

2018-19 Corporate Plan

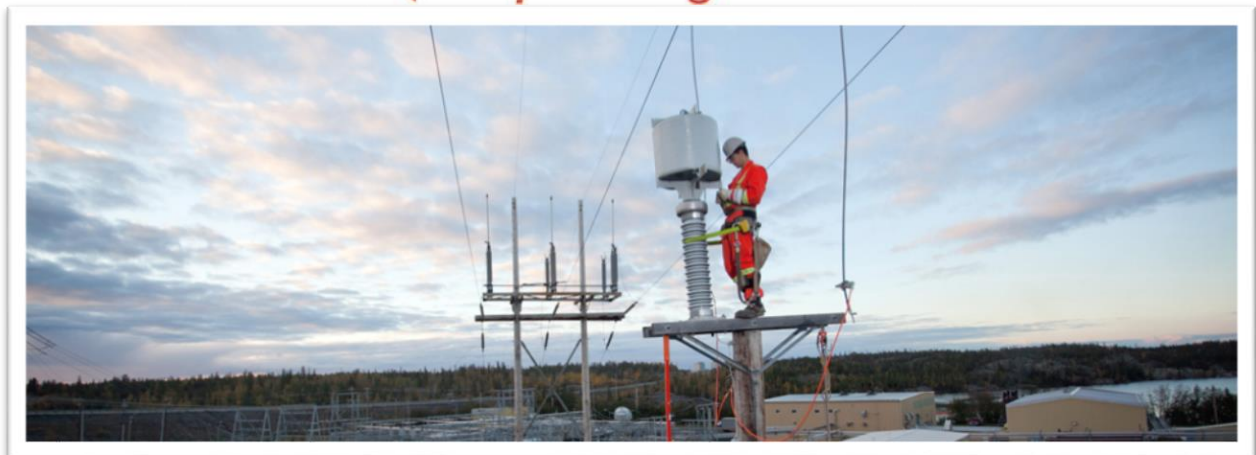


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Introduction

NTPC is a wholly owned subsidiary of NT Hydro, which in turn is owned 100 percent by the Government of the Northwest Territories.

NTPC and its key stakeholders share a common desire to ensure that electricity systems in the Northwest Territories are reliable, affordable and environmentally responsible. Achievement of this goal will facilitate economic development, creating opportunities for residents and helping to create a better future for residents and businesses in the North.

The current reality for NTPC and its customers is that electricity rates in the NWT are among the highest in Canada. Average rates have risen by 31% in last five years and NTPC rates are forecast to continue to materially rise in the coming years.

There are a number of reasons why this is the case. Over past 10 years, 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.

Similar to most other North American electrical utilities, aging infrastructure is a challenge – infrastructure is not just aging but is reaching the end of its design life, particularly NTPC's hydro 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. These factors will be outlined later in this document.

2017–18 was a period of significant change for NTPC. The GNWT has finalized the 2030 Energy Strategy and the Climate Change Strategic Framework, both of which envision a prominent role for the Corporation. This leads to a need for NTPC to develop a long term strategic plan to ensure successful execution as well as continuing to support economic development and ensuring reliability of electricity systems in an economically efficient manner.

In order to align with the 2030 Energy Strategy and Climate Change Strategic Framework as well as effectively manage costs and address aging infrastructure, NTPC determined that a 20 year strategic plan was required. A new President and Chief Executive Officer joined the organization in June 2017 and is leading the development of a long-term strategic plan.

2017-18 also saw progress on the Corporation's General Rate Application (GRA), which was filed on June 30, 2016 for the period 2016/19. Major cost pressures in this application include replacing aging infrastructure, increased regulation and increased inflation while sales revenue is decreasing.

A public hearing was held from July 10-13, 2017 to review the Phase I and Phase II Applications. The PUB issued directives on the 2016/19 GRA in December 2017 and January 2018.

The process required NTPC to file updated schedules in March 2018 accounting for the PUB directives. These schedules are currently being reviewed by the PUB. The final PUB Decisions are expected this summer with new rates to start following release of those decisions. Interim rates have been in effect for the past two years while the GRA process was underway.



NTPC's Mission, Vision and Value statements guide its actions and ensure the organization meets or exceeds the expectations of its shareholder and customers. The 20 Year Strategic Plan includes a new Mission, Vision and Values, which are outlined below.

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

2018–19 Objectives:

NTPC is developing 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. The Plan will focus on providing long term sustainability for the Corporation 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 Plan will be a living document that is revised, updated and refined as events warrant and is aligned with the 2030 Energy Strategy and the Climate Change Strategic Framework. A number of performance objectives associated with the Plan will be established.

In 2018-19, NTPC will develop and implement divisional business plans and Program Charters to ensure greater consistency across the Corporation.

NTPC is embarking on a large-scale capital program to address aging infrastructure challenges in the NWT. Capital spending of \$60 million is planned in 2018-19, a significant increase from the approximately \$24 million spent in 2017-18.

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, key capital projects that will be undertaken in 2018-19 include start of construction of a new plant at Norman Wells, preparation for a mechanical overhaul of Unit 1 at Snare Forks, completion of the modular genset project at Jackfish, an upgrade of the Snare Rapids exciter, replacement of the Jackfish T5 transformer and control system upgrades at Inuvik and Jackfish.

The Hay River Franchise continues to unfold with resolution expected during this fiscal. 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. Acquisition costs are included in the 2018-19 Capital Plan.

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

Work on developing the 2030 Energy Plan renewable energy projects will continue in 2018-19. NTPC is working with the GNWT to plan and successfully execute projects that will reduce greenhouse gas emissions associated with electricity generation and transmission, with a primary focus on reducing the use of diesel and increasing reliability. 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. The Inuvik Wind project is expected to be the first major project to be executed under this program.

Performance Measures:

NTPC will be developing performance measures for the strategic objectives that will be included in the 20 Year Strategic Plan.

Key Performance Indicators (KPIs) and other metrics are being developed to ensure that tracking is focused and ongoing.

Expected Results:

The organization will focus on finalizing and beginning to execute the 20 Year Strategic Plan and will begin sharing details with internal and external stakeholders in 2018-19.

Evaluation of 2017–18 Corporate Targets and 2016-17 Carryover Targets:

Corporate Targets

NTPC continued to make progress on its corporate targets.

The corporate targets focused on the following:

- Employee Excellence;
- Operational Excellence;
- Customer Service Excellence; and
- Financial Excellence

	COMPLETION TARGET	Status as of March 31, 2018
<i>Employee Excellence Targets</i>		
Develop & Implement a Comprehensive Competency Framework & Program Develop a formal competency framework for NTPC, utilizing Halogen software. The competency framework will provide a clear map of what each role is responsible for delivering, as well as education, competencies, training, and years of experience required to function at a high level in each role. Job descriptions will be re-written where necessary to align with the competency framework.	March 2019	20%
Recruitment & Retention Strategies Improve the efficiency of the overall recruitment process and the onboarding process. Explore alternative methods, initiatives and incentives to support and increase the Corporation's overall ability to recruit quality talent and increase retention rates.	September 2018	70%
*Improve Safety Culture Improve functioning of Joint Occupational Health and Safety Committees, align safety training and needs assessment for all positions, including management, make worker safety training more frequent/available, increase presence of HSE staff in the field and provide Return-to-Work program training for all management.	March 2019	90%
*Successful Collective Bargaining	TBD	Ongoing
*Development of Core Employee Skills	March 2017	Complete

<p>Assessment</p> <p>Collaboration among employees, management and senior leadership to develop a plan to assess employee skills sets, identify training and development opportunities, identify capacity to assume "Acting" management or leadership roles and formalize individual development and succession plans.</p>		
<i>Operational Excellence Targets</i>		
<p>*Improve Contractor Safety</p> <p>Implement contractor management compliance system, encourage all contractors to have COR certification or ISO 18001 by 2020, improve contractor hiring practices and ensure Project Safety Planning and Contractor Safety Management Elements are applied across NTPC.</p>	March 2018	100%
<p>*Solar Photovoltaic Installations</p> <p>Up to two utility-scale solar PV projects in NTPC thermal communities will be built through the GNWT's Department of Infrastructure. These assets will then be transferred to NTPC to operate and maintain.</p>	Led by Department of Infrastructure	N/A
<p>*Investigation of Potential Wind Sites</p> <p>Investigation of wind resources at North Slave hydro sites and Sachs Harbour</p>	Led by Department of Infrastructure	N/A
<p>*Installation of 7 – 10 MWs of Wind Energy within Proximity of Snare</p>	Led by Department of Infrastructure	N/A
<p>*Installation of 3-5 MWs of Wind Energy in Inuvik</p> <p>Continued monitoring of wind resource at High Point, geotechnical study at either the High Point or Storm Hill sites (or both), identification of technical requirements for integration with existing NTPC generation system, including the use of batteries, development of business cases and design and installation of 3-5 MW of wind generation capacity in Inuvik.</p>	Led by Department of Infrastructure	N/A
<p>*Bluefish Redevelopment/Expansion Study</p> <p>Third party engineering firm will be retained to examine the technical feasibility of an expansion to the existing Bluefish Hydro Generating Station.</p>	August 2017	Complete
<p>Develop and Implement a Transmission and Distribution Predictive Maintenance Program</p> <p>Reduce failure costs and improve reliability by increasing documentation of O&M corrective actions and activities, developing a form to improve the ease of taking notes in the field about maintenance work completed, applying a decision analysis approach to prioritize maintenance activities based on information gathered in CMMS, adding or modifying preventive maintenance tasks based on failure trends and developing KPIs to track improvements.</p>	March 2019	60%
<p>Improve Corporate Knowledge Management</p>	October 2018	10%

Identify corporate knowledge types that are essential to NTPC's operational and strategic performance, analyze deficiencies or opportunities surrounding the knowledge types and prioritize according to perceived value and create knowledge management plans for the top three knowledge types identified.		
*Fort Simpson LNG Site Design & Business Case Analysis	Shareholder	N/A
* Computerized Maintenance Management System (CMMS) Cultural Adoption and Integration This project will undertake to integrate the Enterprise Resource Planning (ERP) system with the Computerized Maintenance Management System (CMMS) in areas such as inventory management and maintenance planning and procurement or make improvement to the existing ERP system in these areas to make the best use of CMMS. A training program will be developed and delivered to all affected employees.	March 2018	75%
*Design and Install Variable Speed Generator (VSG) Pilot – Aklavik	November 2017	Complete
*Asset Management Framework The scope would consist of researching best practices for utility asset management, consulting with stakeholders on appropriate Asset Management Framework to fit NTPC needs and preparing a document that defines Asset Management Framework for NTPC.	September 2018	70%
<i>Customer Service Excellence Targets</i>		
*Intelligent Metering Hub (IMH) Implementation Purchase and install IMH equipment and software in all NTPC communities by installing approximately 2200 meters annually, for 3 years, develop and roll-out online customer portal in parallel with equipment deployment, integrate customer interruption information with corporate outage reporting process and investigate and develop other opportunities to leverage operational data from customer meters.	March 2020	56%
Develop Employee Team to Promote NTPC at Community Events Identify, recruit and train existing employees in all regions who have both enthusiasm for the company, and the communication skills to represent and participate in community events throughout the territory.	March 2018	25%
<i>Financial Excellence Targets</i>		
*CMMS Financial Integration Identify and develop processes for critical financial integration points between the stand alone CMMS and the	June 2017	Complete

ERP. Clarify what financial integration means for all users and implement integration corporate wide.		
*2016-19 General Rate Application (GRA) Success Successfully defend Phase I of NTPC's 2016/19 GRA, obtain and apply PUB Decision on Phase I of GRA, successfully defend Phase II of GRA and obtain and apply PUB Decision on Phase II of GRA.	March 2018	97%
*Identify Corporate Risks in a Risk Registry Identify the probability and impact of corporate risks, e.g. financial, operational, reputational and human resources	June 2017	Complete

* Indicates a carryover target from 2016-17

Corporate Targets identified as being N/A will not be brought forward in the 2019-20 Corporate Plan. Additional Corporate Targets may become divisional initiatives and/or combined into new targets that will be developed to support implementation of NTPC's 20 Year Strategic Plan.

Current Environmental Pressures

All companies must monitor issues such as the general performance of the economy, competitive pressure in the market and the political environment when evaluating potential opportunities and threats. NTPC engaged in a review of strengths, weaknesses, opportunities and threats as part of its strategic planning process.

Strengths

Commitment to reliability
Significant alignment between the GNWT and NTPC

Weaknesses

Organizational structure that does not lend itself to a growth strategy
Aging Infrastructure

Opportunities

Federal government commitment to investing in infrastructure and renewable energy
Potential opportunities in the NWT mining sector

Threats

Stagnant customer base
Aging Infrastructure
Expensive regulatory burden
Among the highest electricity rates in Canada

NT Hydro & NTPC Financial Information

**Budget Summary
Key Assumptions
Changes in Net Debt
Capital Expenditures**

Financial Information – 2018-19 Budget Summary

	2018-19	(in \$000s) 2017-18	2016-17
	Budget	Budget	Actuals
Revenues			
Sale of Power	\$110,060	\$107,920	\$102,405
Other Revenue and Customer Contributions	1,924	1,945	1,898
Interest Income	1,351	1,459	1,525
Insurance proceeds	0	0	70
Income from Investment in Aadrii Ltd.	75	75	(8)
Fuel Rider Revenue (Refund)	0	(984)	(763)
	<u>113,410</u>	<u>110,415</u>	<u>105,127</u>
Expenses			
Thermal Generation	65,828	61,174	61,813
Hydro Generation	22,062	19,991	23,055
Corporate Services	16,623	16,191	15,300
Transmission, Distribution and Retail	10,874	11,730	11,005
Purchased Power	0	2,085	2,604
Alternative Power Generation	243	227	424
	<u>115,630</u>	<u>111,398</u>	<u>114,201</u>
Deficit before Government Contributions	<u>(2,220)</u>	<u>(984)</u>	<u>(9,074)</u>
Government Contributions			
GNWT extreme low water contributions	0	0	1,726
Other government contributions	0	217	903
	<u>0</u>	<u>217</u>	<u>2,629</u>
(Deficit) for the Year	<u>(2,220)</u>	<u>(767)</u>	<u>(6,445)</u>
Accumulated Surplus/equity, Beginning of Period	115,958	116,725	123,170
Accumulated Surplus/equity, End of Period	<u>\$113,738</u>	<u>\$115,958</u>	<u>\$116,725</u>

Budget Summaries – Key Assumptions

The budget for 2018-19 is driven by:

- Delivering reliable power to NTPC's customers,
- Being efficient and effective with our resources to ensure affordable power,
- NTPC's requirement to replace aging infrastructure,
- Inflation, and
- Meeting commitments made to NTPC's customers and its Shareholder.

Revenues:

Power revenues in the O&M Budget for 2018-19 include a place marker for rate increases proposed in Phase I of NTPC's 2016/19 GRA Compliance filing of an approximately 2% increase over 2017-18 revenues.

Utilities generally realize 1-2% annual growth in kilowatt hour electrical sales which largely offsets inflationary pressures. NTPC's sales have been constant or declining in the past few years. This trend is primarily a result of current economic conditions and lower population in the NWT and partially due to conservation and self-generation.

Expenses:

Total expenses are budgeted to increase by \$4.2 million (3.8%) compared to the 2017-18 budget and are driven by increases in generation costs.

Costs have increased in thermal generation by \$4.6 million as a result of Imperial Oil (IOL's) shutdown in Norman Wells and anticipated capital work. NTPC will be required to use diesel generation to supply power in Norman Wells instead of using purchased power from IOL. This has increased thermal generation costs by \$4.1 million and lowered purchased power costs by \$2.1 million.

Costs have increased in hydro generation by \$2.1 million as a result of additional water licensing costs and anticipated losses on asset disposals. Water licensing costs have increased by \$1.3 million due to additional dam safety, brushing, and regulatory requirements for water license renewals. Loss on asset disposals, have increased costs by \$1.1 million as a result of an increase in asset replacements. These increases are offset by reductions in consultant costs.

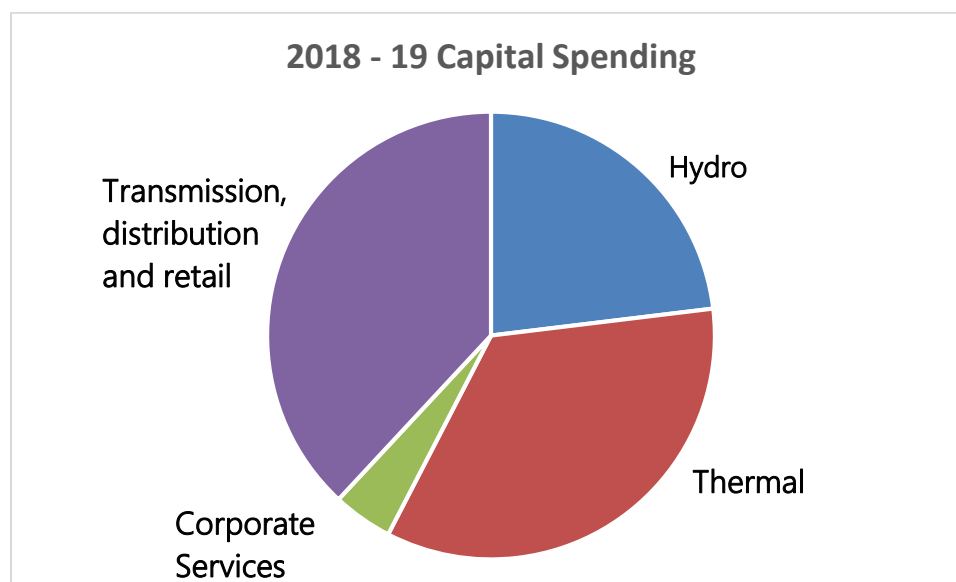
Consolidated Statement of Changes in Net Debt

	(in \$000s)
	2018-19
	<u>Budget</u>
Deficit for the year	<u>\$ (2,220)</u>
Additions	(52,460)
Capitalized overhead	(3,200)
Capitalized interest	(530)
Disposals	3,267
Amortization	<u>16,884</u>
	<u>(36,039)</u>
Additions of inventories	(5,772)
Use of inventories	5,630
Additions to prepaids	(2,200)
Use of prepaids	<u>2,100</u>
	<u>(242)</u>
Increase in net debt for the year	<u>\$ (38,501)</u>
Net debt, beginning of year	(252,446)
Net debt, end of year	<u><u>\$ (290,947)</u></u>

Capital Expenditures

Investments in capital infrastructure are made annually to replace assets that have reached the end of their useful lives. The capital program for 2018-19 is made up of the following:

	in \$000s	
	2018-19 Budget	2017-18 Forecast
Hydro generation	\$13,985	\$7,550
Thermal generation	20,923	8,522
Transmission, distribution and retail	23,073	5,459
Corporate services	2,624	2,480
Alternative power generation	---	795
GNWT funding	---	(864)
	\$60,605	\$23,942





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