

# 2019-20 Corporate Plan

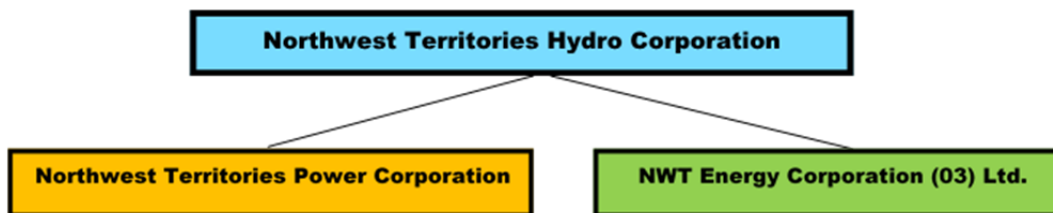


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# Introduction

The Northwest Territories Hydro Corporation (NT Hydro) is a holding company whose sole shareholder is the Government of the Northwest Territories (GNWT). NT Hydro is the parent company of two primary subsidiary companies: the Northwest Territories Power Corporation (NTPC) and the NWT Energy Corporation (03) Limited (NT Energy).



NTPC is responsible for keeping the lights on for customers across the North and is the public face of NT Hydro. Activities of NTPC are regulated by the NWT Public Utilities Board (PUB). Capital, operational and maintenance costs are all reviewed by the PUB when NTPC submits a General Rate Application (GRA) in order to set electricity rates.

NT Energy is responsible for managing projects of higher risk that require different approaches than a regulated company. This includes projects that are being financially supported by the Federal and Territorial governments through the Investing in Canada Infrastructure Program (ICIP). NT Energy also pursues large scale business opportunities such as electricity generation for new mines. The activities of NT Energy are not regulated by the PUB; costs incurred do not impact electricity rates.

NWT electricity rates are among the highest in Canada. There are a number of reasons why this is the case.

- In the past decade, electricity sales have declined by almost four percent as the result of stagnant/declining population as well as very little new mining or other industrial activity.
- Aging infrastructure is also a challenge, as it is for most other North American electrical utilities – infrastructure is not just aging but is reaching the end of its design life, particularly NTPC’s hydroelectric assets.
- There is a high cost to deliver power in the North given the use of diesel in remote communities and 100% reliance on diesel for back up generation in all communities. The small scale, isolated and non-integrated systems means that there are limited economies of scale.

In spite of these challenges, there are reasons for a more optimistic view of the future for electricity in the NWT.

Significant progress was made on several key activities in 2018–19. A 20 Year Strategic Plan was developed that aims to close the gap between electricity rates in the NWT and the Canadian national average over the next two decades. The strategic plan is based on three foundational pillars: reliability, economic sustainability and environmental sustainability. It aligns NT Hydro with the GNWT's 2030 Energy Strategy and Climate Change Strategic Framework.

NT Hydro successfully reactivated NT Energy in 2018-19, which was a key corporate target.

2018-19 also saw completion of NTPC's most recent GRA, which was filed with the PUB on June 30, 2016 for the period 2016/19. Major cost pressures in this application included replacing aging infrastructure, increased regulation and increased inflation during a period of declining sales revenue. PUB Decision 8-2018 resulted in an average rate increase of two percent, effective June 1, 2018.



NTPC's Mission, Vision and Value statements guide its actions and ensure the organization meets or exceeds the expectations of its shareholder and customers.

## Mission

*To generate, transmit and distribute clean, reliable and affordable energy to the Northwest Territories.*

## Vision

*To enrich the lives of Northerners by providing power that encourages living, working and investing in the NWT.*

## Values

***Safety** – We make safety our first priority, a cornerstone in all decisions*

***Commitment** – We are determined, agile and know how to keep the lights on*

***Community** – We work with and for all Northerners*

## 2019–20 Objectives:

NT Hydro has developed a 20 Year Strategic Plan (the Plan) that will result in fundamental changes in the way we approach our work and how we measure success. It involves the participation of both NTPC and NT Energy.

The Plan focuses on increasing reliability and providing long term economic and environmental sustainability. We will achieve success by strengthening our core services while managing costs, addressing the challenge of aging infrastructure, reducing greenhouse gas emissions through increased generation by renewables and establishing a revenue growth strategy for the future, which will provide tangible benefits to customers as well as our Shareholder. The overarching objective of the Plan is to reduce the gap between electricity rates in the NWT and the Canadian national average.

The Plan is a living document that is revised, updated and refined as events warrant and is aligned with the GNWT's 2030 Energy Strategy and the Climate Change Strategic Framework.

Seven strategic objectives have been established for the next three years. Four will be the responsibility of NTPC, two will be carried out by NT Energy and the final one is an overall corporate strategic objective

<b>NT Hydro Group of Companies Three Year Strategic Objectives</b>
<b>NTPC</b> <ol style="list-style-type: none"><li>1. Reduce fuel consumption</li><li>2. Reduce controllable costs through efficiencies and continuous improvement</li><li>3. Increase distribution customer base</li><li>4. Invest in core assets</li></ol>
<b>NT Energy</b> <ol style="list-style-type: none"><li>5. Increase industrial customer base</li><li>6. Execute the Investing in Canada Infrastructure Program</li></ol>
<b>NT Hydro</b> <ol style="list-style-type: none"><li>7. Support Taltson Expansion and Great Slave Lake Intertie</li></ol>

## **NTPC**

As part of the 20 Year Strategic Plan, NTPC has embarked on a large-scale capital program to address aging infrastructure challenges in the NWT. Capital spending of approximately \$72 million is planned in 2019-20.

NTPC utilizes an Asset Health Index (AHI) rating process to identify the condition of assets and measures the scores against the Ideal Rating recommended by the Canadian Electricity Association. Based on the AHI rating, risk and strategic impact, key capital projects that will be undertaken in 2019-20 include overhauls of both units at Snare Forks, the initial stages of an overhaul of the Taltson Hydroelectric Facility and a new plant in Sachs Harbour. Federal funding support for the Snare Forks overhauls has already been secured through ICIP and applications for additional projects will be submitted. ICIP funding support will significantly reduce the costs that would otherwise be fully borne by electricity customers.

Other NTPC capital projects scheduled for 2019-20 include the completion of Front End Engineering and Design (FEED) studies for a new plant in Lutselk'e and substation work at Snare Falls.

The Hay River Franchise continues to unfold with resolution expected during the 2019-20 fiscal year. In May 2015, the Town of Hay River issued an RFP (Request for Proposal) for the supply of power to the community and chose NTPC as its future electricity distributor. Since NTPC was identified as the successful bidder the process to transfer the Franchise from the current electricity distributor has been moving forward. By adding Hay River distribution customers to its customer base, NTPC anticipates economies of scale which will benefit all customers by reducing upward pressure on electricity rates.

## **NT Energy**

NT Energy will move forward on developing ICIP renewable energy projects, continuing to work closely with the GNWT to plan and execute projects that will reduce greenhouse gas emissions associated with electricity generation. The Federal Government will provide 75% of the funding for these projects in order to support achievement of the country's international climate change commitments while the GNWT will provide the remaining 25%. The Inuvik Wind project will be the first major project to be executed under this program, with physical work set to begin in 2019-20. Once construction is completed, ownership of these assets will be transferred to NTPC.

NT Energy will also continue to pursue opportunities to provide electricity to mining companies and other potential industrial customers. Discussions are ongoing with mining companies that expect to begin production over the next several years. Industrial customers, including mines, provide increased revenue opportunities, which helps offset upward pressure on electricity rates for existing customers.

## Performance Measures:

NT Hydro has developed performance measures to help track progress on execution of the 20 Year Strategic Plan. These performance measures focus on the strategic objectives for NTPC.

NTPC Key Performance Indicators (KPIs) measuring progress on the strategic objectives include:

- Average number of outages per customer on a rolling 12 month calendar
- Average cost of electricity per kilowatt hour for residential customers
- Operation and Maintenance cost per kilowatt hour
- Fuel cost per megawatt hour
- Fuel efficiency
- Greenhouse gas emissions per gigawatt hour of generation (tCO<sub>2</sub>e/GWh)
- Asset Health Index

## Expected Results:

NT Hydro expects to see progress on all seven of the strategic objectives in 2019-20. Timing for measurable success will vary by strategic objective with some being fully reliant on activity by third parties (i.e. mining companies, distribution franchises). Initiatives to support the strategic objectives will be reviewed and updated on an annual basis to reflect any changes in circumstances such as new challenges or opportunities.



# Evaluation of 2018–19 Corporate Objectives:

## Corporate Objectives

NTPC continued to make progress on the corporate objectives that were in place prior to development of the 20 Year Strategic Plan. Outstanding corporate objectives from 2018-19 will become divisional initiatives and will not be included in the Corporate Plan in the future.

	COMPLETION TARGET	Status as of March 31, 2019
Recruitment & Retention Strategies	September 2018	75%
Improve Safety Culture	March 2019	90%
Successful Collective Bargaining	TBD	Ongoing
Develop and Implement a Transmission and Distribution Predictive Maintenance Program	March 2019	90%
Computerized Maintenance Management System (CMMS) -- Finance	March 2018	Complete
Asset Management Framework	September 2018	Complete
2016-19 General Rate Application (GRA) Success	March 2018	Complete

# **NT Hydro & NTPC Financial Information**

**Budget Summary  
Statement of Operations – NT Hydro  
Changes in Net Debt – NT Hydro  
Statement of Operations – NTPC  
Changes in Net Debt -- NTPC  
Capital Expenditures**

# NT Hydro and NTPC Budget Summary

2019-20 represents NT Hydro's second year of putting into action its 20 Year Strategic Plan. 2018-19 represented a lot of the planning and framework – 2019-20 represents the initial year of bringing those plans to life. NT Hydro's 2019-20 consolidated budget starts with NTPC's consolidated 2019-20 budget:

## NTPC's Consolidated Budget

### Revenues

Power revenues are budgeted at \$111.345 million – up just over 1% from 2018-19. Sales in Yellowknife to NTPC's wholesale customer have been slowly increasing as well as general service sales. 2019-20 is NTPC's first operational year outside of a General Rate Application (GRA) Test Year. Base electricity rates are not budgeted to change this year, although a fuel rider is expected as a result of increasing global fuel prices over the past few years. NTPC will be making an insurance claim for the Snare Forks bearing failure from October 2018 and the refurbishment of the asset required as a result.

### Expenses

NTPC's implementation of the 20 Year Strategic Plan is reflected in the \$112.888 million budget for operating expenses in 2019-20. Expenses are down by 2.6% from 2018-19 despite inflation and the rising cost of diesel in three areas:

- Interest costs are down as a result of the underspend on NTPC's capital portfolio in 2017-18 and 2018-19
- Fuel costs are lower than 2018-19 as a result of higher water generation from the Bluefish facility as well as NTPC regaining access to purchased power from Imperial Oil Limited in Norman Wells in November 2018.
- More internal time and supplies will be spent on the capital portfolio in 2019-20 than was spent on operations and maintenance projects in 2018-19

### Reduce fuel consumption

NTPC has a number of projects using newer and more efficient technology to reduce fuel consumption and Green House Gas Emissions in its thermal based communities. NTPC completed the installation and launched a one-year pilot project to test the Variable Speed Generator in Aklavik in 2018-19 and the Exhaust Gas Recovery Unit is scheduled to be commissioned in 2019-20 in Inuvik. The Norman Wells replacement plant will be completed in 2019-20 while the Sachs Harbour plant replacement is scheduled to begin. NTPC is also starting work on its major hydro overhauls – to maintain the carbon-free generation that supports NTPC's customers in the hydro zones. These overhauls and the Sachs Harbour plant replacement are supported in part by funding through the *Investing*

*in Canada Infrastructure Program (ICIP).*

### **Reduce controllable costs through efficiencies and continuous improvement**

Through restructuring and implementation of continuous improvement initiatives, NTPC has been able to hold its operating budget for 2019-20 within the expense limits of the last GRA.

### **Increase distribution customer base**

NTPC continues to pursue the Hay River Franchise. Amortization of the franchise assets and the interest associated with their purchase are included in the 2019-20 budget. The timing of the franchise transfer remains unknown and the net impact on the financial surplus is expected to be minimal in the first year of operation.

### **Invest in core assets**

NTPC has a \$72.870 million capital plan to deliver – primarily (72%) focused on the replacement of existing assets to ensure reliability of electricity for NTPC's customers.

In addition to the work being driver by NTPC, NT Hydro's progress on the 20 Year Strategic Plan through NT Energy will be delivered on these objectives:

### **Increase industrial customer base**

NT Hydro will pursue new customer opportunities including new industrial customers. Mining and economic development is a key part of the GNWT's 2019-20 mandate and a small budget has been provided to support NT Hydro in pursuing generation opportunities with mining or other large industrial customers when they arise.

### **Execute Three Year Investing in Canada Infrastructure Program**

Budgeted government contributions of \$31.757 million for NT Hydro (\$13.857 million for NTPC) support NT Hydro and NTPC's execution of ICIP projects. Delivery of these projects will support this objective but also support NTPC's strategic objectives of reduction of diesel fuel and GHG emissions. Work on the Inuvik Wind project began in 2018-19 and 2019-20 will see additional new projects added to NT Hydro's scope.

### **Support Taltson Expansion and Great Slave Lake Intertie**

No specific budget has been identified in 2019-20 to support this objective however NT Hydro will continue to work with the GNWT as requested in order to support the development of these projects.

# FINANCIAL RESULTS

## NT Hydro

### 2019-20 Consolidated Statement of Operations

	2019-20	2018-19	2017-18
	Budget	Budget	Actual
<b>Revenues</b>			
Electrical sales	\$ 111,345	\$ 110,060	\$ 106,356
Insurance proceeds	5,800	-	-
Fuel rider revenue	2,093	-	(250)
Other revenue and customer contributions	1,914	1,924	1,957
Interest income	1,202	1,351	1,573
Income from investment in Aadrii Ltd.	75	75	18
	<b>122,429</b>	<b>113,410</b>	<b>109,654</b>
<b>Expenses</b>			
Thermal Generation	62,990	65,828	59,959
Hydro Generation	21,577	22,062	17,638
Corporate Services	14,053	17,665	14,267
Transmission, Distribution and Retail	11,101	10,874	10,640
Purchased Power	3,092	-	266
Alternative Power Generation	226	243	201
	<b>113,038</b>	<b>116,672</b>	<b>102,971</b>
<b>Surplus (Deficit) before Govt contributions</b>	<b>\$ 9,391</b>	<b>\$ (3,262)</b>	<b>\$ 6,683</b>
Government contributions	31,757	5,250	1,081
<b>Surplus for the year</b>	<b>\$ 41,148</b>	<b>\$ 1,988</b>	<b>\$ 7,764</b>
Accumulated surplus/equity, beginning of year	123,991	124,179	116,725
<b>Accumulated surplus/equity, end of year</b>	<b>\$ 165,139</b>	<b>\$ 126,167</b>	<b>\$ 124,489</b>

(All figures in \$000s)

# NT Hydro

## 2019-20 Consolidated Statement of Changes in Net Debt

	2019-20 Budget
Surplus for the year	\$ 41,148
Tangible capital assets	
Additions	(85,543)
Capitalized overhead	(3,717)
Capitalized interest	(1,260)
Disposals	8,910
Amortization	17,947
	<u>(63,663)</u>
Additions of inventories	(7,164)
Use of inventories	7,386
Additions to prepaids	(2,300)
Use of prepaids	2,400
	<u>322</u>
Increase in net debt for the year	<u>\$ (22,193)</u>
Net debt, beginning of year	\$ (255,643)
Net debt, end of year	<u>\$ (277,836)</u>

(All figures in \$000s)

# NTPC

## 2019-20 Consolidated Statement of Operations

	2019-20 Budget	2018-19 Budget	2017-18 Actual
<b>Revenues</b>			
Electrical sales	\$ 111,345	\$ 110,060	\$ 106,356
Insurance proceeds	5,800	-	-
Fuel rider revenue	2,093	-	(250)
Other revenue and customer contributions	1,914	1,924	1,957
Interest income	1,202	1,351	1,573
Income from investment in Aadrii Ltd.	75	75	(250)
	<b>122,429</b>	<b>113,410</b>	<b>109,654</b>
<b>Expenses</b>			
Thermal generation	62,990	65,828	59,959
Hydro generation	21,577	22,062	17,638
Corporate services	13,628	16,623	14,054
Transmission, distribution and retail	11,101	10,874	10,641
Purchased power	3,092	-	201
Alternative power generation	226	243	266
	<b>112,613</b>	<b>115,630</b>	<b>102,759</b>
<b>Surplus (Deficit) before Govt Contributions</b>	<b>\$ 9,816</b>	<b>\$ (2,220)</b>	<b>\$ 6,895</b>
Government contributions	13,857	-	889
<b>Surplus (Deficit) for the year</b>	<b>\$ 23,673</b>	<b>\$ (2,220)</b>	<b>\$ 7,784</b>
Accumulated surplus/equity, beginning of year	123,339	124,131	116,347
<b>Accumulated surplus/equity, end of year</b>	<b>\$ 147,012</b>	<b>\$ 121,911</b>	<b>\$ 124,131</b>

(All figures in \$000s)

# NTPC

## 2019-20 Consolidated Statement of Changes in Net Debt

	2019-20 Budget
<b>Surplus for the year</b>	<b>\$ 23,673</b>
Tangible capital assets	
Additions	(68,410)
Capitalized overhead	(3,200)
Capitalized interest	(1,260)
Disposals	8,910
Amortization	17,947
	<u>(46,013)</u>
Additions of inventories	(7,164)
Use of inventories	7,386
Additions to prepaids	(2,300)
Use of prepaids	2,400
	<u>322</u>
<b>Increase in net debt for the year</b>	<b>\$ (22,018)</b>
Net debt, beginning of year	(255,284)
<b>Net debt, end of year</b>	<b>\$ (277,302)</b>

(All figures in \$000s)

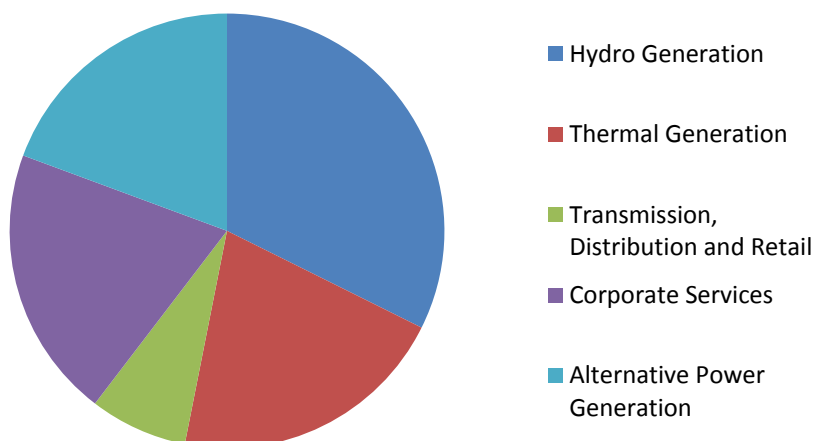


## 2019-20 Capital Expenditures

Investments in capital infrastructure are made annually to replace assets that have reached the end of their useful lives. NT Hydro and NTPC's capital programs for 2019-20 are made up of the following:

	in \$000s		
	2019-20 NTPC Budget	2019-20 NT Hydro Budget	2018-19 NT Hydro Forecast (NT Hydro = NTPC)
Hydro Generation	\$ 29,235	\$ 29,235	\$ 13,231
Thermal Generation	18,769	18,769	19,805
Transmission, Distribution and Retail	6,568	6,568	7,233
Corporate Services	18,298	18,298	1,150
Alternative Power Generation	-	17,500	-
<b>2019-20 Capital Budget</b>	<b>\$ 72,870</b>	<b>\$ 90,370</b>	<b>\$ 41,419</b>
GNWT Funding	(13,857)	(31,357)	
<b>2019-20 Capital Budget after Government Contributions</b>	<b>\$ 59,013</b>	<b>\$ 59,013</b>	<b>\$ 41,419</b>

### 2019-20 NT Hydro Capital Spending





NORTHWEST TERRITORIES  
**HYDRO**  
CORPORATION

*Power for Generations*



NORTHWEST TERRITORIES  
**POWER**  
CORPORATION

*Empowering Communities*