

NORTHWEST TERRITORIES PUBLIC UTILITIES BOARD

IN THE MATTER OF

Northwest Territories Power Corporation

General Rate Application for the Test Years

2006/07 and 2007/08 Refiling Application dated Oct 1, 2007

- Comments on Refiling Application -

Submitted on behalf of:

TOWN OF INNUVIK
HAMLET OF FORT SIMPSON
HAMLET OF FORT LIARD

(The Thermal Generation Communities)

October 23, 2007

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1. Introduction

The Thermal Generation Communities (TGC) whose participants, for purposes of this proceeding, include the Town of Inuvik, the Hamlet of Fort Simpson and the Hamlet of Fort Liard, have reviewed the October 1, 2007 Refiling of NTPC's 2006/07 and 2007/08 GRA and the IR Responses filed by NTPC. Based on this review, we file the following comments.

2. Directive 2 – Aklavik Plant

The Board directed NTPC as follows:

The Board directs NTPC, in its Phase 1 refiling, to reduce the cost of the Aklavik plant addition by 50% of the cost increase resulting from the delays. The costs to be included for the 50% risk sharing adjustment are overheads and Allowance for Funds Used During Construction (“AFUDC”) resulting solely from the delays in completion of the plant caused by the unforeseen length of time spent on community consultations and the fire at Fort McPherson¹.

In its refiling Application, NTPC calculated the 50% risk sharing adjustment by taking the difference between the AFUDC and overheads included in the original estimate of \$0.823 million and the corresponding amount included in rate base of \$0.878 million (50% times 0.878 M less \$0.823 M).

A review of the evidence suggests that the amount approved by the Board in Decision 11-2006 for the final project permit application for the Aklavik plant addition was \$0.515 Million for AFUDC and overheads². The difference between this amount and the \$0.823 million noted above in respect of the “original application” is provided as follows:

Upon review, it was determined that the \$4.9 million included incorrect numbers for the forecast AFUDC for 2005/06 and 2006/07. The forecast AFUDC for the

¹ Decision 13-2007, Directive 2, pages 12, 168

² Response TGC.NTPC-1 (c &c)

third and fourth year should have been \$92,000 and \$137,000 respectively. This error resulted in an understatement of AFUDC equal to \$198,000, bringing the total for AFUDC and overheads to \$0.7 million. TGC.NTPC-1 Table 3 illustrates the correction for AFUDC in 2005/06 and 2006/07³.

It is not clear what “review” is being referred to in the above text, or when such review was undertaken. In addition, given the significance of the change as a result of the “review” noted above, we question why the Board was not advised of this change considering the Board approved \$0.515 million for AFUDC and overhead costs in Decision 11-2006.

Based on all of the foregoing, the TGC submit the 50% risk sharing adjustment should be calculated as being the difference between the AFUDC and Overhead amounts approved by the Board in Decision 11-2006 (of \$0.515 million) and the amount proposed for inclusion in rate base (\$0.823 million). Hence, the \$27,500 adjustment proposed by NTPC should be increased to \$0.154 million [$\$0.823 \text{ million} - \$0.515 \text{ million} * 50\%$]

3. Directive 51 - Affiliate Transactions and Code of Conduct

In Decision 13-2007, the Board directed NTPC as follows as part of Directive 51:

The Board directs NTPC to provide the Board with biannual reports that discuss the following:

1. The efforts and progress of NTPC and its affiliates in pursuing alternative energy, demand side management and energy efficiency projects;
2. Justification for any projects being pursued by NTPC’s affiliates rather than NTPC;
3. Funding programs that are, or will be, available and any efforts and progress by NTPC and its affiliates in obtaining funding⁴.

NTPC did not address the foregoing Direction as part of its October 31, 2007 re-filing. In response to an IR, it states:

NTPC is in the process of completing its Phase I re-filing and responding to near term directives. The order in which the directives are actioned is driven by the

³ Response TGC-NTPC-7 (a)

⁴ Decision 13-2007, page 177

dates set by the Board. A Phase II application and the inter-affiliate information will take precedence over Directive 51 with regard to producing a report for submission. Given the workload to complete the short term directives, NTPC is planning to submit a report to the PUB in the first half of 2008/09.⁵

The TGC appreciate NTPC has a busy regulatory agenda over the next few months. However, in order that NTPC provides a full and complete response to Directive 51 to respond to the Board and intervenor concerns as expressed in Decision 13-2007, NTPC should be directed to provide some specific details in the biannual reports it has been directed to submit. Some of the items the TGC expect to see addressed in the biannual reports were provided in Information Request TGC.NTPC-7 and include:

- (i) Availability of all federal and other funding available to kick start the “green” energy projects in thermal communities;
- (ii) Efforts made by NTPC to secure private/public funding;
- (iii) Updates on the status of all “green projects” identified in the 2006-08 GRA and projects identified subsequently;
- (iv) Changes made in the Corporation’s resource planning to specifically include costs of carbon emissions;
- (v) Details of market developments related to valuation and trading of greenhouse gas emissions (GHG)
- (vi) Efforts to secure GHG credits arising from both new “green” projects or from prior such projects already in place;
- (vii) Discussions with thermal communities with a view to assisting the communities to get the required funding;
- (viii) Rationale for any new green projects being undertaken by non-regulated affiliates as opposed to by NTPC (see discussion of Board concerns in Decision 13-2007, page 165)
- (ix) How NTPC has managed risk considerations “through appropriate business arrangements with third parties” [Decision 13-2007,page 165]
- (x) Details of all “green” projects undertaken by NTPC’s affiliates and why these were not, or could not be undertaken by NTPC.

In order to properly respond to the Board and intervenor concerns, the TGC submits NTPC should be directed to include at least the foregoing in its biannual reports.

⁵ Response TGC-NTPC-7 (a)

4. Directives 10 and 11 - Station Service Losses

The Board directed NTPC as follows with respect to the calculation of station service losses for the test years 2006/07 and 2007/08:

The Board directs NTPC that, in its Phase 1 refiling, station service is to be calculated using the same procedure used for fuel efficiencies. Forecast station service is to be calculated using 3 years of actual data with a weighting of “3” given to the lowest station service year, a weighting of “2” given to the middle station service year and a weighting of “1” given to the highest station service year. Consistent with its directions respecting fuel efficiencies, the Board directs NTPC to give due weight to the first test year station service forecasts in order to calculate the second test year station service forecasts, in the next GRA⁶.

Further the Board directed a 5% cap as follows:

The Board directs NTPC, in its Phase 1 refiling, to apply a 5% cap on station service as a percentage of generation⁷.

While NTPC filed revised station service losses in its refiling, it did not provide detailed computations to support the 3:2:1 weighting method described above. This information was again requested in IR TGC.NTPC-4 (a), but was not provided.

A review of Response TGC.NTPC-4 (a), Table 1, indicates NTPC has complied with the Direction 11 to cap station service losses at 5%. However, it is not possible to verify the accuracy of the 3:2:1 weighting factors prescribed by the Board in Direction 10.

⁶ Decision 13-2007, pages 71, 169

⁷ Decision 13-2007, pages, 72, 169

5. Directive 22 - Diesel Fuel Stabilization Account

Directive 22 requested NTPC to provide as part of its Refiling Application, a procedure to determine future fuel stabilization riders triggered by fuel price changes:

The Board agrees with the TGC that under community based rates, the fuel riders should follow the community costs as closely as possible. The Board notes the increase or decrease in fuel costs that are passed through to customers via the fuel rider would be approximately the same incremental costs per kWh for each community resulting from a common change in the reference price for crude oil. However, given the differences in fuel efficiencies by community as well as differences in station service and line losses by community, the fuel riders to pass through a given cost change can vary by community. For example, a community with a relatively low average fuel efficiency would require a higher fuel rider compared with one with a relatively high fuel efficiency in order to pass through a given cents per kWh increase or decrease in fuel costs. The present fuel stabilization rider mechanism does not recognize these differences by community.

The Board notes NTPC's concern respecting material costs for maintaining separate fuel stabilization accounts by community. However, the Board considers the premise of community based rates can be maintained if the change in fuel cost following a change in the reference price of oil can result in different fuel riders for each community based on the forecast efficiencies and station service/losses for that community. Since the change in the fuel cost on a per kWh basis could be expected to be approximately the same for all communities, there will be no requirement to maintain separate fuel stabilization accounts by community. The reconciliation of revenues and costs recorded in the fuel stabilization account could be carried out as at present using a single fund. The Board directs NTPC to consider these comments and propose a procedure for determining future fuel stabilization riders triggered by fuel price changes as part of the refiling⁸.

NTPC responded as follows:

The Corporation has reviewed the Board's directive and comments in Decision 13-2007. In the Corporation's view, the most practical way to implement the recommendation of the Board is to develop a community specific index for the fuel rider that recognizes differences in fuel efficiency, line losses and station service.⁹

⁸ Decision 13-2007, pages 145-146

⁹ Oct 1, 2007 Refiling, page 35

NTPC states it did not consider any other method “with respect to different fuel efficiency, line losses and station service by community while maintaining a single fuel stabilization account.”¹⁰

The TGC submit the major flow in NTPC’s indexing proposal is it does not take into account the differential costs related to fuel delivery. These fuel delivery prices range from a low of 8.38 cents/litre in Jean Marie River to a high of 39.19 cents/litre in Colville Lake.

	Fuel Price		Total Cost	% Delivery
	Excl. Delivery	Delivery Cost		
	\$/L	\$/L	\$/L	
104 Wha Ti	0.80	0.1219	0.9219	13.2%
105 Gameti	0.80	0.1519	0.9519	16.0%
110 Lutsel K'e	0.80	0.1222	0.9222	13.3%
205 Ft Simpson	0.80	0.0870	0.8870	9.8%
206 Ft. Liard	0.80	0.1026	0.9026	11.4%
207 Wrigley	0.80	0.1099	0.9099	12.1%
208 Nahanni Butte	0.80	0.1026	0.9026	11.4%
209 Jean Marie River	0.80	0.0838	0.8838	9.5%
305 Tuktoyaktuk	0.80	0.2249	1.0249	21.9%
306 Ft. McPherson	0.80	0.2293	1.0293	22.3%
307 Aklavik	0.80	0.2182	1.0182	21.4%
308 Deline	0.80	0.2389	1.0389	23.0%
309 Ft. Good Hope	0.80	0.2989	1.0989	27.2%
310 Tulita	0.80	0.1313	0.9313	14.1%
311 Paulatuk	0.80	0.3110	1.1110	28.0%
312 Sachs harbour	0.80	0.2967	1.0967	27.1%
313 Tsiigehtchic	0.80	0.2093	1.0093	20.7%
314 Colville Lake	0.80	0.3919	1.1919	32.9%
315 Ulukhatok	0.80	0.3319	1.1319	29.3%

Source: Response TGC-NTPC-6, Table 1

¹⁰ Response TGC-NTPC-6 (a, b, c)

The effect of NTPC's proposed index, as NTPC acknowledges, is that it "does not flow through the delivery charges" to the community which is responsible for that delivery charge.

We submit the Board's intent was for NTPC to adopt the principle fuel rate riders "should follow the community costs as closely as possible."¹¹ Delivery charges are a significant component of the total fuel costs, and range from a low of 9.50% to a high of 32.9% of the total fuel costs as noted in the above table. The indexing mechanism proposed by NTPC does nothing to meet the desired objective to have riders follow community costs as closely as possible.

NTPC submits the "indexing method does not attempt to make any adjustments to the way changes in fuel price is calculated in the fund" and suggest this is consistent with the following Board finding:

"Since the change in the fuel cost on a per kWh basis could be expected to be approximately the same for all communities, there will be no requirement to maintain separate fuel stabilization accounts by community".

With respect, while the landed costs and fuel taxes may be expected to be the same across the board, this is not true with respect to transportation/delivery costs as is evident in Response TGC-NTPC-6 (Table 1 and Table 2) and in Response TGC.NTPC-40 from the main hearing. Hence, while an increase, for example, in the "reference price for crude oil" may affect the incremental costs of all communities in a similar manner, the same does not hold true for changes in transportation/delivery costs. That is, changes in transportation/delivery costs do not all affect all communities in the same manner.

The TGC submit the only reasonable approach is to use the index as proposed by NTPC for all costs other than transportation/delivery costs, and design a rate rider accordingly. The transportation/delivery costs should then be added to these riders. This then, in our

¹¹ Decision 13-2007, page 145

view, achieves the Board intent to design fuel riders which “should follow the community costs as closely as possible.”¹²

6. Directive 19 - Sales Forecast

The Board directed NTPC as follows:

The Board directs NTPC, in its Phase 1 refiling, to adjust the test year sales forecasts by community having regard to historical normalized average use per customer and any other relevant factors considered in the top down and bottom up approaches. NTPC is to reflect in the refiling any consequential impacts of any changes in sales forecasts on fuel costs and any other second order impacts.¹³

NTPC responded as follows:

Load forecasting is a difficult exercise that must consider the influences of a number of different factors, only one of which is weather. The last time the Corporation reviewed its load forecast method in detail, it was a significant undertaking. The average use per Customer method was raised late in the Phase I proceeding and has not been subjected to the degree of testing as the Corporation’s current method. As well, the average use per Customer illustration provide by HC in relation to Fort Smith failed to consider the most recent year of data and was based on a simple average which may or may not be the most appropriate indication of trend in Customer usage and usage patterns.¹⁴

The TGC has reviewed the data provided in Response to BR.NTPC-4 [Tables 1-12] and conclude that the net impact on the shortfall for each of the three diesel communities is not really significant for the TGC, except for Inuvik, when we look at the impact of both the Residential and GS customers.

- Using a 4-year simple average method, the 2006/07 increase (decrease) in the net shortfall for Fort Simpson, Fort Liard and Inuvik is \$8,000, (\$3,000) and (\$114,000) for the Residential and GS customer classes¹⁵

¹² Decision 13-2007, page 145

¹³ Decision 13-2007, pages 134, 171

¹⁴ October 31, 2007 Refiling, page 25

¹⁵ Response BR.NTPC-4, Tables 5, 7

- Using a 4-year simple average method, the 2007/08 increase (decrease) in the net shortfall for Fort Simpson, Fort Liard and Inuvik is \$13,000, (\$5,000) and (\$120,000) for the Residential and GS customer classes¹⁶

The TGC note NTPC's concern it could not, in the time before the Refiling Application, develop a method to normalize sales due to weather:

The Corporation does not have a method for normalizing sales due to weather (i.e. temperature, precipitation, etc) from actual years to correct for variations due to weather and could not develop one in the short time period available for the re-filing. As such the Corporation cannot provide the analysis on the basis of weather normalized sales¹⁷.

The Corporation also noted the method of determining customer counts changed in 2002/03, rendering any analyses of a term longer than 4 years unreliable:

Prior to 2002, the Corporation reported customer counts in regulatory filings and load forecasts using a simple method that counted the number of active accounts at a single point in time each year. Beginning part way through the 2002/03 fiscal year, the Corporation introduced a new method for collecting customer count data. The new method takes the 12-month average of accounts that are active on the 15th of each month. In the Corporation's view, the new method provides a more accurate customer count....However, the differences in customer count method prior to 2002/03 mean that the Corporation cannot rely on an average use per customer calculation for years prior to 2002/03 without considerable additional effort to restate prior year customer counts to be consistent with the new customer count method. In the Corporation's view, it would be advantageous to examine whether an average should be based on 4 years or some larger data set, however, such an analysis could not be undertaken during the short time period available for the re-filing. In the event this data is intended to develop new weather normalization variables, 4 years is entirely insufficient and 10 years is likely to be required.¹⁸

The TGC agree the simple average of 4 years, or the weighted 4-year average assessment undertaken by NTPC, is suitable to use as a cross check on the results provided in the Refiling. However, given the limited number of years of data and the fact NTPC has not

¹⁶ Response BR.NTPC-4, Tables 6, 8

¹⁷ Response BR.NTPC-4 (a)

¹⁸ Ibid

been able to develop a method for normalizing sales to correct for variations in weather, the average use per customer method may not be appropriate for purposes of this GRA.

NTPC should be directed to provide at its next GRA, a proper method which uses a longer period (at least 10 years of data), for developing a weather normalization method and determination of average use per customer. As well, NTPC should also ensure its current method of customer count is also applied to the years prior to 2002/03 so that there is consistency in the method of developing customer counts.