THE PUBLIC UTILITIES BOARD
OF THE
NORTHWEST TERRITORIES

DECISION 9-2013 **JULY 9, 2013**

IN THE MATTER OF the Public Utilities Act being Chapter 110 of the Revised Statutes of the Northwest Territories, 1998 (Supp.), as amended

AND IN THE MATTER OF an application by Northwest Territories Power Corporation for changes in the existing rates, tolls and charges for electrical energy and related services provided to its customers within the Northwest Territories for the Test Years 2012/13 and 2013/14.

THE PUBLIC UTILITIES BOARD

A DIVISION OF THE BOARD (SECTION 7.(1) *PUBLIC UTILITIES ACT*)

BOARD MEMBERS	Sandra Jaque	Vice-Chair
	William Koe	Member
BOARD STAFF	Louise Larocque	Board Secretary
	Raj Retnanandan	Board Consultant
	Evan Dixon	Board Counsel

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1. BACKGROUND

By letter dated March 23, 2012, the Northwest Territories Power Corporation ("**NTPC**", "**Corporation**") filed a General Rate Application ("**GRA**") to determine the revenue requirements and rates for the fiscal years 2012/13 and 2013/14 ("**Test Years**").

In conjunction with its GRA and as per Section 44 of the *Public Utilities Act* ("***Act***"), NTPC also filed an Interim Rate Application ("**IRA**") dated March 23, 2012 in which it requested approval of interim rates to increase all energy charges for all customer classes, in all communities, except Norman Wells, by 7% and for interim rates to increase all energy charges for all customer classes in Norman Wells by 15%. NTPC also requested that all interim rates be effective April 1, 2012. Consistent with the 2012/14 GRA, NTPC did not request adjustment of customer charges or demand charges.

By letter, dated March 28, 2012, the Corporation requested to amend its IRA to reduce the requested increase for all customer classes in Norman Wells from 15% to 7%, effective April 1, 2012. This amendment would bring Norman Wells' proposed increases in line with the increases in energy charges sought for all customers in all other communities.

Following a written process, the Board issued Decision 11-2012 dated May 1, 2012 approving a 7% increase in energy rates for all customers , effective May 1, 2012, on an interim refundable basis.

The hearing of the GRA was held in the City of Yellowknife on September 26 and 27, 2012. Following the public hearing, the Board issued Decision 1-

2013, dated January 21, 2013 determining matters arising from the GRA and directing NTPC to file a Compliance Filing Application reflecting the Board's findings and directions, within 45 days, of the Decision.

2. COMPLIANCE FILING APPLICATION

By letter dated March 4, 2013, NTPC filed its Compliance Filing Application. NTPC stated that the Compliance Filing addresses Board direction Nos. 1 to 23. On March 12, 2013, the Board issued a review schedule for the Compliance Filing.

In a letter dated March 18, 2013, NTPC applied for 2013/14 Interim Rate Riders which would give effect to a 7% increase in rates pursuant to Section 44 of the *Act*. In its Interim Rate Application NTPC stated the proposed rates have been calculated based on increasing existing energy charges (inclusive of base rates and 2012/13 approved interim rates) by 7% for all customer classes in all rate zones.

NTPC stated, approval of 2013/14 interim rates is requested because the review process for the 2012/13 and 2013/14 GRA compliance filing application is scheduled to continue beyond April 1, 2013 and the final rates requested in the Compliance filing would not be approved for implementation effective April 1, 2013.

The Board issued Decision 4-2013, dated March 28, 2013, approving the interim rates, effective April 1, 2013, on an interim refundable basis.

By letter dated April 19, 2013, NTPC provided responses to information requests ("**IRs**") of the Board, the City of Yellowknife/Town of Hay River ("**YK/HR**") and the Thermal Generation Communities ("**TGC**"). NTPC indicated updates reflecting 2011/12 actual closing balances had not been fully incorporated on a consistent basis into the March 4, 2013 Compliance filing. Accordingly, NTPC provided an Updated Compliance Filing incorporating the Board's Directives from Decision 1-2013, including updating for 2011/2012 actual closing balances.

By letter dated April 22, 2013, the Board established a process including a further round of IRs and responses before proceeding to Argument and Reply in view of the significant changes to the compliance filing reflected in the April 19th Updated Compliance Filing and in order to allow follow up questions on the information responses, which were filed on April 19th.

On May 13, 2013, NTPC provided responses to IRs #2 of the Board, YK/HR and TGC pertaining to NTPC's Updated Compliance Filing.

On May 27 and 28, 2013, NTPC, YK/HR and TGC filed their Argument. On June 11, 2013, NTPC, YK/HR and TGC filed their Reply Argument.

3. DISCUSSION OF ISSUES

NTPC's responses to the Directives arising from Decision 1-2013 are discussed in this Section.

Directive 1:

In Decision 1-2013, page 29, the Board provided the following direction:

> NTPC is directed to remove the cost of the transmission line development study from each Test Year rate base, in its Compliance Filing Application.

In response, NTPC stated:

> The Corporation has removed the cost of the transmission line development study in the amount of $0.693 million from each Test Year rate base. [Compliance Filing P A-1]

The Board considers NTPC has complied with this direction.

Directive 2:

In Decision 1-2013, page 30-31, the Board provided the following direction:

> The Board directs NTPC to provide as part of the Compliance Filing Application; details of all studies included under the category of feasibility studies and provide justification for why any additions to the feasibility studies account in the 2007/08 to 2010/11 period should be capitalized based on the guidance provided in Directive 18 from Decision 17-2009. At the same time, NTPC should also provide support showing how the amortization amounts in each Test Year were arrived at having regard to each study.

In response, NTPC stated:

> The requested information on all studies under the category of "feasibility studies" is set out below. This response also provides a summary of Directive 18 from Decision 17-2009, as requested. However, it is important to recognize that the category of feasibility studies is not accounted for under the rules set out for deferred costs per Directive 18 from Decision 17-2009. The feasibility studies are accounted for under longstanding NTPC policies that have been provided to the Board and approved dating back to the early 1990s, specifically Decision 2-94. [Compliance Filing P A-2]

NTPC noted the policy governing feasibility studies is policy F-11. NTPC described policy F-11 as follows:

> Policy F-11 states a study is work done prior to the approval of a Capital Project and includes, but is not limited to, investigation of technological advancements, overview, feasibility or scoping studies, plant assessment, planning, preliminary engineering design, pre-engineering work, geotechnical or other investigative work and all engineering and other work required to obtain, as much practical, technical and other related information for the purpose of making informed and accurate decisions, by Senior Management and the Board of Directors, for the approval of Capital Projects.
>
> Study costs under $25,000 are expensed. Study costs greater than or equal to $25,000 will be included in the capital budgeting process. If upon completion of the study, the Corporation decides not to proceed with the project, the costs will be:
>
> a. Capitalized as a deferred cost to the applicable plant and amortized over 5 years if the study costs are greater than or equal to $25,000. [Compliance Filing P A-3]

The TGC submitted that a preferred alternative would be to increase the threshold for capitalization of feasibility studies to $100,000. This means all studies costing less than $100,000 in a non-test year would be expensed. In a GRA proceeding, NTPC would be required to provide a proper forecast, based on past years' history for example, for inclusion in Operating and Maintenance ("**O&M**") for the Test Years. TGC submitted, armed with the knowledge it will have to absorb the forecast to actual variances, management will then be forced to exercise greater discipline to generate a more robust forecast of the study costs to be expensed. [TGC Argument Para 10]

In Reply, NTPC submitted, deferring the one-time costs of those studies over a period of years avoids rate instability resulting from the impact of those one-time costs on the revenue requirement in a single year and particularly a test year. Increasing the threshold to $100,000 undermines that purpose.

NTPC submitted it is also concerned that the TGC proposal, if accepted, would necessarily result in revisions elsewhere in the GRA, specifically to the O&M expense. [NTPC Reply P4]

Board Findings:

The Board considers it would be inappropriate to make changes to NTPC's existing capitalization policies in the context of this Compliance filing Application. In the Board's view the appropriate forum for consideration of capitalization policies for feasibility studies, including the appropriate threshold for capitalization, is the Standardized System of Accounts/Minimum Filing Requirements (“**SSA/MFR”**) process that is currently under way. Changes, if any, to capitalization policies for feasibility studies, resulting from the SSA/MFR process may then be brought forward for implementation at the time of the next GRA.

The Board considers NTPC has complied with this direction.

Directive 3:

In Decision 1-2013, page 31, the Board provided the following direction:

> The Board considers disallowed assets should not be included in gross plant in service and in rate base. Accordingly, NTPC is directed to remove the net book value of disallowed assets from Test Year rate base in its Compliance Filing Application.

In response, NTPC submitted the Corporation has removed the gross plant in-service and associated accumulated amortization cost of disallowed assets from each Test Year rate base. [Compliance Filing P A-6]

The Board considers NTPC has complied with this direction.

Directive 4:

In Decision 1-2013, page 34, the Board provided the following direction:

> The Board considers that NTPC has not provided any analysis that would weigh and evaluate the qualitative and quantitative benefits of holding the proposed level of inventory in relation to the carrying costs. In the absence of such evidence, the Board will approve the inclusion of 50% of the proposed inventory in rate base in 2012/13 and 2013/14. Therefore, NTPC is directed to remove 50% of the cost of major spares and capital inventory from Test Year rate base in its Compliance Filing Application.

In response to this direction, NTPC states:

> In implementing the Board Order, NTPC proposes to exclude from rate base the category of Major Spare Parts, and retain in rate base the category of Capital Inventory. This has the effect of removing 56% of the combined balance from rate base (compared to the 50% directed by the Board) but also results in a breakdown that can be readily implemented on NTPC's system, as opposed to a more arbitrary 50% ratio which could become problematic to track in future years.

> NTPC's proposal is that all Capital Inventory remain in rate base and not earn AFUDC or IDC. Major Spare Parts, on the other hand, would be accounted for as Construction Work in Progress, and earn IDC. The IDC accrued would be tracked to the individual asset, and the cost: benefit of the interest incurred can be tested in full at the time the asset is proposed to be put into service, consistent with the Board's testing of any other addition to rate base. [Compliance Filing P A-8]

TGC objected to the inclusion of Interest During Construction ("**IDC**") on major spares. In this regard, TGC states:

> ..NTPC has not provided a cost-benefit analysis to demonstrate that the cost of the Major Spares, when added to the IDC, will cost less than procuring that Spare at the time it is needed. Rather, NTPC proposes that such a cost-benefit exercise in respect of Major Spares be undertaken and tested "at the time they are proposed to be included in rate base." We know that the total $6.7M inventory is about 6 to 7 times higher than the average of about $0.6M in the 2008-2009 timeframe; of this amount, roughly 50% is Major Spares, which will attract IDC if NTPC's proposal is approved.
>
> The TGC submit that, given NTPC has taken the risk to procure the Major Spares today, and significantly increased the levels of such Major Spares in the Test Years relative to the prior years, as noted above, it must not be allowed to earn IDC on the Major Spares. These assets are not used or required to be used today. Accordingly, the TGC recommends that like Capital Inventory, Major Spares should be such that these assets earn a return only when placed in the rate base. [TGC Argument Paras 12, 13]

Board Findings:

The Board notes the onus is upon NTPC to justify the level of IDC requested on major spares when they are added to rate base as part of a capital project. However, the Board is cognisant of the potential for IDC on major spares additions to become subsumed under broader categories of asset additions unless they are separately identified and linked to the particular capital project they are part of. Accordingly, NTPC is directed to provide a separate continuity schedule of major spares showing opening balances, annual expenditures, IDC amounts, transfers to rate base by project, and closing balances, in future GRAs.

The Board considers this direction has been complied with for purposes of this proceeding.

Directive 5:

In Decision 1-2013, page 47, the Board provided the following direction:

> The Board directs NTPC to address the appropriate treatment and adjustments for any expenditures for components included in the Engine Overhaul Deferral Account, that are considered retirement units for amortization purposes, in its Compliance Filing Application.

In its response to this direction, NTPC states:

> Consistent with its accounting policy, the Corporation does not dispose of any component of an asset that was replaced as part of the engine overhaul. The examples of such replacement components include heads, fuel injectors, pumps, coolers, pistons, etc. These are considered maintenance materials and the cost of replacement of these components (i.e., labour and material) would be included in the overhaul deferral account. The specific component that was replaced (e.g., fuel injector) would still be maintained in the fixed assets continuity schedule, until the underlying asset itself reaches the end of its useful life, at which point the replaced component will be disposed of as part of the associated asset. [Compliance Filing P A-10]

Board Findings:

It is not clear to the Board whether the particular accounting policy described above by NTPC is consistent with the treatment of retirement units by comparable utilities. This concern arises because NTPC differs from the majority of comparable utilities in that it maintains a engine overhaul deferral account into which certain replacement components are charged.

Since comparable utility amortization parameters are often considered, among other factors, in establishing NTPC's amortization parameters, use of consistent accounting policies with those of comparable utilities, with respect to treatment of retirements would be desirable. Accordingly, NTPC is directed to address the consistent treatment of retirement units in the context of the SSA/MFR process that is currently under way and reflect the resulting changes, if any, in the GRA filings at the time of the next GRA.

Directive 6:

In Decision 1-2013, page 54, the Board provided the following direction:

> The Board directs NTPC to include, in its Compliance Filing Application, annual brushing costs for each zone calculated based on the 5 actual year average brushing costs with due adjustment for inflation and any forecast scope changes.

In response to this direction, NTPC states:

> Directive 6 requests the Corporation submit annual brushing costs based on actual information adjusted for inflation and forecast scope changes. The majority of the information in this response was identified at the hearing and during the review process; however some of the information is new and is provided in accordance with the directive to identify forecast scope changes.
>
> Beginning in 2010/11 the Corporation implemented a comprehensive vegetation management program. Prior to this, the Corporation completed scattered brushing of key danger areas, and other areas of high priority rather than brushing pre-defined sections of transmission and distribution lines. Early in 2012 the Corporation hired a new transmission and distribution director and based on industry best

practices he continued with the revised vegetation management program that was developed in 2010/11. [Compliance Filing P A-11]

The following Table shows how NTPC arrived at the brushing expense forecasts for 2012/13 and 2013/14:

Brushing Expense Forecast			
	2012/13	**2013/14**	Explanation
	$000	$000	
5 Year Actual average			
Transmission line brushing	76	76	2007/08 to 2011/12
Distribution line brushing	279	279	2007/08 to 2011/12
Sub total	355	355	
Scope change adjustment			
Adjustment for reduced D-line brushing scope	-180	-180	Assume D- line brushing annual at $0.1 million
Adjustment for increased T line brushing scope	374	374	Average annual 75 km at $6000/km
Sub total	194	194	
Inflation adjustment		11	2% Inflation
Total Forecast	549	560	
Source: BR NTPC 4a Attachment			

With respect to NTPC's brushing expense forecasts the TGC submitted, given the lack of evidence respecting scope changes in 2011/2012, the 5-year average for brushing expense should reflect the years 2006/2007 to 2010/2011 and NTPC should be directed to re-calculate the forecast brushing costs accordingly for each of the Test Years 2012/13 and 2013/14.

In the alternative, since the proposed increases of $0.549M in 2012/13 and $0.560M in 2013/14 in Vegetation Management costs are material, the Board should consider phasing the increase over a period of time, say 3 years, to mitigate the impact of the sharp increases. [TGC Argument, Paras 22, 23]

In its Reply Argument, NTPC submitted, while some of the information provided in its Table 3 actual brushing expenses was new, that information was entirely appropriate and indeed required in order to comply with the

Board directive to adjust the 5 year actual year average brushing costs for "any forecast scope changes." NTPC states it provided substantial evidentiary support during the hearing for the required scope changes to the brushing program. Further, contrary to TGC's assertion, the scope changes in fact occurred in the 2010/11 time frame. NTPC also submitted it does not view the phasing in of increases suggested by TGC to be an acceptable alternative as it simply delays the necessary increases over that period of time and will necessarily result in larger increases in future years. [NTPC Reply PP 1, 2]

YK/HR submitted that NTPC has not complied with the Board direction since it has not incorporated five year average costs by zone. As such, YK/HR requested the Board to direct NTPC to re file its compliance filing, with forecast vegetation management costs based on historic averages by zone.

Board Findings:

The Board has reviewed the method used by NTPC to arrive at the brushing forecasts for the test years and considers NTPC has complied with the Board's direction.

With regard to the brushing expense forecast by rate zone, the Board considers this information will be required at the time of the Phase 2 application. Accordingly NTPC is directed to provide the brushing expense forecast by zone, including details of the allocation methods used, at the time of the 2012/13, 2013/14 Phase 2 Application.

Directive 7:

In Decision 1-2013, page 63, the Board provided the following direction:

> BR.NTPC-7b) provided a detailed cost of debt calculation. NTPC is directed to file the calculation of the updated cost of debt (as updated in Exhibit 13) in the same format as in the BR.NTPC-7b) attachments, in Excel format, in support of its Compliance Filing Application.

The requested calculation was provided in Directive 7, Attachment 1.

The Board considers this direction has been complied with.

Directive 8:

In Decision 1-2013, page 66, the Board provided the following direction:

> The Board directs NTPC to provide, at the time of the Compliance Filing Application, evidence to support NTPC's view that the same rules apply to the lease as for NTPC's long-term debt and to provide evidentiary support for the view that DPC's cost of financing over the 65 year lease term should remain unchanged, notwithstanding the cost based nature of the lease.

In its response to this direction, NTPC notes:

> The Board is correct that changes in the financial structure of the lease will change the lease rate paid by NTPC and charged to customers. The lease payment is calculated using return on debt and equity factors. As DPC pays down its debt, their equity component in the project increases over time. As their equity component increases and their debt component decreases, the overall blended cost of financing will change. The Board expressed that long-term debt rates should not be retroactively adjusted in Decision 13-2007 when it noted:
>
> > The Board considers the time for raising issues concerning the prudence of the DPC lease financing rate was the 1996/97/98 GRA when the inclusion of the DPC hydro plant in rate base and the related financing arrangements were examined and agreed to by interested parties. The Board does not consider a retrospective review of the long-term debt rate or the cost

> structure of the lease financing arrangement, approved in a previous proceeding, to be conducive to maintaining a climate of regulatory certainty in the NWT. [Compliance Filing P A-20]

Board Findings:

The Board notes, as the equity component of the DPC lease financing increases and the debt component decreases, the overall blended cost of lease financing will change during the 65 year term of the lease. An increasing equity component means retired debt would automatically be substituted by equity without regard to prudent financing arrangements and corresponding costs. Taken to the extreme, the DPC lease would be 100% financed by equity after the debt financing is fully retired at the end of the first 30 years of the 65 year lease term.

The Board is concerned by the lack of a mechanism under the DPC lease arrangement to replace retired debt with current borrowing or to reflect an equity ratio in DPC's financing of the capital lease that is consistent with the business risks associated with the lease, over the term of the lease. The Board has an overriding responsibility to ensure the cost of lease financing including the capital structure of the lease is cost based and continues to be just and reasonable over the term of the lease.

The Board considers the cost of lease financing payable by past, current and future customers must be just and reasonable as the mix of the debt and equity financing changes over time. The Board has expressed these concerns in Decision 13-2007 and continues to be concerned by the lack of discussion on this matter. In order to examine this matter in a more structured manner the Board directs NTPC to provide the following information at the time of the next GRA:

- Schedule showing the cost and accumulated depreciation balances respecting the 4.3MW DPC hydro asset in NTPC's books, the capital lease obligations and the corresponding cost rates as well as the actual and estimated lease payments, in each year, during the 65 year term of the DPC lease.

- NTPC's calculation of DPC's capital lease asset and the financing of the capital lease over the 65 year term of the lease based on initial equity as well as the debt financing initially provided to DPC by NWT Energy Corporation Ltd (NTEC). The Schedule must reflect, for each year of the 65 year term of the lease, the repayment of the NTEC debt over a 30 year period and the changes to DPC's capital structure as a result of the repayment of the initial debt.

- An assessment of the prudence, materiality and fairness of the lease rate in each year, from the perspective of past, current and future customers over the 65 year term of the lease.

Directive 9:

In Decision 1-2013, page 70, the Board provided the following direction:

> NTPC is directed to address, at the time of the Compliance Filing Application, a method of recognizing the improvement in fuel efficiencies at Inuvik, in the rates for years commencing after the 2013/14 Test Year.

In response to this direction, NTPC states:

> Considering the ongoing work with respect to Inuvik Plant Engine Conversion project, the Corporation does not have a reasonably accurate estimate of the forecast fuel efficiency for the Inuvik plant

> after the completion of the project. There has been a change in scope for the Inuvik Gas Engines Conversion to Diesel Fuel project and the Corporation will be filing an update to the Major Project Permit. The Corporation is investigating a Liquid Natural Gas (LNG) option that has the potential to lower electricity costs for the thermal zone compared to diesel option originally presented in the project permit application. The Corporation is in the process of obtaining internal approvals for this option and once approved, the Corporation will send the Board an amended Major Project Permit. At this time a Major Project Permit is still required as the projected capital costs remain above $5 million. As discussed during the hearing the conversion will be completed during the 2013/14 fiscal year however fuel efficiency improvements are not expected until the following year after optimal engine loading and load sharing is determined. The Corporation is proposing to address the Inuvik plant efficiency during the 2015/16 Phase II Application which will be filed by September 13, 2014. {Compliance Filing P A-21]

In its response to BR.NTPC-6, NTPC states the scope of the diesel conversion project included in the test year forecasts for Inuvik has changed in light of an LNG option now available to the Corporation:

> At the time the Corporation filed its major project permit application for the Inuvik gas plant conversion, an LNG alternative was not possible as there were no commercial options available to purchase and deliver LNG in western Canada. However, as of December 2012 LNG has been confirmed to be available for commercial purchase from one producer (Fortis BC) located in British Columbia. As a result, the Corporation is investigating the logistics and cost of transporting and storing LNG for the purpose of generating electricity in Inuvik, either directly or through a 3rd party who would own the LNG assets.
>
> The scope of the original project permit application involved converting 2 gas engines to diesel. In light of the LNG option now available, NTPC will now only convert 1 natural gas engine to diesel. This will leave NTPC with 2 gas engines to potentially generate with LNG going forward. NTPC is currently evaluating alternatives of generating with LNG and ownership of the LNG assets if/when installed. As a result, final project costs are not yet available. NTPC will file an updated major project permit application reflecting the new scope once these details have been finalized.

> There are two potential changes that arise under an LNG scenario as opposed to a diesel scenario. The first relates to capital costs. At this time NTPC does not have completed information on the potential capital costs for the LNG option, or information on how, or if, these costs may get included in rate base (e.g., NTPC as owner, versus 3rd party). The second change relates to fuel cost changes. The intent of pursuing LNG is to secure a lower ongoing cost for fuel than the cost of diesel. In the event the LNG initiative is successful, these cost savings will automatically flow through the fuel stabilization fund, to the benefit of customers. [BR.NTPC-6]

The TGC submitted, given the significantly different set of circumstances noted in the Application related to the likely use of LNG, all costs related to the Inuvik diesel conversion project and related O&M costs should be treated as a deferral account, pending the outcome of the Major Project permit application expected to be filed by NTPC. [TGC Argument Para 19]

NTPC responded to TGC's proposal to establish a deferral account as follows:

> NTPC also disagrees with TGC's recommendation that given the different set of circumstances related to a potential LNG solution, "all costs related to the Inuvik diesel conversion project and related O&M costs be treated as a deferral account, pending the outcome of the Major Project permit application expected to be filed by NTPC." NTPC notes that the Board has already accepted NTPC's forecast capital additions with respect to the Inuvik conversion project as framed in the Major Project Permit. Further, it would be premature and unnecessary to set up a deferral account when NTPC has already confirmed that it will be filing an update to its Major Project Permit once it has the necessary information related to the LNG option. The costs related to the change in scope for the project will be full (sic) considered at that time. [NTPC Reply P5]

Board Findings:

The Board does not consider it appropriate to establish a deferral account for the Inuvik conversion project to recognize information that came to light subsequent to the close of record in the 2012/13 and 2013/14 NTPC GRA Phase 1 proceeding. The Board notes NTPC learnt of the commercial availability of LNG for purchase by the Corporation in December 2012. [BR.NTPC-6]

However, in view of, what appears to be a substantial change in project scope and related costs triggered by the LNG option, the Board considers it may be appropriate to Review and Vary ("**R&V**") the Board's NTPC 2012/13 and 2013/14 GRA Phase 1 Decision 1-2013, as well as, this Decision, following the filing of a revised project permit application by NTPC with respect to the Inuvik plant additions during the test period.

The Board's authority to R&V the above noted Decisions is set out in Section 25(1) of the *Act* and it appears to the Board that the coming to light of the commercial availability of LNG for purchase after the Board's initial decision may constitute new evidence which could be a determining factor in the Decision, as discussed in Decision 3-95, pertaining to the factors the Board will consider when assessing an R&V application.

Accordingly, the Board may initiate an R&V preceding with respect to costs related to the Inuvik plant additions (fuel costs, operating costs and capital costs) included in the 2012/13 and 2013/14 GRA Phase 1 revenue requirement, as per the Updated Compliance Filing, following receipt of the revised project permit application.

Directive 10:

In Decision 1-2013, page 75, the Board provided the following direction:

> The Board directs NTPC that in its Compliance Filing Application, the ratio of fringe benefits for distribution and transmission is to be set at 37.06% for Test Years 2012/13 and 2013/14.

In response to this direction, NTPC states:

> The Corporation has adjusted the ratio of fringe benefits for distribution and transmission to be set at 37.06% for each test year. The impact of this change on the revenue requirement is a reduction in O&M expense of $0.092 million in 2012/13 test year and of $0.136 million in 2013/14 test year. [Compliance Filing P A-22]

The Board considers NTPC has complied with this direction.

Directive 11:

In Decision 1-2013, page 83, the Board provided the following direction:

> NTPC is directed to address how its practices regarding treatment of insurance proceeds and retirement of assets that are no longer in service, from gross plant in service, results in the correct amortization expense and amortization of reserve differences for the Test Years. If the Board's comments give rise to any corrections to the gross plant used for calculation of amortization expense, NTPC is directed to provide the corrected amortization expense at the time of the Compliance Filing Application.

In response to this direction, NTPC states:

> When Gannett Fleming determines the life of assets, they use the gross book value of assets and not the net value. That is they do not use the value net of insurance proceeds, or net funds from customers

> (customer contributions). The gross value is appropriate as it represents the true cost of the asset.
>
> Once the life is determined with the appropriate amortization rate, the Corporation applies that amortization rate that has been derived from (sic) (a) value of the asset (b) the insurance proceeds and (c) the customer contributions by FERC account. Each of these use the same underlying rate, by FERC. [Compliance Filing P A-25]

With regard to treatment of retirements, NTPC states it does not have a reasonable forecast of small asset disposals as part of its GRA capital planning process. Where major disposals are expected, for example the Bluefish dam, these are included in the test year forecasts.

NTPC states it is possible that amortization for a given account could be slightly overstated in the test years due to limited forecasts of retirements, but the amounts are not likely to be significant and cannot be readily forecast. [BR.NTPC-12]

Board Findings:

The Board is satisfied with NTPC's explanations respecting treatment of insurance proceeds. However the Board is concerned the omission of asset retirement forecasts from test year rate base calculations can result in inaccuracies in forecast plant and accumulated depreciation balances as well as potential overstatement of depreciation expenses.

In view of NTPC's assertion that any inaccuracies resulting from the omission of plant retirements from the forecasts are not significant, the Board will accept NTPC's proposed calculation of mid-year plant and amortization expenses for the purposes of this Decision. However, NTPC is directed to recognize plant retirements in the test year forecasts in future GRAs.

Directive 12:

In Decision 1-2013, pages 87-88, the Board provided the following direction:

> The Board considers a move that is about 50% of the way towards the ASLs proposed by NTPC would provide an appropriate balance for the purposes of these proceedings. Accordingly, the Board directs NTPC to make a directional move in the Average Service Life parameter for the above noted accounts by reflecting ASLs of 35 years for account 341, 23 years for account 343 and 25 years for account 345, in its Compliance Filing Application.

In response to this direction, NTPC states:

> The Corporation has adjusted Average Service Life (ASL) parameters for accounts 341, 342 and 345 as directed by the Board. The ASL parameter adjustment has changed the amortization rates for the above accounts as follows: from 3.33% to 2.86% for account 341; from 4.58% to 4.25% for account 343; from 4.76% to 4.00% for account 345.
>
> Annual true-up provision has decreased by $0.745 million (from $2.584 million to $1.839 million).
>
> The impact of this change on the 2013/14 revenue requirement is a reduction in amortization expense of $1.264 million and an increase in return on rate base of $0.034 million. The overall impact is a reduction in the 2013/14 revenue requirement of $1.230 million.
>
> The ASL parameter revision does not have an impact for the 2012/13 test year revenue requirement, as the revised amortization rates are not applicable in that test year. [Compliance Filing P A-26]

The Board considers NTPC has complied with this direction.

Directive 13:

In Decision 1-2013, page 98, the Board provided the following direction:

> The Board directs NTPC to provide, at the time of the Compliance Filing Application, details explaining the accounting entries involved in recording each of the affiliate costs/revenues (other than dividends), for GRA forecast purposes and for recording actual results for financial statement purposes.

In response to this direction, NTPC states:

> As the Board suggests, the Corporation did not include a regulatory account where the affiliate costs are recovered for the shared services. This is due to the direct budgeting and tracking for affiliate expenses. The Corporation did not include historical or budgeted affiliate costs in the regulated company and then subsequently move the costs to the affiliate company. All costs for affiliate or unregulated companies are historically tracked and budgeted by separate cost code. [Compliance Filing P A-27]

The Board notes the affiliate cost accumulation and charge out procedures described by NTPC did not provide the required transparency, within the record of the current GRA, as to the total affiliate costs by component and the portion thereof that is being charged to the regulated entity and the portion charged to affiliates. The Board considers the matter of transparency of affiliate charges may best be dealt with in the context of the SSA/MFR process that is currently under way. Accordingly, NTPC is directed to address the matter of transparency of affiliate cost accumulation and charge out in the context of the SSA/MFR process and reflect the resulting changes in the GRA filing at the time of the next GRA.

Directive 14:

In Decision 1-2013, page 99, the Board provided the following direction:

> NTPC is directed to identify the transfer pricing policy and how it was used for pricing shared services including overheads and, interest expense/recoveries, at the time of the Compliance Filing Application.

NTPC states, in accordance with the Code of Conduct approved by the Board, all Shared Services are priced on a cost recovery basis. NTPC states it has only conducted work for affiliates that relates to shared services and prices those services on a cost recovery basis. [BR.NTPC-7c)]

With respect to overhead recovery, NTPC states the Corporation does not use a specific overhead rate per se, but rather a basic allocation of overhead costs representative of the work completed for affiliates. [BR.NTPC-7b)]

With respect to interest expense, NTPC states interest expense is directly coded to affiliates and is not a shared service. NTPC confirmed that it is able to borrow on a short-term basis at a rate equal to or lower than prime plus 50 basis points. [BR.NTPC-7a)]

Board Findings:

The Board notes the clarifications provided by NTPC with respect to the pricing policy for affiliate services. The Board considers NTPC has complied with this direction.

Directive 15:

In Decision 1-2013, pages 109-110, the Board provided the following direction:

> The Board directs that the GNWT contributions for 2012/13 and 2013/14 be recognized in the determination of rates for those years in NTPC's Compliance Filing Application.

In response to this direction, NTPC states:

> When presented with the material rate increases that were needed in 2012-16 to keep pace with inflation and adjust for updated amortization rates, fuel cost, capital additions etc., the GNWT took steps to mitigate those rate increases by providing material contributions to reduce the revenue requirement collected from customers. Further, the GNWT has confirmed that it will provide the original level of support, even though the stated intent was to reduce the top up contribution by any reductions in revenue requirement arising from the Phase I process. [Compliance Filing P A-30]

The Board's determinations respecting revenue recoveries during the rates phase in period are set out under Directive 19.

Directive 16:

In Decision 1-2013, page 110, the Board provided the following direction:

> NTPC is directed to address the 2014/15 phase in rate increase after giving effect to the Board's determinations in this Decision, at the time of the Compliance Filing.

In response to this direction, NTPC stated:

> The GNWT contribution for 2014/15 as per the Agreement between GNWT and NTPC is $4.800 million, which results in a $0.091 million forecast shortfall in 2014/15. In the interest of rate stability for the customers and in accordance with Section 51.(2) of the Public Utilities Act (R.S.N.W.T. 1988, c.24 (Supp)), the Corporation is proposing to recover this shortfall as part of the overall GNWT contribution funding for the transitional years 2012/13, 2013/14 and 2014/15 and through the overall rate design over these 3 years. [Compliance Filing P A-31]

The Board's determinations respecting revenue recoveries during the rates phase in period are set out under Directive 19.

Directive 17:

In Decision 1-2013, pages 110-111, the Board provided the following direction:

> With respect to the transitioning of the community of Norman Wells into the Thermal Zone, the Board, in the interest of rate stability, considers it appropriate to phase in rate increases for Norman Wells with annual increases of 7%, as may be required and, applicable to energy rates, until Norman Wells rates are fully transitioned to reflect the corresponding rates as the rest of the rates within the Thermal Zone. In order to achieve this, Norman Wells base rates should be adjusted to equal the corresponding Thermal Zone base rates. The 7% increase per year for Norman Wells should be given effect to by way of a credit rider applicable only to Norman Wells customers. The annual shortfall in revenue due to the Norman Wells credit rider will be collected by NTPC from the Thermal Zone in its entirety, including Norman Wells, by application of a recovery rider to all of the Thermal Zone base rates. The Board directs NTPC to propose rates and riders for Norman Wells and the Thermal Zone in accordance with this finding in its Compliance Filing Application.

In response to this direction, NTPC states:

> The Corporation's rate proposal for this compliance filing reflects the implementation of the first part of the Board's directive. Norman Wells rate annual increases are proposed at 7% for all rate classes consistent with rate increases for other communities and customer classes.
>
> Considering that the proposed rate increases (including the 7% increase for Norman Wells) and the GNWT contribution for the 2012/13 to 2014/15 generate sufficient revenue to cover the Corporation's revenue requirement during the transition period, it was not necessary to implement the higher revenues associated with the second part of the Board's directive above.
>
> The implementation of this part of the directive may require consideration of cost-of-service results, and therefore better

> addressed at the Corporation’s Phase II Application. [Compliance Filing P A-32]

The Board considers NTPC has complied with this direction.

Directive 18:

In Decision 1-2013, page 114, the Board provided the following direction:

> The Board notes NTPC's cost allocation study by rate zone provided in BR.NTPC-22. For the purposes of the 2012/13 and 2013/14 Test Years, NTPC is directed to file, at the time of the Compliance Filing Application, an update to the cost allocations shown in BR.NTPC-22 for 2012/13 and 2013/14, in Excel format, reflecting the Board's determinations in this Decisions and showing:
>
> - How rate base, return, amortization expense and other components of revenue requirement were assigned or allocated by rate zone;
> - The proposed allocation of revenues from GNWT support by rate zone;
> - The proposed revenues to be recovered through customer rates, by rate zone;
> - How the proposed revenues by rate class would dovetail into the 2014/15 and 2015/16 rates phase in increases, by rate zone.
> - For the purposes of this update to BR.NTPC-22, the Taltson Zone should be considered separate from the Snare Zone.

In response to this direction, NTPC stated:

> The updated cost allocation study by rate zone, in accordance with this directive, is provided in Directive 18 Attachment 1. It is noted that no allocation of the GNWT support by rate zone is available as the GNWT contribution amount was determined based on a shortfall during the transition years at the corporate level. [Compliance Filing P A-33]

The Board notes none of parties objected to NTPC's proposed revenue to cost ratios by rate zone or, the proposed treatment of the GNWT support during the rates phase in period, from 2012/13 to 2014/15. The Board accepts NTPC's calculation of revenue to cost ratios by rate zone for the rates phase in period from 2012/13 to 2014/15, as set out in Directive 18 Attachment 1.

The Board considers NTPC has complied with this direction.

Directive 19:

In Decision 1-2013, page 115, the Board provided the following direction:

> NTPC is directed to file proposed rates designed to recover the proposed 2012/13 and 2013/14 revenues from customer rates reflecting the update to BR.NTPC-22 referred to above.

In response to this direction, NTPC states:

> In the interest of rate stability for the customers and in accordance with Section 51.(2) of the Public Utilities Act (R.S.N.W.T. 1988, c.24 (Supp)), the proposed rates are designed to recover any forecast shortfall in excess of the GNWT contribution in any transition year through a forecast surplus in the GNWT contribution in another transition year. [Compliance Filing P A-38]

NTPC submitted in order to recover the rate level revenue requirement resulting from the updated compliance filing; the following rate increases are required:

- **2012/13 Test Year:** A 7.0% increase on energy rates for May 2012 through March 2013, as per interim rates already charged
- **2013/14 Test Year:** A further 7.0% increase on energy rates for April 2013 through to March 2014, as per interim rates now in place.

- **2014/15:** An additional 5.6% increase on energy rates as at April 2014 through March 2015.
- **2015/16:** Rates starting April 2015 to be designed as part of a future Phase II review, which is to yield an average 6.2% increase on energy rates.

The following table shows the forecast surplus/deficiency by year resulting from the above noted rate increases after taking into consideration GNWT contributions during the rates phase in period, from 2012/13 to 2014/15:

Revenue Surplus/Shortfall over the Rates Phase In Period						
	Net Revenue Requirement	GNWT Funding	Foregone Dividend	Revenue Required from Rates	Revenue from Rates	Shortfall Surplus
2012/13	100510	11700	2000	86810	86919	-109
2013/14	104782	9400	2000	93382	94192	-810
2014/15	104782	2800	2000	99982	99063	919
2015/16	104782			104782	104782	0
Source: Amended Table 4 from the April 19, 2013 Compliance update						

The TGC submitted, based on the reassurance by NTPC that the rates set in 2012/13 and 2013/14 GRA process will be final, it does not have further concerns respecting the possibility of further rate changes arising as a result of changes in GNWT funding commitments.

Board Findings:

The Board has reviewed NTPC's calculations of the GNWT funding, revenue from rates and the surplus shortfall, by year, as set out above. The Board notes the surpluses in 2012/13 and 2013/14 of $0.109 million and $0.810 million respectively, would go to offset the revenue deficiency of $0.919 million in 2014/15. Although this results in the pre-collection of revenues in

2012/13 and 2013/14 in order to offset the forecast deficiency in 2014/15, the Board notes, the pre-collection is primarily the result of keeping the GNWT contributions at approximately the same levels as contemplated at the time of the Phase 2 proceeding.

Given the unique nature of the rates phase in proposal by NTPC including the contributions by the GNWT and, in the interest of rate stability the Board accepts the proposed method of offsetting surpluses in 2012/13 and 2013/14 by the deficiency in 2014/15, for the purposes of this Decision. Accordingly, the Board accepts NTPC's rates phase in proposal as set out in its Updated Compliance Filing.

The Board considers NTPC has complied with directions 15, 16 and 19.

Directive 20:

In Decision 1-2013, page 115, the Board provided the following direction:

> The Board also notes NTPC's acknowledgement that an Off-Road Track Digger is assignable to Inuvik. Accordingly, NTPC is directed to assign the cost of the off-Road digger to the Thermal Zone in the update to the cost allocations as set out in BR.NTPC-22, to be filed as part of the Compliance Filing Application.

In response to this directive, NTPC stated the Corporation has reassigned the budget cost of the Off-Road Track Digger of $0.350 million from Common Cost rate base to Thermal Zone rate base. This revision has allocated $0.023 million of costs from Hydro zones to Thermal zone revenue requirement. [Compliance Filing P A-39]

The Board considers NTPC has complied with this direction.

Directive 21:

In Decision 1-2013, page 118, the Board provided the following direction:

> The Board is not persuaded by NTPC's reasons for delaying the implementation of flat rates by zone for Government rate customer classes. The Board considers implementation of the revised electricity policy guidelines is not likely to impact NTPC's overall rate proposals or the rates for non-Government customers. Accordingly, NTPC is directed to propose, in the Compliance Filing Application, a flat Government rate by rate class and by zone that recovers the same revenue for the Government class as the proposed community based Government rates, for each zone. The Board considers this will accomplish the goal of simplified rates and a flat Government rate by class in each zone.

In its Compliance Filing, NTPC did not propose a flat Government rate by rate class and by zone that recovers the same revenue for the Government class as the proposed community based Government rates, for each zone. Instead NTPC submitted:

> Given the material rate cliffs experienced by some communities (particularly the municipalities of Inuvik, Aklavik and Norman Wells) and considering that these rates apply not only to the Federal and Territorial Governments, but also the municipal governments, the Corporation is concerned that government customers will not be able to meet such drastic changes in costs. This is of particular concern given other cost pressures currently present in these communities, such as increased energy costs across the territory and gas shortages in the Towns of Inuvik and Norman Wells. Recognizing the above and given the level of transitional funding from the GNWT, the Corporation submits that it is not the right time to levelize government rates. Alternatively, the Corporation proposes to re-visit this issue during its Phase II Application. [Compliance Filing P A-40]

NTPC states, more time is required to evaluate the impacts of a levelized Government rate and more importantly how a levelized Government rate can be implemented without negatively affecting a community's block funding. [BR.NTPC-9]

Board Findings:

In view of the significant increases in rates identified for Government customers in certain communities and given NTPC's concerns over block funding, the Board considers it appropriate to delay consideration of the process for implementation of levelized Government rates to the upcoming Phase 2 proceedings. Accordingly, NTPC is directed to address the move to levelized Government rates in each Zone at the time of the next Phase 2 Application.

Directives 22:

In Decision 1-2013, page 123, the Board provided the following direction:

> The Board therefore directs NTPC, at the time of the Compliance Filing Application, to update the opening balances for plant in service and accumulated amortization as well as the opening balances for deferral accounts and deferred cost balances, to reflect the recorded balances. If the updating of these balances results in the need to update any other related items, such as contributions or amortization expense, based on materiality considerations, NTPC should reflect such changes as well in the Compliance Filing Application.

In its March 4, 2013 Compliance Filing, NTPC indicated it has updated the GRA schedules to 2011/12 actuals for the opening balances for plant in service, accumulated amortization, deferral accounts, deferred cost balances, customer contributions, as well as for amortization expense. [Compliance Filing P A-42]

In its Updated Compliance Filing, NTPC stated "It is now apparent that the update for actuals had not yet been fully incorporated on a consistent basis into the March 4, 2013 Compliance Filing." Accordingly, NTPC reflected such further updates to reflect the 2012/13 opening balances pursuant to Directive 23, in the Updated Compliance Filing.

NTPC indicates it has updated the GRA schedules to 2011/12 actuals for the opening balances for plant in service, accumulated amortization, deferral accounts, deferred cost balances, customer contributions, as well as for amortization expense.

YK/HR expressed concern that the forecasts appear to be updated for more than just the deferral of projects. YK/HR submitted, even if one accepts that deferral of 2011/12 projects should be carried forward, there is no indication that total 2011/12 costs will be the same as the forecast, nor whether NTPC forecasts for 2012/13 and 2013/14 would not change as costs are deferred.

YK/HR submitted, compliance filings are to implement the directions of the Commission, and not to include updated and untested forecasts. YK/HR requested that the Board provide clear direction that a compliance filing is to only reflect the forecasts approved by the Board, and not updated or revised forecasts. Further, YK/HR requested that NTPC be directed to clearly demonstrate that the impact of the incremental customer funded capital of $1.840 million in 2011/12 is completely offset by the impact of a customer contribution in each of 2011/12, 2012/13, and 2013/14. [YK/HR Argument Para 11]

NTPC stated that it did not adjust project forecasts where the projects themselves were not affected by the change to 2011/12 actuals. For example a 2012/13 project in the GRA which remains a 2012/13 project has had no updates applied to it in the Compliance Filing. It is only those projects which form part of the capital plan balancing that have been updated as a consequence of updating for 2011/12 actuals. [BR.NTPC-14b)]

NTPC submitted, the failure to properly and consistently show directly linked implications of the changes would present an incorrect and inappropriate picture of the test years. Further, failure to update the forecast test year costs would result in inconsistent project cost information, as the 2011/12 actual expenses did not perfectly match the 2011/12 forecast costs for all projects, and various projects remain in Work In Progress (WIP) at year end 2011/12 that must be put into rate base in the test years.

NTPC submitted the GRA as filed was a comprehensive and consistent picture of the Corporation using the best information as of the preparation date in early calendar year 2012. The compliance filing is similarly a comprehensive and consistent picture of the Corporation's capital and rate base as of the current time. The approach proposed by YK/HR, to update the timing of projects but not the budgets, results in an inconsistent and inaccurate portrayal of the Corporation.

NTPC indicated that the update process ensures accurate consistent information is used to determine rates, and that the total impact of the re-forecasting is less than $100,000. [NTPC Reply P3]

Board Findings:

The Board recognizes the updating the 2012/13 test year opening balances to reflect actuals may entail a number of consequential adjustments due to changes in the timing of certain projects included in the opening balance, as well as, changes to the Construction Work In Progress ("**CWIP"**) balances. The controversies arising from such updates could potentially have been avoided had NTPC updated its opening balances with the best available information at the time of the GRA hearing or, at the time of the September 19, 2013 update filing (Exhibit 13), recognizing that the difference between the forecast and actual 2012/13 opening balance of about $4.9 million[1] would have been known to NTPC, at the time, at least on a preliminary basis, if not on the basis of Audited Financial statements. In the interest of forecast accuracy, the Board expects NTPC to reflect the most current information respecting opening balances in its GRA update filings in future GRAs, to the extent they are material.

Had the opening balances been updated on a timely basis by NTPC, the Board and all parties would have had an opportunity to examine and test the updated opening balances and the resulting impacts on test year forecasts. The revised forecasts presented in the Compliance filing by NTPC puts the Board and interested parties in a difficult position because, not only do the updates reflect 2011/12 year end project timing changes and changes to CWIP balances but also additional scope and budget changes to the forecast of 2011/12 project costs.

The following are illustrative of the type of project cost changes proposed by NTPC, for purposes of the Compliance filing:

> **Replace Telephone System – Original $142,000; Revised $355,000**
> In the initial planning process it was anticipated that the existing horn relays at Jackfish would be able to accommodate the Corporation's new Shoretel VOIP telephone system. Testing completed after the initial budget development, revealed that the relays would not provide

[1] Calculated from BR NTPC 10b) Attachment 1

enough amplitude and new relays had to be purchased and installed. Additionally, the original scope of work was modified to include new wiring and switches to accommodate additional workspaces in the Jackfish Plant.

Relocated Standby D&F Tanks – Original $856,000; Revised $1,372,000
The original distribution line route, connecting the new, modular genset to the powerhouse had significant icing and geotechnical difficulties. As a result, a new route had to be designed which extended the project completion time and also resulted in additional labour and consulting costs. In addition, the Corporation had difficulty finding a contractor willing to complete the work in the high voltage substation yard. These delays led to higher AFUDC being incurred.

New Warehouse – Original $1,397,000; Revised $1,862,000
The new warehouse experienced difficulties with the timeliness and quality of work being completed by the onsite contractor. To mitigate this impact the Corporation assigned a dedicated, onsite supervisor which increased wages; however additional costs were also incurred in AFUDC due to work delays. Additionally, the Corporation installed equipment beyond the original scope of work worth approximately $160,000. These amounts are captured within the 'Contractor/Consultant' category.

Replace Caterpillar D342 – Original $261,000; Revised $550,000
The original budget planned for NTPC staff to complete the required work. During the commissioning of the engine, problems arose that required the utilization of external consultants and additional man hours. As a result, final commissioning of the engine was delayed and additional AFUDC was incurred. [BR.NTPC-14a)]

The Board notes the increased costs under the above projects are due to unanticipated scope changes, higher project costs, costs related to delays and increased Allowance for Funds Used During Construction (AFUDC). While the Board considers updating of project costs to reflect changes in the timing of 2011/12 year end project additions to rate base and to reflect actual year end CWIP balances transferred to rate base, would be consistent with the intent and scope of the Board's directive to update opening balances, updating of project costs for project scope changes and budgetary changes, in the context of a Compliance filing, to be inconsistent with the intent and scope of the Board directive to update opening balances. In this context, the Board notes the following from the YK/HR's Reply Argument:

> The very nature of the regulatory compact, under a forecast test period, is that the utility is at risk for forecast differences. If the utility is allowed to update forecasts after a GRA decision is rendered, it lowers the risks that the utility faces, and should be reflected in lower levels of allowed return and capital structure. [YK/HR Reply Para 4]

The Board agrees with YK/HR, in principle, that if the utility is allowed to update forecasts in the context of a compliance filing, post Phase 1 Decision, that may lower the risks that the utility faces and consequently impact the fair rate of return on rate base determined by the Board in the Phase 1 Decision.

Notwithstanding the foregoing, the Board notes the changes to the project costs forecasts were limited to 2011/12 year end projects only and did not involve re-forecasting of any other test year capital projects. The Board also notes the relatively minor overall net impact of the 2011/12 project cost updates (less than $100,000 impact on rate base), when increases and decreases in 2011/12 year end project costs are considered. Given the limited nature of the forecast updates, the Board is not persuaded the changes to the 2011/12 year end project cost forecasts warrant consequential changes to the fair rate of return awarded in Decision 1-2013.

The Board recognizes the changes to forecast costs for specific projects arising from the updating of the 2012/13 opening balances were subject to testing in the context of the Compliance filing information request process which provided parties the opportunity to test the revised forecasts.

In view of the limited forecast updates and in the interest of regulatory efficiency, the Board is prepared to accept the revised forecasts of project costs for the purposes of this Decision. Accordingly, the Board considers NTPC has complied with the direction to update the 2012/13 opening balances.

Directive 23:

In Decision 1-2013, pages 123-124, the Board provided the following direction respecting updates to opening balances:

> NTPC is directed, as part of its Compliance Filing Application, to provide reconciliations between the regulatory schedules and the 2011/12 financial statements with respect to any updated opening balances.

In response, NTPC provided the requested reconciliation.

The Board considers this directive has been complied with.

4. DECISION

The Board has reviewed NTPC's Updated Compliance Filing dated April 19, 2013 and accompanying schedules and finds that NTPC has complied with the directives for this filing provided in Decision 1-2013, subject to the further directives arising from this Decision.

5. SUMMARY OF DIRECTIONS

1. The Board notes the onus is upon NTPC to justify the level of IDC requested on major spares when they are added to rate base as part of a capital project. However, the Board is cognisant of the potential for IDC on major spares additions to become subsumed under broader categories of asset additions unless they are separately identified and linked to the particular capital project they are part of. Accordingly, NTPC is directed to provide a separate continuity schedule of major spares showing opening balances, annual expenditures, IDC amounts, transfers to rate base by project, and closing balances, in future GRAs.

2. Since comparable utility amortization parameters are often considered, among other factors, in establishing NTPC's amortization parameters, use of consistent accounting policies with those of comparable utilities, with respect to treatment of retirements would be desirable. Accordingly, NTPC is directed to address the consistent treatment of retirement units in the context of the SSA/MFR process that is currently under way and reflect the resulting changes, if any, in the GRA filings at the time of the next GRA.

3. With regard to the brushing expense forecast by rate zone, the Board considers this information will be required at the time of the Phase 2 application. Accordingly NTPC is directed to provide the brushing expense forecast by zone, including details of the allocation methods used, at the time of the 2012/13, 2013/14 Phase 2 Application.

4. The Board considers the cost of lease financing payable by past, current and future customers must be just and reasonable as the mix of the debt and equity financing changes over time. The Board has expressed these concerns in Decision 13-2007 and continues to be concerned by the lack of discussion on this matter. In order to examine this matter in a more structured manner, the Board directs NTPC to provide the following information at the time of the next GRA:

    - Schedule showing the cost and accumulated depreciation balances respecting the 4.3MW DPC hydro asset in NTPC's books, the capital lease obligations and the corresponding cost rates as well as the actual and estimated lease payments, in each year, during the 65 year term of the DPC lease.

    - NTPC's calculation of DPC's capital lease asset and the financing of the capital lease over the 65 year term of the lease based on initial equity as well as the debt financing initially provided to DPC by NWT Energy Corporation Ltd (NTEC). The Schedule must reflect, for each year, of the 65 year term of the lease, the repayment of the NTEC debt over a 30 year period and the changes to DPC's capital structure as a result of the repayment of the initial debt.

    - An assessment of the prudence, materiality and fairness of the lease rate in each year, from the perspective of past, current and future customers over the 65 year term of the lease.

5. In view of NTPC's assertion that any inaccuracies resulting from the omission of plant retirements from the forecasts are not significant, the Board will accept NTPC's proposed calculation of mid-year plant and amortization expenses for the purposes of this Decision. However, NTPC is directed to recognize plant retirements in the test year forecasts in future GRAs.

6. The Board notes the affiliate cost accumulation and charge out procedures described by NTPC did not provide the required transparency, within the record of the current GRA, as to the total affiliate costs by component and the portion thereof that is being charged to the regulated entity and the portion charged to affiliates. The Board considers the matter of transparency of affiliate charges may best be dealt with in the context of the SSA/MFR process that is currently under way. Accordingly, NTPC is directed to address the matter of transparency of affiliate cost accumulation and charge out in the context of the SSA/MFR process and reflect the resulting changes in the GRA filing at the time of the next GRA.

7. In view of the significant increases in rates identified for Government customers in certain communities and given NTPC's concerns over block funding, the Board considers it appropriate to delay consideration of the process for implementation of levelized Government rates to the upcoming Phase 2 proceedings. Accordingly, NTPC is directed to address the move to levelized Government rates in each Zone at the time of the next Phase 2 Application.

6. BOARD ORDER

NOW, THEREFORE IT IS ORDERED THAT:

1. NTPC shall comply with all directions in this Decision
2. The revenue requirements for NTPC are approved as follows: 2012/13 $101.539 million; 2013/14 $105.840 million. The rate level requirements, calculated by deducting revenue offsets from the revenue requirements, are approved as follows: 2012/13 $100.510 million; 2013/14 $104.782 million.
3. The interim rates approved in Decision 11-2012 are approved as final rates for the 2012/13 test year; the interim rates approved in Decision 4-2013 are approved as final rates for the 2012/13 test year.
4. As described under Directive 19 above, the Board approves a 5.6% increase in energy rates as of April 2014 through March 2015 to give effect to the phasing in of the recovery of the 2013/14 revenue requirement in year 2014/15. NTPC shall file for Board approval proposed rates reflecting the 5.6% increase in energy rates effective April 1, 2014.
5. NTPC is to file rates commencing April 1, 2015 designed to recover the full 2013/14 rate level revenue requirement in accordance with the Directives for filing a 2012/13, 2013/14 Phase 2 Application set out in Decision 1-2013.
6. Nothing in this Decision and order shall bind, affect or prejudice the Board in its consideration of any other matter or question relating to the Northwest Territories Power Corporation.

ON BEHALF OF THE
PUBLIC UTILITIES BOARD
OF THE NORTHWEST TERRITORIES

Sandra Jaque
Vice- Chair

Dated July 9, 2013