are, in fact, subsidizing the cost of the power in the NWT.

This concludes my presentation.

How to use the Calculator

Enter any dollar amount, and the years you wish to compare, then click the **CALCULATE** button.

YEARS MUST BE IN THE RANGE 1914- 2007.

COMMAS AND SPACES CAN BE USED IN THE DOLLAR AMOUNT.

Clear	A "basket" of goods and	100.00	1997
	services that cost:	\$ in	
	...would cost:	123.65	2007
	Per cent change: %	23.65	
	Number of Years:	10	
	Average Annual Rate of Inflation/ %	2.15	
	Decline in the Value of Money:		
	CPI for first year:	(Apr 1997) 1	
	CPI for second year:	(Apr 2007) 1	
		June 1992 CPI =	

Data Source: Statistics Canada, CONSUMER PRICE INDEXES FOR CANADA, MONTHLY, 1914-2006 (P100000 series.)

YEARS MUST BE IN THE RANGE 1914- 2007.

COMMAS AND SPACES CAN BE USED IN THE DOLLAR AMOUNT.

Clear	A "basket" of goods and	100.00	1987
	services that cost:	\$ in	
	...would cost:	164.36	2007
	Per cent change: %	64.36	
	Number of Years:	20	
	Average Annual Rate of Inflation/ %	2.52	
	Decline in the Value of Money:		
	CPI for first year:	(Apr 1987) 8	
	CPI for second year:	(Apr 2007) 1	
		June 1992 CPI =	

Data Source: Statistics Canada, CONSUMER PRICE INDEXES FOR CANADA, MONTHLY, 1914-2006 (P100000 series.)

Clear	(Apr 2007) 13	2007
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Conference Board of Canada Long Term Forecast (2005-2025)

2005	1.90%	—
2006	1.90%	
2007	2.00%	
2008	2.00%	
2009	2.00%	
2010	2.00%	
2011	2.10%	
2012	2.10%	
2013	2.10%	
2014	2.10%	
2015	2.10%	
2016	2.10%	
2017	2.10%	
2018	2.10%	
2019	2.20%	
2020	2.20%	
2021	2.30%	
2022	2.30%	
2023	2.30%	
2024	2.30%	
2025	2.30%	—

Avg 2.12%