



Northwest
Territories

Minister Responsible for the Northwest Territories Power Corporation

MAY 26 2009

MR. LEW VOYTILLA
CHAIR
NORTHWEST TERRITORIES POWER



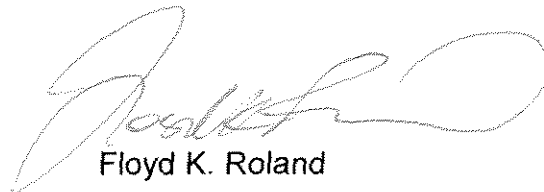
Update on ATCO Proposal

On March 23 I visited Hay River and, along with the MLA for Hay River North, the Honourable Paul Delorey, and the MLA for Hay River South, Mrs. Jane Groenewegen, attended a meeting with NTPC employees.

At the meeting employees expressed a desire to be kept advised of any developments or progress in the evaluation of the proposal from ATCO for a partnership with NTPC in the generation and transmission of power in the NWT.

In January I announced a working group would review the ATCO proposal. Attached is the first formal report from this group, based on preliminary discussions with various parties.

I will continue to advise you of significant progress on the review of this proposal.



Floyd K. Roland

Attachment

c. The Honourable Paul Delorey, MLA
Hay River North

Mrs. Jane Groenewegen, MLA
Hay River South

Progress Report – ATCO Proposal Review

May 25, 2009

Summary

This is the first formal report of the Working Group tasked with reviewing the ATCO proposal received in November 2008. The information contained here summarizes the discussions to date from internal discussions, a technical workshop held with regulatory, legal and financial advisors, and preliminary engagement with ATCO personnel.

ATCO officials were advised early on that the GNWT had embarked on a significant *policy review via the Review of Electricity Regulation, Rates, and Subsidy Programs*. They were further advised that the GNWT's decision to undertake a review of NTPC would take precedence over decision making respecting the ATCO proposal.

ATCO questioned whether there was merit in proceeding with discussions on their proposal, in light of these other two processes being underway. The decision to proceed was based on three factors:

- The working group wanted to ensure that they fully understood ATCO's motivation and intentions;
- A cooperative approach between GNWT and ATCO is likely to improve the quality of the NTPC Review effort through access to data, discussions on differences in operating philosophy, and interpretation of regulatory filings;
- The collaborative effort during the NTPC Review will provide direct benefit to the negotiations process if the two parties decide to pursue such a path.

Both parties have discussed preliminary objectives for these arrangements. ATCO is clearly interested in strengthening their partnerships in the North, building on what they see as already a long-term relationship with the North. GNWT wishes to improve the sustainability of people's lives in all communities, partly through efforts to lower the costs of living. GNWT is also interested in reducing its reliance on fossil fuels for power generation, and in developing through partnerships additional hydro generation.

ATCO has made the point that there are only limited opportunities to reduce the cost of operation of the current system, unless GNWT is open to exploring changes in the way NTPC operates. The GNWT has clearly expressed openness to exploring those changes. Further work is needed to understand the cost-related differences in operations of Crown and private enterprises.

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Issues under Discussion

The set of issues currently under discussion has been shaped in part by the GNWT's technical workshop, and in part by preliminary discussion with ATCO officials. The GNWT's interest in the following issues has been set out to guide our own analysis, to ensure that there is a solid grasp of the complexity surrounding a potential change in ownership of NTPC, and to ensure that we identify the necessary expertise for our team. ATCO has offered a range of discussion items in part to find out what the government is prepared to discuss, as opposed to those things that are 'not on the table'. The limitations at this point are timing (ATCO review follows Electricity and NTPC review processes), and value of any potential transaction.

- ATCO proposal
 - The document referred to as the ATCO proposal was received in early November, 2008. Preliminary analysis of the document suggests that it is a general document that introduces two concepts (merger of regulated companies, joint venture type partnerships for new generation development). The proposal also contains information on energy planning and supply issues in NWT, all of which is publicly available information.
 - ATCO officials have made it clear that they view this document more as an opening gesture to cause a conversation than as a proposal outlining an 'opening offer'.
- System planning
 - ATCO officials have noted that there is minimal coordinated or system-wide planning effort inside NWT. They identify potential benefits in such activity, by virtue of sharing of forecasts, identification of potential risk areas, opportunities. They point to the competitive stance between existing companies as being a potential contributor to the current approach.
- Regulatory process
 - A merger of any form will change the current regulatory process, either by limiting the number of separate processes, or requiring greater coordination on timing.
 - We noted that the existing community-based rate structure is being discussed as part of the Electricity Review. The current rate structure adds to the competitive nature of the existing utility relationship; each must act and be seen to act in the best interests of its customers. If fewer rate zones are employed, or a single one, it would require the participating utilities to coordinate their GRA processes.

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- Service area disputes have been a factor in the past, related to franchise applications, service extensions from the current transmission/distribution grid, and service provision to new industry. Maintenance of the competitive stance between utilities, whether corporate changes are pursued or not, should be assessed.
- Rate Freeze / Stabilization
 - Rate freeze – The ATCO proposal listed a freeze on rates as a goal of the new partnership. This goal must be evaluated in the context of:
 - The trend in fuel prices. If prices are falling public expectations are more likely to be focused on reduction rather than steady prices;
 - The long term effect on rates when the freeze is removed;
 - The viability of a freeze in the face of uncontrollable factors, such as fuel cost, or regulatory orders.
- Tax Implications from partnering, merging companies
 - NTPC's public ownership prevents it from paying income taxes. This benefit translates directly to rates, so a loss of this benefit would negative impact customers.
 - We have not engaged experts to consider corporate structures or tax options, but the matter will be relevant to any possible merger arrangements.
 - Our discussion has indicated that a range of options will need to be considered, ranging from a merger of all utilities under public ownership, the status quo, through to a merger of all utilities under full private ownership. The nature of the options discussed to date is not on the extreme ends of that continuum; we have held brief discussions on a joint ownership or partnership model between private and Crown interests.
- Governance
 - A general discussion to highlight issues surrounding governance has been held. The motivator for this is clearly ATCO's desire to explore the challenges related to a private / public partnership of an operating company. Topics included the Board of Directors (size of Board, who appoints, how the Chair is appointed), senior management (again, who they are, who appoints, location), independence of the Board (can the partnership operate as a business, are directions from government to the Board limited in regulation or legislation).

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- Labour force / union arrangements
 - NTPC's labour force is primarily unionized; ATCO's employees are members of an employee association.
 - NTPC employees are considered to be public servants; this has implications for the setting of pay scales.
 - The GNWT's interest in maintaining or increasing northern employment was discussed. ATCO has pointed out that they contribute to the size of the NWT workforce as well, only a portion of their overall services are provided by southern-based personnel.
 - Data on each utility's workforce will be considered in the NTPC Review.

- Future Generation Development
 - An initial discussion was held on the possibilities for developing partnerships to build additional hydro generation in NWT.
 - Such developments can put NWT into an export mode, or NWT can limit itself to developing hydro projects to keep pace with new industrial development.
 - There was a preliminary discussion on the pros and cons of adopting a more proactive approach to developing hydro projects, as opposed to building at a pace that matches new industrial development. The current approach is clearly less risky in terms of revenue assurance, but likely less effective at creating an attractive set of economic conditions to attract new industry.

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Timing of Related Activities:

- Review of Electricity Rates, Regulation, and Subsidies
 - The GNWT will receive a “What We Heard” report from the Panel in June.
 - The GNWT will begin to formulate responses to the Panel’s main report recommendations in July and August.
- NTPC Review
 - The naming of the panel and finalization of the terms of reference will be announced shortly.
 - The first meeting of the Review Panel will occur in June.
 - The Panel is expected to formulate its report by late August.
- ATCO Review
 - The first two review processes will comment on, and may make recommendations that speak to:
 - The importance of maintaining and improving the current economy of scale in NWT’s electricity sector;
 - The need for regulatory reform;
 - Policy implications associated with changing the role of the private sector in meeting NWT’s electricity goals;
 - The possible opportunities for lowering costs of operation in the current system of supply.
 - A decision to proceed to some form of negotiations with ATCO, or to a different competitive process will follow the completion of these first two review efforts.
 - ATCO and NTPC officials will participate in discussions with the NTPC Review panel in June and July.
 - The next progress report of the ATCO Review Working Group should be scheduled for the end of July, followed by a briefing to Standing Committee.