



Minister Responsible for the Public Utilities Board

JUL 09 2010

Mr. Joe Acorn
Chair
Northwest Territories Public Utilities Board
203 Woodland Drive
PO BOX 4211
HAY RIVER NT X0E 1G1

Dear Mr. Acorn:

Approval of Electricity Rate Policy Guidelines by the Executive Council

Further to our discussions regarding the implementation of *"Efficient, Affordable and Equitable: Creating a Brighter Future for the Northwest Territories' Electricity System"* (Electricity Review), please be advised that the Executive Council has approved the attached electricity rate policy guidelines for the consideration of the Public Utilities Board.

There may be revisions to these guidelines as the Electricity Review is implemented and the Government of the Northwest Territories (GNWT) would very much appreciate the Board's views on how these guidelines might be improved. The GNWT would also be interested in learning of the Board's thoughts on matters not specifically addressed in these guidelines, including standardized filing requirements for general rate applications, establishment of cost recovery guidelines outlining eligible costs and standard reimbursement rates associated with the regulatory process, and whether additional guidelines should be considered.

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I would like to thank the Board for supporting the implementation of the recommendations contained in the Electricity Review. The GNWT believes that affordable electricity is critical to the sustainability of our communities. Your work and the decisions you make over the coming months will reduce the cost of living for many families and immediately improve the prospects for local economic development across the NWT. The GNWT believes that the changes you implement now will help position our electricity system to respond more effectively to future challenges.

Sincerely,

Original Signed By
ROBERT R. McLEOD

Robert R. McLeod
Minister Responsible for the
Public Utilities Board

Attachment

c. Mr. Jake Heron
Public Utilities Board Member

Mr. William Koe
Public Utilities Board Member

Ms. Sandra Jaque
Public Utilities Board Member

Mr. Jerome Babyn
General Manager,
Northland Utilities (Yellowknife) Limited and Northland Utilities (NWT) Limited

Ms. Judy Goucher
A/President and CEO, Northwest Territories Power Corporation

Mr. Dave Nightingale
Director, Energy Planning

ELECTRICITY RATE POLICY GUIDELINES

PREAMBLE

On May 14, 2010, the Government of the Northwest Territories (GNWT) released a report entitled *“Efficient, Affordable and Equitable: Creating a Brighter Future for the Northwest Territories’ Electricity System”* (Electricity Review). This report is intended to guide policy with respect to the future approach to the Northwest Territories’ (NWT) electricity system.

The Electricity Review outlines a number of principles, actions, and methodologies to be implemented that will result in a more efficient, territory-wide electricity system that is affordable and equitable for all communities in the NWT. To further illustrate the intended results of these actions, the GNWT included the estimated electricity rate impacts.

A key action identified in the Electricity Review is the issuance of formal policy guidance by the Minister Responsible for the Public Utilities Board to the NWT Public Utilities Board regarding the approach to electricity regulation and the establishment of electricity rates in the NWT. The Electricity Review should be considered as broad direction.

The following Guidelines are intended as primarily applicable to the electricity rates of the Northwest Territories Power Corporation (NTPC), recognizing that there are implications for electricity rates in communities where NTPC provides wholesale power that is distributed by Northland Utilities (Yellowknife) Limited (NUL(YK)) and Northland Utilities (NWT) Limited (NUL(NWT)). These guidelines may be amended at a later date for NUL (NWT).

POLICY GUIDELINES

In reviewing the electricity rates for the Northwest Territories Power Corporation (NTPC), the Public Utilities Board (PUB) should ensure:

- (1) The electricity rates for each utility are set on a zoned basis. In determining the composition of zones for each utility:
 - a. Each interconnected system served primarily by hydro should form a zone, by utility.
 - b. All non-interconnected communities served primarily by thermal generation should form a single zone, by utility.

Electricity Rate Policy Guideline Electricity Rate Zones

Community	Zone
Colville Lake, Nahanni Butte, Sachs Harbour, Jean Marie River, Gameti, Paulatuk, Wrigley, Tsiigehtchic, Tulita, WhaTi, Deline, Lutsel K'e, Fort McPherson, Ulukhaktok, Fort Good Hope, Tuktoyaktuk, Fort Liard, Fort Simpson, Aklavik, Inuvik	NTPC Thermal
Norman Wells (per section 8 Transition Provision – until next NTPC GRA)	NTPC Norman Wells
Fort Smith, Fort Resolution	NTPC Taltson
Dettah, Behchoko	NTPC Snare
Fort Providence, Dory Point/Kakisa, Wekweeti, Trout Lake	NUL(NWT) Thermal
Hay River, Hay River Reserve, Enterprise	NUL(NWT) Hydro
Yellowknife	NUL(YK)

(2) Electricity rates for the same class of customers of a utility should be the same throughout each zone, with the exception of Government customers whose electricity rates will be set based on principles outlined in Clause (3).

- a. In those communities where a franchise fee is levied, that fee shall apply only those communities.

(3) Electricity rates for government customers shall be set based on the following principles:

- a. Government customers can have higher electricity Base Rates than non-government customers in the same community for the same type of service, but not lower than non-government customers.
- b. Government customer Base Rates will continue to vary by community.
- c. If general service rates in a zone or community decrease as a result of this rate rebalancing exercise then government rates will stay at the current level, pending the next General Rate Application (GRA). The calculation of government rates in the next GRA is an issue for further discussion.

(4) All costs included in a utility's revenue requirement that do not relate specifically to providing service in a single community or zone, referred to as head office and general operational costs, should be shared among all of the utility's zones, equally weighted by energy sales (per kWh).

- (5) In assessing the fair return on the rate base of NTPC, the Board should permit NTPC to request a downward adjustment to the return on equity in the thermal zone ("Return Adjustment") as compared to a fair level of return on equity.
- (6) The Board should consider establishing territorial fuel and low water riders on a per utility basis, in accordance with the following:
- a. The Base Fuel Price shall be the levels approved in each utility's most recent GRA as of the implementation of this policy, and shall not vary unless otherwise directed by GNWT. The calculation and application of the Base Fuel Price in the next GRA is an issue for further discussion.
- (7) In implementing the Electricity Rate Policy Guidelines, should the Board find it necessary to deviate from the Guidelines, the Board should provide such recommendation to the Minister Responsible for the Public Utilities Board.
- (8) Transition provisions:
- a. The Board should implement the Electricity Rate Policy Guidelines by October, 2010.
 - b. In implementing the electricity rate policy transition, the Board should ensure electricity Base Rates for all NTPC customers following the initial electricity rate adjustments will not exceed the levels of electricity Base Rates plus Rate Riders applicable for the same level of consumption effective on October 1, 2009.
 - c. Until such time as NTPC's next GRA, Norman Wells should remain as its own zone and not part of the thermal zone. The Board should ensure electricity base rates for Norman Wells customer classes following the initial electricity rate adjustments will equal the levels of electricity Base Rates plus Rate Riders applicable for the same level of consumption effective on October 1, 2009
 - d. In implementing the electricity rate policy transition, the Board should seek to target an Interest Coverage Ratio of 1.5 on NTPC's Thermal Zone rate base.

Minister R. R. McLeod
Minister Responsible for the
Public Utilities Board

DEFINITIONS

Base Rates: The approved level of electrical rates exclusive of Rate Riders.

Interest Coverage Ratio: The ratio of net interest expense included in rates plus return on equity included in rates (inclusive of any Return Adjustment) divided by net interest expense included in rates.

Rate Rider: A rate rider is applied to the total of all charges, before taxes. Revenue generated from the rate rider is used to pay down the cost variations associated with fuel prices or changes in the availability of hydroelectric generation from lower or higher than average water flows.

Return Adjustment: Any request by NTPC to set a return on equity in the Thermal Zone which is below the fair level of return on equity.

Government Customers: Those customers meeting the definition of “Government Customers” in NTPC’s PUB-approved Terms and Conditions of service, as amended from time to time.

Head Office and General Operational Costs: All costs included in a utility’s revenue requirement that do not relate specifically to providing service in a single community or zone, including operating, maintenance and administration costs and, for those assets not specifically related to providing service in a single community or zone, return on rate base and depreciation.