

# REVIEW OF THE NORTHWEST TERRITORIES POWER CORPORATION Terms of Reference

## **Why this review is being done**

The Northwest Territories Power Corporation (NTPC or the Corporation) has provided electrical power to the residents and businesses of the territories for more than twenty years. Along with two private companies owned by ATCO, it comprises the electrical generation, transmission and delivery system for the Northwest Territories.

NTPC was created by legislation in 1988, enacted by the government of the day and is mandated to generate, transmit, distribute, deliver, sell and supply energy on a safe, economic, efficient and reliable basis. The mandate goes on to empower the Corporation to supply water and sewerage services, (although the Corporation no longer does these), and engage in energy conservation programs, but most importantly, to ensure a continuous supply of energy adequate for the needs and future development of the Territories.

Times have changed in the 20 plus years of the Corporation's history:

- The Territory of Nunavut separated from the Northwest Territories and a significant piece of the Corporation (exclusively diesel) also separated and became a Crown corporation of Nunavut. The Corporation was downsized by almost one-half of its original size.
- The Corporation has changed significant amounts of its total power generation from diesel to hydro and natural gas. Division of the territory (i.e., the creation of Nunavut) was a significant factor in these changes. While some 85 percent of the Corporation's total power produced is now from hydro, plants in the smaller communities are still powered mostly by diesel.
- While the Corporation is small as utility companies go, it has to service some 28 communities (26 with generation, 2 with wholesale power supply), across a vast geographic area without the benefit of a Territory-wide distribution grid, meaning that many smaller communities have to have stand-alone power plants engineered for local supply only. Most of these smaller power plants use diesel generation whereas the larger centres have benefitted from hydro developments. The wide distribution of smaller plants does not allow for economies of scale such as more efficient larger thermal plants serving multiple communities, or investment in hydro generation where a larger scale facility might be cost-effective where smaller ones are not. In each case of isolated small plants, costs are higher because of the need for local back-up capacity in case a generator goes down at critical times.
- In recent years, the world price of non-renewable fuels, such as diesel and natural gas, have risen dramatically and other operating costs have also increased resulting in consumer prices that are causing concern to those paying the bills.

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The increasing price of electrical power has stimulated debate and concern resulting in Members of the Legislative Assembly, along with the Northwest Territories Association of Communities (NTAC), to call for a review of the Corporation.

The Government has appointed a three person Panel, supported by senior deputy ministers and staff resources to review the Corporation. The Panel members represent a cross-section of experiences including utility operations, utility regulation and finance/audit.

These Terms of Reference set out the Panel's approach to reviewing the Corporation's structure, costs and operations and to identify any unique characteristics that contribute to the present situation. This review is complementary to, but separate from, a related study that considers rate and subsidy design, electricity regulation, and expansion of non-fossil fuel generation (often referred to as alternative generation technologies). Similarly, a proposal from ATCO Power to contemplate a system merger between the Corporation and NUL (NWT) and NUL (Yellowknife) will be considered independently from this review. However, how a merged entity might affect utility operations and electricity rates in the NWT is of interest to both this review and the ATCO proposal review which will be done later.

### **Background**

In October 2008, MLAs raised the prospect of a review of the corporation on a number of occasions, often based on concerns about rates and their periodic increases, along with other issues such as the management pay system including bonus schemes. The MLA's suggested possible solutions including changes to pay systems, modifications to the Corporation's structure, a single rate zone and greater use of hydro generation.

The rates charged by the system (both the Corporation's and the two private companies) for electrical power supplies are overseen and scrutinized by the Public Utilities Board (PUB). Before the rates are approved, the respective corporation must make an application to the PUB which conducts extensive and costly hearings that review and challenge all the data supplied. The PUB process is complex and involves interveners representing customers and other interested parties. The PUB can (and does) disallow certain of the Corporation's costs (which means that the customers do not pay for them), and can impose specific directives to the companies. The costs of the rate application and approval process are paid by the customers through their electricity rates, usually over a period of time.

The information supplied by the Corporation included in submissions and other data supplied to the PUB, along with the PUB's rulings, will provide the Panel with much of its requirements. Note that this detailed review is only of the NTPC and not of the two private companies comprising the rest of the "system", although the Panel will consider and compare the costs and efficiencies of the entire system where they are available

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and relevant. The Minister responsible for the Corporation will facilitate a meeting between the Panel and the Chair and Members of the PUB to assist in the Panel's understanding of the Board's rulings.

The Panel may also review the structure, mandate and operations of similar utilities in other jurisdictions (e.g., Alaska, Newfoundland and Labrador, Yukon and Northern Manitoba), especially if a fair comparison cannot be made using data from the NWT utilities included in the system. The Panel may also request information from interested parties, stakeholders and relevant experts and consider previous reports examining NTPC such as the Robertson Report in 2000, and the Abbott Report on privatization from 1999.

### **Key issues**

The following areas are of primary interest to the panel:

- NTPC's operational efficiency;
- Reasons for the structure of the Government's group of power companies, of which NTPC is apart;
- Board of Directors' and management approach to the business and corporate objectives;
- Assets, including related debt financing, life-cycle and depreciation, interest costs, asset condition, growth needs, etc.;
- NTPC's ability to respond to communities, residents, and customers, including the efforts that it puts into communications and their relevance.

The Panel will NOT directly review rate structures, capital cost allocation, the complexity of rates, riders, energy conservation incentives, or the capacity to develop hydro potential that are being addressed by other processes.

### **Operating costs**

Where comparisons are feasible between different utility companies, they will take into account the unique characteristics that each one has and translate them into a basis for fair comparison. Such things as size of operations, type of customer, hydro/thermal or other operations, safety practices, reliability records, and relevant operating policies may be comparable. In other cases, allowances may have to be made for significant differences between them, including geography and climate. Some data may be proprietary and not readily available. In particular, the Panel will be interested in:

- Fuel type, price and consumption (efficiency) which may depend on the type of equipment used.
- Salaries and wages, including pay rates, pensions and benefits costs, along with the staff complements.

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- Travel and accommodation, policies, costs, frequency, service levels, etc.
- Safety and environmental practices.
- Maintenance and repairs including industry standards, emergency repairs versus those planned, (such as preventative actions).
- Supplies and services procurement practices and related policies.
- Capital assets replacement policies, standards and schedules.
- Corporation profits, cash flows, debt financing and repayment, capital investments and dividends to the government.
- Generating and other key operational backup (reserves) policies, amounts invested, state of readiness, etc.
- Reliability performance.
- Management of consumer electricity demands and promotion of energy conservation.
- Alternative energy policies and practices including net metering, etc.
- Corporate overheads, head office costs.

### **Findings and recommendations**

The Panel will report issues that come to its notice where reasonable standards of conduct, efficiency or performance have or have not been met. In such cases, the Panel will recommend further courses of action for correction or other changes.

Where the Panel concludes that the Corporation's mandate, structure or board/management approach contributes to higher costs than necessary, it will recommend changes to the Government.

The Panel will review the Corporation's approach to future oriented policies such as alternative methods of generation or net metering, compared to the norms of the Canadian utility industries and outline the implications for aligning compliance. Where there may be practical or cost issues with future oriented technologies, the Panel will highlight them.

The Panel will identify any misinformation held about the Corporation and its practices that it encounters, and recommend specific approaches to correct them.

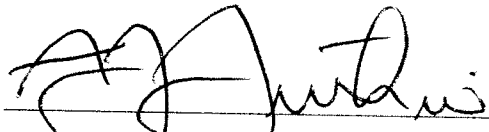
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**Timing of the review**

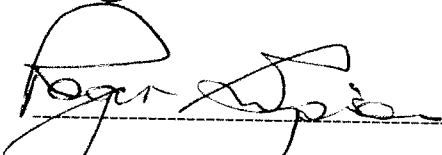
The Panel had its inaugural meeting in June. While the first review (Electricity Review) is slated for completion in the early summer of 2009, this review of NTPC is intended to follow. Some of the Electricity Review's findings will be of relevance to the Panel's work. The NTPC review aims for a completion date in September 2009.

**Coordination**

Overall coordination for this review will be provided by the Minister responsible for the Corporation. He will keep the Ministers' Energy Coordinating Committee (MECC) apprised of the Panel's progress. Staff support through a deputy ministers' committee lead by the Department of the Executive will work with the Panel on a detailed work program and budget under these terms of reference as well as providing logistical support and liaison between the Ministers and the Panel.

 \_\_\_\_\_ Jim Guthrie (Chairperson)

 \_\_\_\_\_ Ron Threlkeld (Panel member)

 \_\_\_\_\_ Roger Simpson (Panel member)

9 July 2009