





6 FEATURE >>

### Heading for the Finish Line

The Bluefish Dam Replacement Project was on the homestretch at year-end and on track for commissioning in November 2012.



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# Board & Committees

## NT HYDRO/NTPC BOARD OF DIRECTORS



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Legal Advisor



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James Schaefer, Director

Peter Taschuk, Legal Advisor



# Chair's Message

Few regions anywhere place greater trust in, and demand on, a safe and reliable supply of electric power than Canada's North.

Our harsh climate, vast geography and stand-alone infrastructure continually stretch the operating limits of power systems and the people whose job it is to keep the lights on across the Northwest Territories. That's why the Northwest Territories Power Corporation (NTPC) is working so hard to improve and expand existing power supplies and help to develop new sources of clean, affordable renewable electricity that will power the future.

As a Crown corporation owned by the Government of the Northwest Territories,

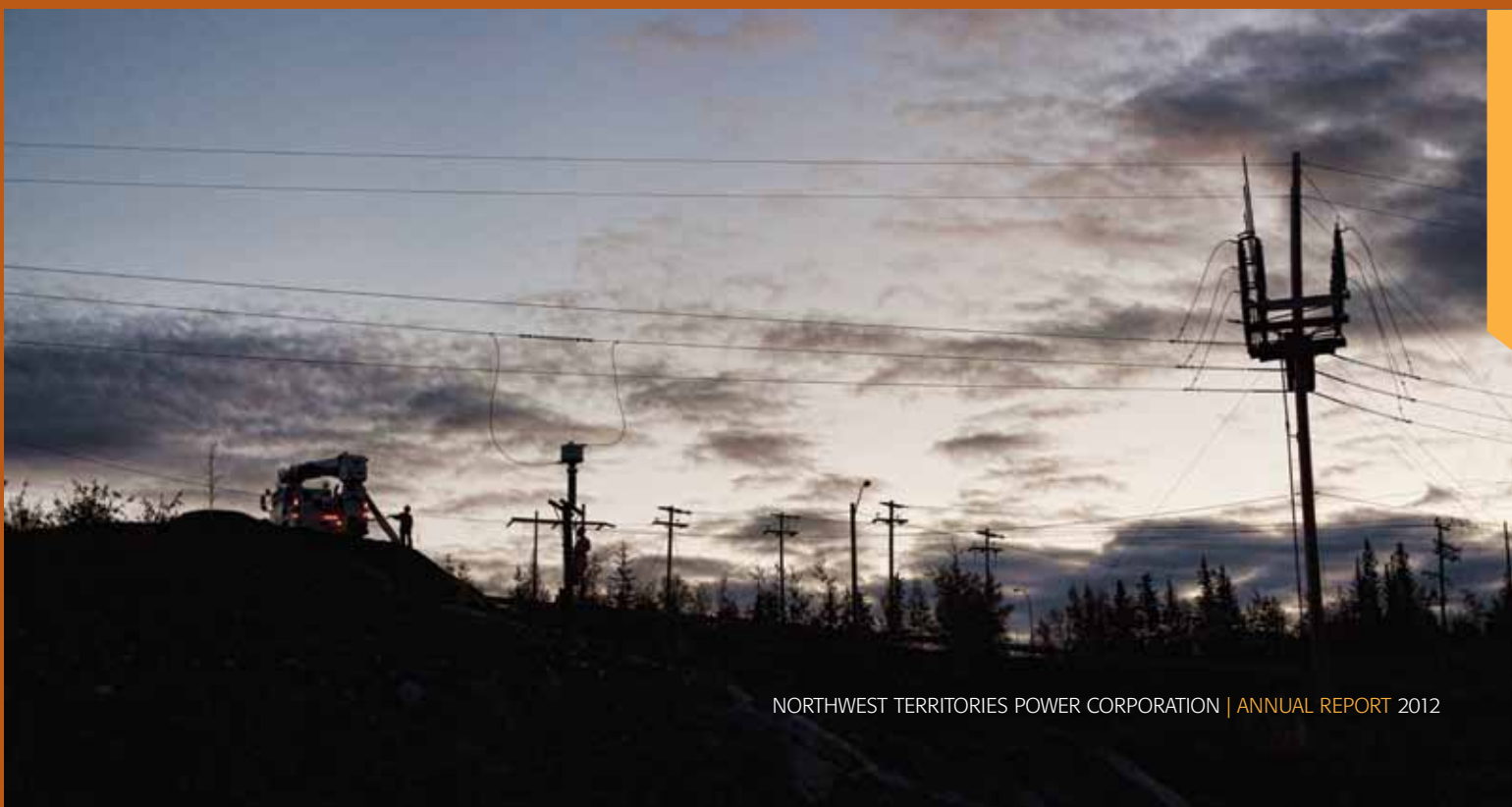
NTPC implements the government's policies and strategies. We fulfill our broad mandate in a regulated environment.

NTPC generates and delivers electricity from both hydro and fossil fuel sources. Hydropower already accounts for about three-quarters of NTPC's generation. We want to increase our reliance on clean energy by partnering with Aboriginal governments, communities and the private sector. Our recent solar energy system installation in Fort Simpson is a great example and we're also using excess electricity from the Taltson hydro site to heat buildings in Fort Smith.

NTPC will continue to rely upon our dedicated employees to translate our vision for the future into achievable plans and actions today. The Board of Directors is committed to safely providing cost-effective, reliable power to our customers while continually seeking environmentally responsible renewable solutions.



**Brendan Bell**  
Chairman



# President's Message



**Emanuel DaRosa**  
President & CEO

NTPC is an organization powered by the ideas, talents and hard work of a dedicated group of people who work and live in communities right across the territory. Huge distances divide our workplaces, but we're all united by a common goal and a shared sense of purpose. Our mission is to meet the electricity needs of the Northwest Territories, today and tomorrow, by generating and distributing reliable power across this land.

We faithfully meet that commitment every day by combining the human potential of our employees, the natural energy of our waterways and a system of independently operated diesel plants that serve the needs of communities beyond the reach of hydro power.

Over the past year, we've continued to work on ways to focus our strengths and resources to become an organization that delivers exceptional value to our customers and our shareholder, the Government of the Northwest Territories. We've been guided on that journey towards excellence by a strategic plan that is comprised of a broad range of measurable initiatives. That plan has allowed us to move forward in many areas such as improving our safety culture, management skills development, improved communication and a robust preventative maintenance program.

How well we perform in creating employee, operational, customer and financial excellence will ultimately determine how successful we are in meeting our customers' and shareholder's expectations.

Our customers judge our performance mainly on the basis of price, reliability and our ability to keep our commitments. We've been working hard and successfully at controlling costs and keeping rates as low as possible. For example, rather than replacing plants, NTPC has worked to utilize existing assets or upgraded existing plants to meet current service requirements where possible. NTPC has also reduced its financing costs in recent years, both by retiring debt that had been borrowed in a high interest rate environment and by securing new long-term debt at lower rates than had been previously available.

Overall, through active management, we've kept costs at or below inflation. In fact, a recent independent study shows that NTPC has been managing costs and rates better than many other Canadian utilities.

Government has also called upon NTPC to play an important role in helping to implement strategies to develop new, clean renewable energy resources such as wind, solar, geothermal and biomass that can replace costly and environmentally unfriendly fossil fuels. We've undertaken a number of projects in partnership with territorial government departments, community and Aboriginal governments and private industry. Some of those projects are:

- installing the North's largest solar energy system, a 60kW project in Fort Simpson that converts sunlight into enough energy for 10 homes
- residual heat projects in Inuvik and Fort McPherson that use leftover heat from diesel power plants to heat community water and nearby buildings, and
- a program to replace high-pressure sodium streetlights across the territory with long-lasting LED lights as they expire.

NTPC relies upon hydro power, one of the greenest energy sources, to generate about 80 per cent of its total supply of electricity. We're working closely with a number of partners to examine opportunities to expand existing and potential hydro developments in the territory.

Investing in the potential of our human resources will also be critical to our success in meeting the territory's energy needs today and in the future. That's why we've launched a program to recruit more young northerners to our workforce by offering apprenticeships and scholarships.

At NTPC, we also share government's vision of connecting the North and South Slave into a single power grid. Doing so would enable us to maximize the combined hydro potential of the two regions and minimize the need for diesel backup.

While we work with government on that longer term goal, we've also been actively engaged in developing solutions to meet the changing energy requirements of both Norman Wells and Inuvik. NTPC has a commitment from Imperial Oil to continue to supply the electricity for Norman Wells. In Inuvik, we're in the

process of converting to diesel generation to ensure the community has a secure supply of electricity while it examines long-term options to replace a dwindling supply of natural gas that has met that need until now.

Elsewhere in the NWT, we continued to address other important challenges to our ability to provide a secure and reliable supply of electricity. Starting in the fall of 2012, residents of the Yellowknife area will benefit from our \$37.4 million investment in the new Bluefish Hydro Dam. The dam replaces the aging structure that was in danger of failing.

We're also addressing the issue of reliability on the Yellowknife system in 2012. A comprehensive set of improvement initiatives will enable us to work towards a target of increasing reliability by 70 per cent over three years.

I'm confident that we will achieve that objective and the many others that lie in front of us. That's because we're an organization powered by people who take our responsibilities very seriously, care about the future and who will continue to work hard every day to deserve the trust of the people we serve.





# Heading for the Finish Line

BLUEFISH: GOOD FOR THE ENVIRONMENT AND EASY ON RATES



Robert Schmidt

The Bluefish Dam Replacement Project was in the homestretch at year-end and on track for commissioning in November 2012.

At \$37.4 million, it's the largest capital project in NTPC's history, but its importance is large on many levels.

The Bluefish Plant, on the Yellowknife River, generates up to 20 per cent of Yellowknife's power supply. It operates in tandem with four plants on the Snare River to meet all energy requirements in the North Slave Region with clean, green hydro generation.

Bluefish hydro displaces more than 11 million litres of diesel fuel that would otherwise be burned each year to meet customer needs in the North Slave Region.

While diesel is still used to back up hydro generation in emergencies, its environmental impact has been substantially reduced by the twin-river system. For example, in 1990/91, diesel generation used to meet Yellowknife's power needs produced 54,529 tonnes of CO<sub>2</sub> equivalent emissions per year. Last year, emissions were just 5,355 tonnes, a significant decrease from 90/91.

"Retaining Bluefish in our available generation has many benefits," says Robert Schmidt, Director of NTPC's Hydro Division.

While the Bluefish Dam Replacement will add approximately 2.5 cents per kilowatt-hour to electricity rates in the North Slave Hydro Region, the cost of replacing it with an equal amount of conventional diesel generation is more than twice.

"And we'd lose the environmental benefits," he says.

To push the project forward in a timely manner, in 2011/12 NTPC fast-tracked project planning, land and water use permits while complying with all regulatory requirements, the tender process, the contracting process, camp construction at site, equipment mobilization, and construction start-up. It was a busy year.

The Bluefish system, including dams, two hydro generating units and the transmission line to Yellowknife, was purchased for \$10 million in 2002, significantly less than book value.

"It was a very good deal for our customers," says Schmidt, "which is why the Public Utilities Board approved it. Even with the aged dam, it was still a very good purchase."

The original dam lasted 70 years. With today's construction techniques, the replacement dam could last even longer. Another big reason for the investment: system sustainability.





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- ▶ The Bluefish Plant generates up to 20 per cent of Yellowknife's power supply.
- ▶ Bluefish hydro displaces more than 11 million litres of diesel fuel each year.



# Racing Against the Clock

## INUVIK GAS CONVERSION



Mike Ocko

Ten years ago, gas supply in Inuvik looked like a sure thing for many years. Forecasts from Inuvik Gas Ltd. projected two wells would supply the Town and residential and commercial customers with enough fuel to justify conversion from diesel fuel to gas heat and supply NTPC with enough fuel to justify the installation of natural gas engines to meet Inuvik's power requirements.

Fast forward to 2011. The primary gas well is flooding and near the end of its useful life and a second well has fewer reserves than originally indicated.

"No one expected that gas supply would suddenly come to a screeching halt; not the Town, not residents and certainly not us. So, we're doing everything possible to ensure power supply for Inuvik," says Mike Ocko, Director of NTPC's Thermal Division.

To extend the life of gas wells for local residents, NTPC dramatically reduced operation of its gas engines in January 2012 and switched to mainly diesel generation. That improves the availability of natural gas for other consumers from 1.2 years to roughly 2.5 years. "That gives everyone some breathing room," says Ocko.

The decision to switch to diesel generation wasn't taken lightly. It will increase operating costs in the Thermal Zone by about \$4.9 million in 2012, or 14% (before Territorial Power Support Program subsidies).

"Everyone inside the Corporation and all of our stakeholders agreed that something had to be done quickly. It only hurts Inuvik's chances of beating the clock if we had retained natural gas generation," he says.

The math is pretty simple. NTPC has 6020 kW of diesel generation installed in the community. Peak winter demand is 5820 kW. Unless all diesel units are available, NTPC cannot meet the peak needs of the community.

To counter balance, the Corporation is installing a third 2800 kW diesel generator and will convert two of the existing gas engines to diesel, providing another 4900 kW in 2013. The capital cost of converting gas engines is \$10 million.

This is the lowest cost option since the units will occupy the same footprint and utilize the same building support services/piping.

"We have no choice," says Ocko, "we must have the capacity to meet winter peaks on the coldest, darkest day of the year."

"We have to move quickly and effectively to ensure our customers are safe this coming winter," says Ocko.





THE CAPITAL COST OF CONVERTING  
GAS ENGINES IS \$10 MILLION.





# Homegrown Solution

## NORTHERN TALENT DEVELOPMENT INITIATIVE

When you're competing head to head with diamond mines and the oil patch for the same skilled workers, a homegrown approach to recruiting may just make a real difference.

That's the belief at the heart of a new Northern Talent Development Initiative that will ease the shortage faced by NTPC in some of the professional, technical and trades fields where demand continues to outstrip supply.

Attracting employees to the North can be a challenge at the best of times, but when there are plenty of high-paying positions available in high-growth areas, persuading skilled individuals to relocate North of 60 is especially difficult.

The Corporation's new program tackles the problem from a number of angles

with initiatives focused on attracting young northerners. The belief underlying that strategy is that someone who already lives in the North is often more predisposed to building a career here than someone from southern Canada.

To support that strategy, NTPC will invest over \$1 million in 2012-13 and 2013-14 as part of an expanded apprenticeship program and an annual scholarship program that provides \$1,000 to one student in every community where the Corporation has a presence.

The focus on young people with attractive skill sets also takes form each summer when NTPC hires students who then get some firsthand knowledge of the Corporation, along with some valuable experience, not to mention some money to pay for their schooling.

The Corporation will participate in NWT career fairs in order to promote learning about, and interest in, the industry.

The Corporation's pitch to prospective employees from outside the territory will highlight the outstanding lifestyle opportunities in the North.

## EMPLOYEE PROFILE >>>



### JOANNA CHOCOLATE Plant Operator, Gamètì

For Joanna Chocolate, there's no place like Gamètì. And who could argue?

Situated along the chain of waterways connecting Great Slave Lake to Great Bear Lake, Gamètì is positioned between two beautiful lakes in the traditional hunting area of the Tàìchô and Sahtu Dene peoples. To call it pristine may be an understatement. The only year-round access to Gamètì is by air, making it seem far away from anything urban. But the distance from amenities is more than

balanced by the closeness of the community. "Everyone knows everyone else," says Joanna. As a for instance, she mentions an upcoming wedding that "everyone in town is invited to".

It's this sort of closeness that drew Joanna back to the community of 300. After graduating high school, she attended Aurora College to pursue a teaching career. After a year, she was back home. "I just didn't feel very safe in larger places and my whole family's here. Coming home was the right choice for me."

It's hard to imagine this soft-spoken mother of one as a plant operator, doing oil changes and troubleshooting three diesel engines. But



BELOW - Dean Kenny, born and raised in the North, completed his four-year apprenticeship as an electrician and recently earned his second trades ticket as a Power Line Technician.



she's no stranger to plant operations. Her father, Edward Chocolate, was plant operator for 19 years before becoming Chief of Gamètì in 2009. He really encouraged his daughter to apply.

"Life is about learning and I felt I could learn this job. And then I thought: I know I can do this job. So here I am, in charge of a power plant. Never in my life did I ever think I'd be doing this kind of job. But here I am," she says, "and now I'm getting to know the engines pretty well."

Getting to know the engines began with a degree of urgency. When she first started, the

system was troubled by a spate of outages. It turned out the control settings were incorrect.

When you're hundreds of miles away from your nearest colleague, you need to trust your instincts and know when to reach out for help. "My boss talked me through it over the phone. It took a while, but it was a good learning experience and it's great to know people are there for you," she says. Of course, being a plant operator in a small community means you're pretty much on your own most days. But that has its benefits too.

"I get to be my own boss," says a smiling Joanna.

# Fort Simpson Solar Project

CATCHING RAYS & MAKING KWH...

When the sun rises in Fort Simpson, so does the amount of clean energy powering homes and businesses in the community.

That's because of a 60 kW solar energy system that NTPC commissioned at the community airport in February 2012, a \$760,000 pilot project funded by the Department of Industry Tourism and Investment through the GNWT's Energy Priorities Framework.

The system, which consists of 258 panels, is larger than anything that exists north of 60, in

Saskatchewan or Alberta. It's almost 300 feet long – the length of a football field - and 13 feet high. The project was completed ahead of schedule and under budget.

Owned and operated by NTPC, the system feeds power directly into the Fort Simpson grid. At summer peak, it can convert sunlight into enough power for up to 10 houses in Fort Simpson, which is the second largest diesel-powered community in the NWT. It is expected to displace up to 58,000 kWh of diesel generation, which is equivalent to 15,000 litres of diesel fuel. That means 44.5 tonnes of CO<sup>2</sup> won't be emitted into the atmosphere.

NTPC and its partners have been pleased with the system's performance. It plans to expand the system at the same site by adding 40 kW.



## EMPLOYEE PROFILE >>>



### TODD ROCHE

Customer Service Manager, Fort Simpson

The best way to predict the future is to create it. That means abandoning previous thinking and having the courage to explore new ways to get the job done more effectively. Enter NTPC's Customer Service Improvement Initiative, which has redefined and integrated customer service across the North.

In the past, customer service consisted of five islands in Inuvik, Yellowknife, Hay River, Fort Smith and Fort Simpson. For decades, the Customer Service group tried to operate as a

team, but the geography and phone systems were barriers. It required a complete overhaul of systems, procedures and people. "Our customer is our customer anywhere, so we've taken the leap and integrated service," says Todd Roche, Customer Service Manager for NTPC. "Today, if you call NTPC, you may be speaking to a customer service agent in any office. Our customer information is available on shared platform in every location. It's a much more effective approach when your customers are spread out over 1.1 million kilometres," he adds.

Todd has been with the Corporation almost 10 years, based in Fort Simpson. While his Business Diploma helps him see the bigger



- ▶ 60 kW solar energy system that NTPC commissioned at the community airport in February 2012.
- ▶ The system, which consists of 258 panels, is larger than anything that exists in the north.
- ▶ 44.5 tonnes of CO<sub>2</sub>, equivalent to 15,000 litres of diesel fuel, won't be emitted into the atmosphere.



picture, it's his home life that's honed his "people" skills. He has single-handedly raised four sons. "My home is a little like a battleship, so it's prepared me for pretty much everything," he says with a smile. "What I like most about this new role is the challenge of change, the people I work with and the freedom to satisfy our customers. We're heading in very positive direction."

That new direction includes a virtual call centre to manage call volumes, online access for customers needing new connections and other services, online entry of Customer Service Orders that are immediately accessible to Transmission and Distribution personnel so the work flows efficiently and, eventually,

activating payments.

"We're building a very good, well-trained team who see the improvements and how well they're received by our customers," he says. As Winston Churchill said: "To improve is to change..." The Customer Service transformation is a journey of continuous change each and every day, with every customer, every e-mail and every phone call. All of which means the destination is always somewhere down the track.

"This is an immense undertaking and I'm charged up about the challenges and the reward that comes from exceeding customer expectations," says Todd.

**ABOVE** - Participating at the official commissioning of the system in April 2012 are (from left) MLA Kevin Menicoche; NTPC Chair Brendan Bell; Michael Miltenberger, Minister Responsible for NTPC; Dave Ramsay, Minister of Industry, Tourism and Investment; Sean Whelly, Mayor of Fort Simpson; Premier Bob McLeod; and Emanuel DaRosa NTPC President and CEO.

## EMPLOYEE PROFILE &gt;&gt;&gt;



### TONY MCDONALD

Apprentice Electrician, Inuvik

You'd never know Tony McDonald is just 20 years of age by the way he speaks about his career path. "I've always wanted to be a tradesperson. Guest speakers would come to our school and advise us on career choices that just weren't for me. I picked my path a long time ago."

The graduate of Chief Julius School in Fort MacPherson had his heart set on becoming

a mechanic. At 17, he graduated high school and a year later held a college certificate.

One small problem; there weren't any job openings for mechanics in the Beaufort Delta. So, Tony moved on to Plan B and applied for an apprentice electrician's position with NTPC. Around the end of 2013, at the age of 22, he'll be a journeyman. Tony believes his career path opens up all kinds of options, including a second ticket as a mechanic (his first love). That ticket is down the road. Right now, he's enjoying what he does every day.

The job isn't without its challenges. In his first

# Community Investments



PART OF THE  
COMMUNITIES  
WE SERVE

Empowering communities means, among other things, supporting organizations and activities that help to make our communities stronger, healthier and safer. The men and women of the Northwest Territories Power Corporation know it also means giving more than just money. For many employees who freely donate their time and talents every year in many different ways, it's also about getting involved, making a contribution, large or small, to the places where they and their families live. We applaud their dedication and commitment and strongly encourage their enthusiastic participation wherever possible in community activities that we support financially.

NTPC's donations and sponsorships helped dozens of organizations and events across the territory in the past year. Some of them are:

- Muskrat Jamboree
- DJSS After Grad
- Hay River Playschool
- Harry Camsell Hallowe'en
- NWT Track and Field Championships
- Growing Together
- PW Kaeser grad class
- Hay River Broadcasting Society
- Hay River Figure Skating Club
- Peel River Jamboree
- Canadian Hard of Hearing National Conference, Yellowknife
- Fort Smith Trade Show
- Hay River Minor Hockey
- Hay River Chamber of Commerce
- Brendan Green, Olympic Skier
- NWT Cagers Basketball Tournament
- Hay River Curling Club
- Charter Community of Deline
- Whati Volleyball
- Inuvik Chamber of Commerce
- Aboriginal Sports Circle of NWT
- BBQ Festival, Behchoko
- Hay River Golf Club
- Canadian Cancer Society
- Aurora College graduation
- Norman Wells Running Club
- NWT Literacy Council.



month, the Inuvik system experienced a major outage. Tony was thrust into the hurly-burly world of emergency response.

“When something breaks down, it’s a good experience. That may sound odd, but I learned a lot in that first month and I learned a few things about me, like how I perform under pressure. Those are lessons I’ll have for the rest of my life,” he says. The view from inside the Corporation is much, much different than looking in from the outside. “I never understood the demands that NTPC deals with every day until I experienced them. I don’t think many people do.” The Corporation’s thermal region

stretches from the Deh Cho to Ulukhaktok, several hundred kilometres north of the Arctic Circle.

“And I get to travel all over the NWT, something I wouldn’t have experienced with any other employer,” says Tony. As a recent graduate, Tony offers a few words of wisdom for those seeking their path: “Decide what you want to do, no matter what others say is right for you. Graduate. Go to a trades school. The world is always going to need tradespeople.”

And last, but not least: “Find a good employer and move your life forward on your terms.”



SUPPORTING ORGANIZATIONS AND ACTIVITIES THAT HELP TO MAKE OUR COMMUNITIES STRONGER, HEALTHIER AND SAFER.

## EMPLOYEE PROFILE &gt;&gt;

**MORGAN LEBLANC**

Powerline Technician, Fort Smith

Becoming a lineman wasn't part of his life plan, but life is what happens to you when you're on the way to some place else. "I really wanted to be an actor," says Morgan LeBlanc.

But building an acting career in a small market like the NWT is pretty much an impossibility. So Morgan moved on...for now. After graduating from secondary school in Fort Simpson, Morgan began apprenticing as an electrician.

After a year, he was selected for an apprentice lineperson position with NTPC. Today he's a journeyman, just like his father.

Dad Wayne was a lineman with NTPC for 15 years, retiring in the fall of 2008, about the same time that Morgan was signing on. "Following in his footsteps has brought us closer together," says Morgan "We've definitely got a lot more to talk about."

Since joining the Corporation, Morgan has travelled to almost every community in the NWT, delivering system upgrades and responding to customer needs.

# Long Service Awards

Each year the Northwest Territories Power Corporation recognizes employees that have been with us for more than five years, in five-year increments. To us, employee loyalty is a measure of a positive work environment. To our customers it means that they're met by the familiar faces of the people who live and work in their community.

We'd like to recognize the value that our employees bring and the countless ways that employees go beyond the expected each day to strengthen the foundation of our business and our services to customers.

EMPLOYEE	YOS
McBride, Norman	35
Taggart, Richard	30
Robinson, Stuart	30
Norton, Robert J.	25
McMeekin, Marlene	20
Tonka, James	20
Biggar, Peter	15
Forsyth, Jim	15
Whitford, Belinda	15
Orias, Alvin	15
Bruneau, Daniel	15
Smith, Keith	15
Pokiak, Pennie	10
Schofield, Tammy	10
Froese, Sarah	10
Scott, Rick	10
Ladouceur, Erin	10
Neyando, Lawrence	10
Callahan, Morris	10
Touesnard, Mitchell	5
Leblanc, Morgan	5
Doran, Keith	5
Hope, Deaon	5
Duggan, Jimmy	5
Mercredi, Wayne	5
Dunn, Kevin	5
St Croix, Joe	5

"It's not just a job. I'm part of a very proud trade. We sacrifice a lot for people we don't know. Battling the elements at all hours of the day and night to make sure people are safe. We have a saying: firemen need heroes too."

The 25-year-old was part of the crew that put the Yellowknife transmission line back on its feet in mid-February 2012 after a DND helicopter sliced through the conductors. The initial estimate for repairs was 12 days. The crew had the system back up in 10.

"We rally behind one another. Everyone knows their role. Together, we do whatever's necessary to get the job done."

When he's not on duty or on call, Morgan plays hockey and has built a reputation as a pretty good goalie. But he also plays and writes music. The bard in him just won't go away. "It's a great way to express yourself."

Quite a combination: hardcore lineman, guitarist, singer-songwriter and goaltender. Makes for a full life.

"I'll try anything once," he says. The only thing missing is his first love: acting.

"I'll get there one day. It's my dream. A person has to hang on to their dreams."





## EMPLOYEE PROFILE &gt;&gt;

**CRYSTAL MACKIE**

Finance, Hay River

There's an old saying: "If you want something done, give it to a busy person." In a Corporation of busy people, Crystal Mackie is one that helps set the pace. Every day work includes being the first point of contact when people come to head office, answering the main phone and directing calls, handling customer calls, 40 percent of the billing for the area surrounding Hay River, 100 per cent of the cashiering for head office and taking on support assignments in Finance. "It's a great place to work, for me anyway. There are many good people here and the bosses are really easy to talk to," she adds.

Busy people feel they have to complete each and every task assigned to them and they need to do every one of them well. Nothing is half-baked. No detail is too small. But to a busy person, all that work is not a burden, it's an investment. In Crystal's case, it's an investment

in her job and her two children, Jack, age 9, and Nicole, 10. As a single mom, she's even busier at home than she is at work. To say her children are active may be an understatement. "They're both good students," she proudly says "and they both play hockey, both bowl, Nicole's in figure skating and gymnastics and Jack is registering for karate. Nicole may follow suit."

Even family vacations centre on sports. Crystal bought a camper and the family drove to Penticton, B.C. the past two summers for hockey camp. Both Jack and Nicole took to the ice. The secret to being busy and productive is being super organized. And this single mom is all that and more. "It's busy," she says "and I like it that way." Crystal also likes that the Corporation understands family priorities. "As a single mom, you can't be in two places at the same time. The power corp understands that sometimes family comes first. So I want to be efficient as possible every day."

Some of that sense of "family" is a function of living in a small town where everyone knows everyone else. Crystal was born and raised in Hay River, left for three years to attend college and moved back. "Five years from now, I see myself in the same job, living in Hay River and being a mom. It's familiar and it's fulfilling," she adds.





## Management Discussion and Analysis

The electricity industry in the Northwest Territories experiences constant change. Financial, operational, environmental and regulatory pressures, combined with issues related to aging infrastructure, continue to challenge the management of utilities throughout Canada and elsewhere. The following Discussion and Analysis is intended to provide a historical and prospective analysis of Northwest Territories Power Corporation's (NTPC) 2011/12 financial performance. Management assumes full responsibility for the information provided in this Discussion and Analysis and confirms that appropriate information systems, procedures and controls are in place to ensure that the information provided is both complete and reliable. These comments should be read in conjunction with the Consolidated Financial Statements included in this report.

### Corporation's Operations (\$000s unless otherwise noted)

The Northwest Territories Power Corporation (NTPC or Corporation) is a subsidiary of the Northwest Territories Hydro Corporation (NT Hydro or Parent) which in turn is 100% owned by the Government of the Northwest Territories (GNWT). NT Hydro is also a public agency, established under the Northwest Territories Hydro Act and also owns, in addition to NTPC, NWT Energy Corporation (03) Ltd. (NTEC(03)) and Sahdae Energy Ltd. (SEL).

NTPC operates hydroelectric, diesel, natural gas and solar power generation facilities to provide utility services in the Northwest Territories. NTPC has two wholly-owned subsidiaries, the NWT Energy Corporation Ltd. (NTEC) and 5383 NWT Limited. NTEC, under the authority of the Northwest Territories Power Corporation Act, financed the Dogrib Power Corporation in 1996 for the construction of a 4.3 MW hydro facility. NTEC is also responsible for the operation, management and shared ownership (50%) of one residual heat project in Fort McPherson. 5383 NWT Ltd. is an inactive company. NTPC activities are regulated by the Northwest Territories Public Utilities Board (PUB).

NTPC distributes electricity to the end-use consumers in 26 of the 33 communities in the NWT and supplies electricity on a wholesale basis to two distributing utilities which, in turn, retail electricity to customers in Yellowknife and the Hay River area. NTPC's facilities include hydroelectric, diesel, and natural gas generation plants, transmission systems and numerous isolated electrical distribution systems. NTPC also owns and operates alternative energy assets used for the supply of residual heat, solar power and co-generation.

The Corporation's systems serve a population of approximately 43,000 located in an area of 1.3 million square kilometres. The insert map (reference Figure 1) illustrates the operating area of NTPC and highlights the isolation of many of the communities that NTPC serves – some accessible only by air, barge or winter road.

The peak electrical load is approximately 66 MW, with isolated power systems with generating capacities ranging from 64 MW at Snare/Yellowknife zone to 230 kW at Jean Marie River and Nahanni Butte. With the exception of two grids, in the north and south Great Slave areas these systems are unconnected and each must be planned for and operated independently.

**Figure 1 – NTPC Operating Area**

## Vision, Mission, Values and Guiding Principles

### Vision

To be regarded as an exceptional utility, up to the challenge of delivering safe, reliable and fair-priced power through a territory-wide system that is efficient and sustainable.

### Mission

Meet the electricity needs of the Northwest Territories, today and tomorrow, by generating and distributing reliable power across Canada's most challenging operating environment.

### Values and Guiding Principles

In achieving our Vision and Mission, we will:

- Communicate in an open and timely manner;
- Be cost effective in the utilization of all resources, always remembering that we are spending the customer's money;
- Be responsive to our customers and their changing needs;
- Act ethically and honestly treating employees, customers and others with fairness, dignity and respect;
- Commit to the safety of our employees and the public;
- Respect and protect the environment in all our activities to ensure a sustainable environment for the NT; and
- Strive to increase Shareholder value in the long term.

## Strategies and Objectives for 2011/12 (\$000s unless otherwise noted)

NT Hydro set objectives and strategies for NTPC in 2011/12 to be efficient and effective emphasizing employee, operational, customer service and financial excellence to improve reliability and cost-effectiveness, while meeting commitments. These strategies are aimed at delivering customer and shareholder value.

### *Environment and Safety*

The Corporation continues to deliver services in an environmentally responsible manner with reductions in both the number and volume of hazardous material spills in 2011/12 over 2010/11. In 2011/12, NTPC had 12 hazardous material spills (2010/11 – 16). The total volume spilled in 2012 was 882 litres, compared with 995 in 2010/11. All spills were contained and cleaned up to the satisfaction of the regulators, with no further action required on behalf of the Corporation.

The Corporation's five-year accident severity rate increased from four lost-time days per 200,000 hours in 2010/11 to twenty-five in 2011/12. NTPC continues to work on its safety orientation program, adding an interactive teaching and testing tool, increasing emphasis on site-specific orientation and expanding our policies to include contractors. The Corporation's objective remains to be accident free and we will continue to emphasize safety in the years ahead.

### *Reliability, Customer Service and Energy Conservation*

Under the objectives of improved reliability and quality customer service, NTPC responded to numerous challenges during the year. The Corporation worked closely with customers to minimize impacts and prevent third-party damages. In 2011/12, the average customer was without power for 4.20 hours, compared with 7.74 for 2010/11. When the lights did go out, the average time to restore power was 25 minutes, compared with the 32 minutes it took to restore power in 2010/11. The Corporation initiated a number of steps to improve reliability in 2011/12, with a stronger focus on the root cause of outages to prevent further occurrence.

The Corporation is also motivated to provide high-quality customer service, education and communication. NTPC's customer service satisfaction survey in 2011 indicated overall satisfaction of 87%, which is top quartile performance when compared with peers in the Canadian Electricity Association.

The Corporation will continue to focus on providing reliable services to our customers, communicate on a timely basis on matters of importance, seek out opportunities to collaborate to lower costs by improving communications with community and aboriginal governments, work with customers in an effort to assist them to lower their power bills and achieve a level of service such that customers equate NTPC with a company that delivers on its commitments.

### *Cost-Effective Energy*

When it comes to generation source, renewable hydroelectricity represents by far the greatest source of power for NTPC customers. In 2011/12, hydro power held steady at 74% of the total power generated. With no grid, hydro is available to communities only in the southern part of the territory. Diesel generation remains the most cost-effective way to provide safe, reliable power to small communities.

The Corporation has fuel stabilization funds that track the difference between forecast fuel costs, used for rate setting purposes and the actual fuel costs. A stabilization fund is also in place to capture the financial impacts of low water on hydro generation potential. These funds flow through the costs or benefits to customers when the actual costs vary from what is collected through rates.

The Corporation continued to work with the GNWT and PUB during 2011/12 to implement the recommendations from the GNWT's report: *Efficient, Affordable and Equitable: Creating a Brighter Future for the Northwest Territories' Electricity System*. In 2011/12, the GNWT contributed \$8,957 on behalf of customers towards excess fuel costs (2010/11- \$3,000) and there were no rider collections from customers (2010/11 - \$6,838).

#### *Profitability and financial strength*

NTPC's return on equity for 2011/12 was slightly lower than prior period at 3.8% (2010/11 – 3.9%). In December 2010, utility rates were rebalanced and reduced overall when the Shareholder agreed to accept a lower return from communities whose primary generation is from thermal sources.

In addition to profitability, the Corporation sets a number of performance indicators designed to measure and manage certain aspects of corporate performance and financial position. Following is a summary of those indicators:

<b>Performance Indicator</b>	<b>2011/12 Results</b>	<b>2010/11 Results</b>
Current Ratio	.82	1.22
Capitalization ratio (debt is net of sinking fund balances) (See Note 4 to financial statements)	60/40	61/39
Plant Efficiency (kWh per litre fuel)	3.56	3.53
Operating Expenses/MWh sold (\$)	\$224	\$223
Operating Expenses (excluding fuel and amortization)/MWh sold (\$)	\$114	\$116
Safety – Average lost workdays per 200,000 hours worked (calendar reporting)	25	4
System Availability:		
Outage hours/customer	4.20	7.74
Average outage time (minutes)	25	32

The current ratio is below 1 and is a sign that working capital is insufficient. Since the Corporation had no rate increases in five years, opportunities to improve working capital were limited. This situation is not sustainable and the Corporation is planning to convert its short term debt to long term in 2012/13 and filed a general rate application in March 2012 which will improve the current ratio in 2012/13.

The Corporation's safety performance declined over the previous year, going from 4 to 25 lost workdays per 200,000 hours worked. Initiatives aimed at improving the safety performance are included in NTPC's 2012-14 Strategic Plan.

The remaining indicators remained steady or improved over the previous year.



As with many utilities operating in North America, the Corporation faces continual challenges to attract and retain skilled staff in an environment of labour shortages, particularly in the trades and engineering fields. Strategies for fulfilling goals in this area are under continual review and the Corporation is looking at options such as employee development, better tools for gauging employee satisfaction, and a northern talent development program that includes the addition of apprentices in hard-to-staff trades positions.

## **Consolidated Financial Results (\$000s unless otherwise noted)**

### **Operations**

Net income for 2011/12 was \$4,105, compared with \$4,019 in 2010/11.

The Corporation had electricity sales of \$81,690 in 2011/12, (2010/11 - \$81,676). Sales to our wholesale customers were approximately \$1,617 (5.6%) higher than 2010/11. Sales to our residential and commercial customers were down \$1,607 (3.2%) from 2010/11. Industrial and streetlight revenue growth showed modest increases.

Operating expenses for 2011/12 (net of other government assistance) were \$69,780 (2010/11 - \$70,128) down \$348 (.5%). Restraint initiatives were a major contributor to the reduction from prior year. Recognizing that many of the restraint actions were not sustainable in the long term, NTPC filed a general rate application to adjust rates to reflect current costs.

Interest expense in 2011/12 was \$503 higher than 2010/11. Gross interest expense was approximately \$179 lower due to a debt retirement. Income from the sinking funds and loan receivable was \$1,652 lower due to the debt retirement and lower returns in the fund. Capitalized allowance for funds used during construction (AFUDC) was approximately \$1,328 higher due to a higher invested balance in capital work in progress.

### **Financing Activities**

In 2011/12, NTPC retired a \$15,000 debenture and repaid an additional \$1,316 of long term debt by way of scheduled repayments. The retirement was fully funded from sinking funds.

### **Capital Expenditures**

Each year, the Corporation makes an investment in its capital infrastructure to replace assets that have reached the end of their useful lives. Capital investment levels in 2011/12 were approximately 33% higher than 2010/11 (\$29,075 in 2011/12 vs. \$21,915 in 2010/11). The majority of projects were to maintain or improve reliability.

The Bluefish dam construction project continued in 2011/12 and represents the largest capital project in recent history, with a total budget of \$37,400. The new dam is located downstream from the existing dam and is being constructed while the current dam continues to operate and provide hydro power to the Yellowknife area. This project is expected to be substantially completed by fall 2012.

## Outlook for 2012/13

The Corporation filed its General Rate Application (GRA) in March 2012 and interim rates approved in May 2012 were effective May 1, 2012. The rates proposed in the GRA are expected to return the Corporation to a position where it can fully cover its operating costs and earn a fair return on equity in the hydro zones in accordance with the rate guidelines set by its shareholder. Rates are subject to regulatory approval and are expected to be finalized in the fall of 2012. Higher fuel costs, amortization on our investment to replace aging infrastructure, and inflationary increases make up the majority of the increase in revenue requirement. NTPC applied to phase in the rate increases over a 4-year period from 2012/13 through 2015/16. The Government of the Northwest Territories has committed to provide \$33,800 in financial assistance to mitigate the impact of rate increases on customers by holding increases to no more than seven per cent over the next three years and five per cent in 2015/16.

In 2011/12 NTPC was advised that the gas supply in Inuvik was in crisis. The Corporation has commenced a project to replace the natural gas generation with diesel generation in the short term until the potential for gas in the future is known. By voluntarily switching from gas to diesel generation, NTPC allowed the community up to two years of gas supply, time desperately needed in order to determine the energy future of this Arctic community. This will add to costs, both in terms of the capital investment and in the ongoing fuel cost differential from switching from gas to diesel.

The Corporation is planning to borrow an additional \$25,000 in long-term debt next year to reduce its short-term borrowing and improve working capital.

The Corporation's strategy for 2012/13 and beyond will focus on achieving employee excellence, operational excellence, customer service excellence and financial excellence. Long term, the Corporation will continue to measure and be guided by its overall performance in areas that matter most to customers: reliability of supply, cost effectiveness (price) and meeting commitments made. Following this strategy will also enable the Corporation to continue to create optimum value for its shareholder and customers.

Respectively submitted



Judith Goucher  
Chief Financial Officer

## NORTHWEST TERRITORIES POWER CORPORATION

### Management's Responsibility for Financial Reporting

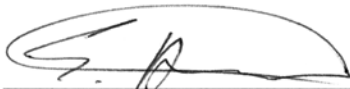
The accompanying consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). Where GAAP permits alternative accounting methods, management has chosen those it deems most appropriate in the circumstances. The Northwest Territories Power Corporation (NTPC) undertakes activities that are regulated by the Public Utilities Board of the Northwest Territories, which also examines and approves its accounting policies and practices with respect to recovery of assets and expenses. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

NTPC maintains financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial information is available on a timely basis, that assets are acquired economically, are used to further NTPC's objectives, are protected from loss or unauthorized use and that NTPC acts in accordance with the laws of the Northwest Territories and Canada. Management recognizes its responsibility for conducting NTPC's affairs in accordance with the requirements of applicable laws and sound business principles, and for maintaining standards of conduct that are appropriate to an Agent of the territorial government. An internal auditor reviews the operation of financial and management systems to promote compliance and to identify changing requirements or needed improvements.

The Auditor General of Canada provides an independent, objective audit for the purpose of expressing his opinion on the consolidated financial statements. He also considers whether the transactions that come to his notice in the course of the audit are, in all significant respects, in accordance with the specified legislation.

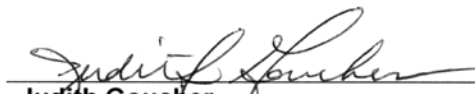
The Board of Directors appoints certain members to serve on the Audit and Efficiency Committee. This Committee oversees management's responsibilities for financial reporting and reviews and recommends approval of the consolidated financial statements. The internal and external auditors have full and free access to the Audit and Efficiency Committee.

The consolidated financial statements have been approved by the Board of Directors.



**Emanuel DaRosa**

President & CEO



**Judith Goucher**

Chief Financial Officer

Hay River, NT  
July 20, 2012



Auditor General of Canada  
Vérificateur général du Canada

## **INDEPENDENT AUDITOR'S REPORT**

To the Minister responsible for the Northwest Territories Power Corporation

### **Report on the Consolidated Financial Statements**

I have audited the accompanying consolidated financial statements of the Northwest Territories Power Corporation, which comprise the consolidated balance sheet as at 31 March 2012, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of shareholder's equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



### *Opinion*

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Northwest Territories Power Corporation as at 31 March 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

### **Report on Other Legal and Regulatory Requirements**

As required by the *Financial Administration Act* of the Northwest Territories, I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Northwest Territories Power Corporation and its wholly-owned subsidiaries and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Northwest Territories Power Corporation and its wholly-owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part IX of the *Financial Administration Act* of the Northwest Territories and regulations, the *Northwest Territories Power Corporation Act* and regulations, the *Public Utilities Act* and the by-laws of the Northwest Territories Power Corporation and its wholly-owned subsidiaries.



Terrance DeJong, CA  
Assistant Auditor General  
for the Auditor General of Canada

20 July 2012  
Edmonton, Canada

**Consolidated Balance Sheet**  
**As at March 31**  
**(\$000's)**

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 1,155	\$ 2,563
Accounts receivable (Note 5)	18,778	14,199
Net receivable from related parties (Note 24)	4,402	4,817
Inventories (Note 6)	4,162	4,428
Prepaid expenses	661	2,802
Current portion of sinking fund investments (Note 8)	20,000	15,000
	49,158	43,809
Property, plant and equipment, net (Note 7)	311,964	289,078
<b>Other non-current assets</b>		
Regulatory assets (Note 3)	18,428	16,226
Sinking fund investments (Notes 8, 12)	5,052	23,726
Intangible assets (Note 9)	1,016	1,268
Receivable from NTEC(03) for Taltson studies (Note 10)	-	3,741
	24,496	44,961
	\$ 385,618	\$ 377,848
<b>Liabilities and Shareholder's Equity</b>		
<b>Current liabilities</b>		
Short-term debt (Note 11)	\$ 16,351	\$ 1,316
Accounts payable and accrued liabilities	21,551	18,132
Dividends payable (Notes 22, 24)	75	29
Current portion of long-term debt (Note 12)	22,184	16,316
	60,161	35,793
<b>Long-term debt</b>		
Long-term debt, net of sinking fund investments (Note 12)	138,379	146,783
Sinking fund investments presented as assets (Note 8)	25,052	38,726
Net lease obligation (Note 13)	2,028	1,811
	165,459	187,320
<b>Other non-current liabilities</b>		
Regulatory liabilities (Note 3)	40,145	40,501
Asset retirement obligations (Notes 14, 15)	6,780	4,674
Deferred government contributions (Note 16)	2,800	2,103
Employee future benefits (Note 17)	1,525	1,793
	51,250	49,071
Shareholder's equity	108,748	105,664
	\$ 385,618	\$ 377,848
Commitments and contingencies (Note 23)		

*The accompanying notes are an integral part of these consolidated financial statements.*

Approved on behalf of the Board

  
Brendan Bell, Chairman of the Board

  
David Tucker, Director

**Consolidated Statement of Operations**  
**For the year ended March 31**  
**(\$000's)**

	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
Sale of power	\$ 81,690	\$ 81,676
Other revenues (Note 18)	1,468	1,175
	83,158	82,851
<b>Expenses</b>		
Salaries and wages	21,142	21,147
Fuels and lubricants	19,155	18,852
Amortization (Note 19)	15,225	14,719
Supplies and services	12,460	13,229
Travel and accommodation	1,974	2,229
	69,956	70,176
Earnings from operations	13,202	12,675
Snare transmission line damages (Note 5)	(1,739)	-
Cost recovery (Note 5)	1,739	-
Interest income	233	275
Earnings before interest expense	13,435	12,950
Interest expense (Note 20)	9,506	9,003
<b>Income before fuel riders and government assistance</b>	3,929	3,947
Fuel rider revenues (Note 3)	-	6,838
Government contributions in lieu of fuel riders (Note 3)	8,957	3,000
Offsetting fuel expenses (Note 3)	(8,957)	(9,814)
	-	24
Other government assistance (Note 21)	176	48
<b>Net income</b>	<b>\$ 4,105</b>	<b>\$ 4,019</b>

*The accompanying notes are an integral part of these consolidated financial statements.*



**Consolidated Statement of Comprehensive Income**  
**For the year ended March 31**  
**(\$000's)**

	<b>2012</b>	<b>2011</b>
<b>Net income</b>	\$ 4,105	\$ 4,019
<b>Other comprehensive income (loss)</b>		
Reclassification adjustment for realized gains on sale of available-for-sale financial assets included in net income	(633)	(1,798)
Unrealized gains on available-for-sale financial assets arising during the year	112	1,397
Other comprehensive loss	(521)	(401)
<b>Comprehensive income</b>	\$ 3,584	\$ 3,618

*The accompanying notes are an integral part of these consolidated financial statements.*

**Consolidated Statement of Shareholder's Equity**  
**For the year ended March 31**  
**(\$000's)**

	<b>2012</b>	<b>2011</b>
<b>Share capital (Note 22)</b>	\$ 43,129	\$ 43,129
<b>Retained earnings</b>		
Retained earnings at beginning of year	62,014	58,820
Net income	4,105	4,019
Dividends declared (Note 22)	(500)	(825)
<b>Retained earnings at end of year</b>	\$ 65,619	\$ 62,014
<b>Accumulated other comprehensive income</b>		
Accumulated other comprehensive income at beginning of year	\$ 521	\$ 922
Other comprehensive loss	(521)	(401)
<b>Accumulated other comprehensive income at end of year</b>	\$ -	\$ 521
<b>Shareholder's equity at end of year</b>	\$ 108,748	\$ 105,664

*The accompanying notes are an integral part of these consolidated financial statements.*

**Consolidated Statement of Cash Flow**  
**For the year ended March 31**  
**(\$000's)**

	<b>2012</b>	<b>2011</b>
<b>Operating activities:</b>		
Cash receipts from customers	\$ 81,915	\$ 91,900
Government assistance (Notes 3, 21)	5,304	3,070
Cash paid to suppliers and employees	(60,970)	(67,416)
Interest received	233	275
Interest paid	(13,448)	(12,429)
Cash flows provided by operating activities	13,034	15,400
<b>Investing activities:</b>		
Net advances from related parties	797	2,179
Property, plant and equipment constructed or purchased	(29,075)	(21,915)
Cash flows used in investing activities	(28,278)	(19,736)
<b>Financing activities:</b>		
Repayment of long-term debt	(16,316)	(1,295)
Proceeds from sinking fund redemption	15,751	-
Net proceeds from (repayments of) short-term debt	15,036	(37,332)
Sinking fund instalments	(1,964)	(2,961)
Government contributions (Note 16)	1,567	1,195
Dividend paid	(454)	(4,312)
Receipts from net lease obligation	216	159
Proceeds from issue of long-term debt (net of issue costs)	-	49,751
Cash flows provided by financing activities	13,836	5,205
<b>Net (decrease) increase in cash</b>	<b>(1,408)</b>	<b>869</b>
<b>Cash at beginning of year</b>	<b>2,563</b>	<b>1,694</b>
<b>Cash at end of year</b>	<b>\$ 1,155</b>	<b>\$ 2,563</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

## 1. Authority and operation

In fiscal 2008 the Northwest Territories Power Corporation (NTPC or the Corporation) went through a corporate restructuring and a new parent company, the Northwest Territories Hydro Corporation (NT Hydro) was established in 2007 under the *Northwest Territories Hydro Corporation Act*. The new structure has been adopted to facilitate the development of hydro on an unregulated basis while protecting the Government of the Northwest Territories' (GNWT) investment in NTPC. The restructuring also involved the transfer of two subsidiaries, the Northwest Territories Energy Corporation (03) Ltd. (NTEC(03)) and Sahdae Energy Ltd. (SEL) from NTPC to NT Hydro. The assets and liabilities of both NTEC(03) and SEL were transferred from NTPC to NT Hydro, a related party, at their respective carrying values as there was no substantive change in ownership.

NTPC is established under the *Northwest Territories Power Corporation Act*. NTPC is a public agency under Schedule B of the *Financial Administration Act* and is exempt from income tax. NT Hydro is the parent company and holds all of the common shares of NTPC. The GNWT owns one preferred share of NTPC (Note 22).

NTPC operates hydroelectric, diesel and natural gas generation facilities on a self-sustaining basis to provide utility services in the Northwest Territories. NTPC controls two wholly-owned subsidiaries, the Northwest Territories Energy Corporation Ltd. (NTEC) and 5383 NWT Ltd. NTEC, under the authority of the *Northwest Territories Power Corporation Act*, financed the Dogrib Power Corporation in 1996 for the construction of a 4.3 MW hydro facility (Note 13). NTEC is also responsible for the operation, management and shared ownership (50%) in one residual heat project in Fort McPherson (Note 26). 5383 NWT Ltd. is an inactive company.

### Consolidation

The consolidated financial statements include the accounts of NTPC and its wholly-owned subsidiaries NTEC and 5383 NWT Ltd. NTPC and its subsidiaries account for interests in jointly controlled entities using the proportionate consolidation method. All intercompany transactions and balances are eliminated upon consolidation.

## 2. Significant accounting policies and future accounting changes

### (a) Significant accounting policies

These consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles (GAAP).

### Rate regulation

NTPC is regulated by the Public Utilities Board (PUB) of the Northwest Territories pursuant to the *Public Utilities Act*. The PUB regulates matters covering rates, financing, accounting, construction, operation and service area. As the PUB is a board appointed by the GNWT, and NTPC is a public agency of the GNWT, NTPC and the PUB are related parties. Although the PUB and NTPC are related parties, the GNWT only provides administrative guidance to the PUB and does not give specific direction to the PUB on a case before them.



**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**Note 2. Significant accounting policies and future accounting changes (continued)**

The PUB is required by the *Public Utilities Act* to review the affairs, earnings and accounts of NTPC a minimum of every three years. The last review was done in fiscal 2009. The regulatory hearing process used to establish or change rates typically begins when NTPC makes a General Rate Application (GRA) for its proposed electricity rate changes. Normally, NTPC applies for rates in advance of the applicable fiscal years (Test Years) to which the new rates will apply. In addition to GRAs, interim applications may be used between GRAs to deal with circumstances which could result in the use of interim rates or riders until the next rate application, when rates are reviewed and set as final.

The PUB uses cost of service regulation to regulate NTPC's earnings on a rate of return basis. In the 2006/08 GRA, the PUB approved a target rate of return of 9.25% for 2007/08. The allowed rate of return will be reassessed at the time of the next GRA. As actual operating conditions will vary from forecast, actual returns achieved may differ from approved returns.

On March 23, 2012 NTPC filed a GRA with the PUB for the Test Years 2012/13 and 2013/14. Within this application, NTPC is requesting the PUB set rates based on a proposed revenue requirement of \$102,500 in 2012/13 and \$107,500 in 2013/14. The proposed revenue requirement includes a fair rate of return of 8.5% for the Test Years 2012/13 and 2013/14. The allowed rate of return and all other aspects of the GRA will be reviewed and tested by the PUB with a final decision expected in October 2012. The GNWT will mitigate the impact of rate increases on customers over a three year period by providing subsidies to the Corporation— see note 27 for additional information.

NTPC also filed an interim rate application (IRA) with the PUB on March 23, 2012. Since GRAs can take many months to complete, IRAs are designed to implement rates on a temporary and refundable basis while a GRA is reviewed. If the PUB's final decision indicates final rates should be higher or lower than interim rates, a refund or surcharge is applied to customers accordingly. NTPC's current IRA proposes rate increases for all customer groups in all communities by 7.0%. On May 7, 2012 the PUB approved the IRA for the fiscal 2012/13, with interim rates effective for May 1, 2012.

**Revenues**

All revenues for energy sales, including wholesale power, are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sales of power include an accrual for electricity sales not yet billed. Interest, contract, contribution and other revenues are recognized on the accrual basis.

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
(\$000's)

**Note 2. Significant accounting policies and future accounting changes (continued)**

**Property, plant and equipment and intangible assets**

Property, plant and equipment and intangible assets are recorded at original cost less accumulated amortization and unamortized contributions by utility customers to aid in the construction and acquisition of property, plant and equipment. Costs include materials, direct labour and a proportionate share of directly attributable overhead costs.

Certain regulated property, plant and equipment additions are made with the assistance of cash contributions from customers when the estimated revenue is less than the cost of providing service. These contributions are amortized on the same basis as the assets to which they relate and offset against amortization expense. NTPC retains ownership of these assets.

As a result of using the average group useful life method of accounting for amortization, when an asset is retired or disposed of, the retirement of these assets is charged to accumulated amortization with no gains or losses reflected in operations. Gains or losses arising from exceptional circumstances are included in earnings.

NTPC evaluates its tangible and intangible assets for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the carrying amount of assets. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available.

**Amortization**

Amortization of property, plant and equipment is taken on the straight-line average group useful life basis, at rates which are approved by the PUB, a portion of which is accounted for as a reserve for future removal and site restoration costs (Note 3). Amortization is suspended when assets are removed from service for an extended period of time. Assets held for future use are not amortized until these assets are placed into service, at which time they are reallocated to the appropriate asset group and amortized according to the amortization rates for that group.

The reserve for future removal and site restoration account will be applied to mitigate the impact of asset dismantling and disposal costs and site restoration costs that are not otherwise related to an asset retirement obligation and environmental liabilities as described in Note 3.

Amortization rates are as follows:

	%
Electric power plants	1.16 - 5.25
Transmission and distribution systems	1.09 - 4.66
Electric power plant under capital lease	1.16 - 1.54
Warehouse, equipment, motor vehicles and general facilities	1.76 - 9.76
Other utility assets	2.50 - 20.0
Other	20.0

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**Note 2. Significant accounting policies and future accounting changes (continued)**

Amortization of intangible assets is taken on the straight-line average group life basis at an annual rate of 9.76%.

Amortization rates are reviewed by the Corporation and by the PUB every three years as required by legislation. The Corporation uses amortization studies and other information and/or testimony to substantiate amortization rate changes. The PUB can direct amortization rate changes and these changes are done on a prospective basis. Cumulative excess or deficient amortization calculated at the time of the review is recognized over a period as prescribed by the PUB. The last general rate application was in the 2008 fiscal year and the last amortization study was in fiscal 2002. The Corporation filed a GRA in March 2012 and an amortization study was included as part of that filing. Rates resulting from that filing and the associated amortization rates have not been approved to date. See Note 3 for additional details.

**Inventories**

Inventories are recorded at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Previous write-downs to net realizable value are reversed if there is a subsequent increase in the value of the related inventories.

**Public Service Pension Plan**

The employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

**Employee future benefits**

Under the terms and conditions of employment, employees may earn non-pension benefits for resignation, retirement and ultimate removal costs based on employee start dates, years of service, final salary and point of hire. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service. The cost of the benefits reflects management's best estimates using expected compensation levels and employee leave credits. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

**Asset retirement obligations**

On an annual basis, NTPC identifies legal obligations associated with the retirement of its property, plant and equipment. The fair value of the future expenditures required to settle the legal obligations are recognized to the extent that they are reasonably estimable and are calculated based on the estimated future cash flows necessary to discharge the legal obligations and discounted using NTPC's credit-adjusted risk-free rate.



**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**Note 2. Significant accounting policies and future accounting changes (continued)**

The fair value of the estimated asset retirement obligations is recorded as a liability under other non-current liabilities with an offsetting charge recorded against the regulatory liabilities – reserve for future removal and site restoration as described in Note 3. The liability for asset retirement obligations is increased annually for the passage of time by calculating accretion (interest) on the liability using NTPC's credit-adjusted risk-free rate.

NTPC has identified some asset retirement obligations for its hydro, thermal transmission and distribution assets where NTPC expects to maintain and operate these assets indefinitely. Therefore, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations for these assets cannot be made at this time.

**Environmental liabilities**

Environmental liabilities consist of the estimated costs related to the management and remediation of environmentally contaminated sites. NTPC recognizes environmental liabilities when it is obligated or likely to be obligated to incur such costs and the costs of remediation can be reasonably estimated. Environmental liabilities are discounted for the time value of money and included in asset retirement obligations. NTPC reviews its estimates of future environmental liabilities on an on-going basis.

**Government contributions**

The contributions approved for purchasing property, plant and equipment are recognized as a deferred government contributions on the balance sheet. Deferred government contributions are amortized into income on the same basis as the amortization of the related property, plant and equipment. Amortization of deferred government contributions are netted against amortization expense in the statement of operations. See Note 16 for additional details.

Restricted GNWT contributions for repayment of stabilization funds are recorded as a credit to the stabilization funds. As a result of these contributions, revenues have been recorded as government contributions in lieu of fuel rider revenues and an offsetting fuel rider expense has also been recorded on the statement of operations. See Note 3 for additional details.

All other government contributions are recognized as revenue in the year the contributions are spent. See Note 21 for additional details.

**Measurement uncertainty**

To prepare these financial statements in accordance with GAAP management has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities and the cost to complete capital projects in progress. Actual results may differ from these estimates. Significant estimates include amortization of

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**Note 2. Significant accounting policies and future accounting changes (continued)**

assets, employee future benefits, fair values of financial instruments, regulatory assets and liabilities, asset retirement obligations and environmental liabilities.

Management's estimates and assumptions regarding regulatory assets and liabilities, and the timing of NTPC's ability to recover the cost of these assets through future rates, are subject to decisions of the PUB as described in Note 3.

**Financial instruments**

The financial instruments of the Corporation include financial assets classified as held for trading or loans and receivables and financial liabilities classified other financial liabilities.

*Held for trading*

A financial instrument that is acquired or incurred principally for the purpose of selling or repurchasing it in the near term is required to be classified as held for trading. NTPC classifies cash, cash and short-term investments held in the sinking fund, derivatives and embedded derivatives as held for trading. These items are recorded at their fair value with gains and losses recorded in interest income (or interest expense if related to sinking funds).

*Loans and receivables*

Financial assets that are not actively traded are required to be classified as loans and receivables and accounted for at amortized cost using the effective interest rate method. NTPC classifies its accounts receivable and net receivable from related parties as loans and receivables. These items are recorded at amortized cost using the effective interest rate method. Due to the short-term nature of receivables, their carrying value approximates their fair value.

*Other financial liabilities*

NTPC classifies its accounts payable, short-term debt, long-term debt and net lease obligation as other financial liabilities, which are accounted for at amortized cost using the effective interest rate method. Due to the short-term nature of accounts payable and short-term debt, their carrying value approximates their fair value.

*Other policy decisions:*

NTPC recognizes its regular-way purchases or sales (those which require actual delivery of financial assets or financial liabilities) on the trade date.

Transaction costs, other than in respect of held for trading items, are added to the initial fair value of the acquired financial asset or financial liability. Transactions costs for held for trading assets or liabilities are expensed as incurred.

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**Note 2. Significant accounting policies and future accounting changes (continued)**

*Hedging relationships and derivative financial instruments*

NTPC may enter into interest rate and commodity swaps to reduce its exposure to fluctuations in interest rates and commodity prices. NTPC does not enter into any derivative financial instruments for speculative purposes. As NTPC does not account for these contracts using hedge accounting, these instruments are measured at fair value. Depending on the type of derivative, changes in fair value are recognized in either net income or to regulatory deferral accounts. There are no derivative contracts outstanding at the end of the year (2011 – nil).

**(b) Future accounting changes**

*International Financial Reporting Standards*

In February 2008, the CICA Accounting Standards Board (AcSB) confirmed that the transition to International Financial Reporting Standards (IFRS) from Canadian GAAP will be required for publicly accountable entities for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for fiscal periods beginning on or after January 1, 2010.

In October 2010 the AcSB announced a one year deferral to implement IFRS for rate-regulated entities to January 1, 2012. In March 2012, the AcSB decided to extend the IFRS deferral for rate-regulated entities by one year to January 1, 2013. As such, NTPC will be required to issue its first IFRS financial statements for its fiscal year ending March 31, 2014 with comparative figures for the fiscal year ending March 31, 2013.

NTPC's conversion project is on-going in determining the key accounting differences between Canadian GAAP and IFRS as well as finalizing and implementing changes in policies and procedures throughout the Corporation to comply with IFRS.



**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

### 3. Financial statement effects of rate regulation

As a result of rate regulation, the regulatory accounting policies adopted by NTPC differ from the accounting policies typically followed by unregulated entities. Specifically, policies in relation to regulatory assets and liabilities and amortization policies are different. A description and summary of the financial statement effects of rate regulation follows. The PUB has approved the accounting treatments described below.

#### Regulatory assets and liabilities

Regulatory assets and liabilities in these consolidated financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, NTPC defers certain costs or revenues as assets or liabilities on the consolidated balance sheet and records them as expenses or revenues in the consolidated statement of operations in order to match these expenses and revenues against the amounts collected or refunded through future customer rates. Any adjustments to these deferred amounts are recognized in net income in the period that the PUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process. These liabilities reduce the future rate impact of disposal and remediation costs to customers.

#### Regulatory assets

	<u>2012</u>	<u>2011</u>	<u>Remaining recovery period</u>
Normalized overhaul costs	\$ 5,487	\$ 3,584	Determined by PUB
Water licensing deferral account	5,262	1,397	Determined by PUB
Regulated employee future benefits	4,172	3,787	Determined by PUB
Reserve for injuries and damages	2,423	2,861	Determined by PUB
Other regulatory assets	634	397	Determined by PUB
Regulatory costs	450	515	Determined by PUB
Rate stabilization funds	-	3,685	Determined by PUB
	<u>\$ 18,428</u>	<u>\$ 16,226</u>	

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
(\$000's)

**Note 3. Financial statement effects of rate regulation (continued)**

**The total increase (decrease) to net income resulting from rate regulation resulting from changes to the following accounts is as follows:**

	<u>2012</u>	<u>2011</u>
Water licensing deferral account	\$ 3,865	\$ 314
Rate stabilization funds	(3,685)	(6,446)
Normalized overhaul costs	1,653	(32)
Reserve for future removal and site restoration	943	(1,172)
Equity component of AFUDC	1,014	673
Deferred revenues	(586)	(475)
Reserve for injuries and damages	(439)	272
Regulated employee future benefits	385	185
Other regulatory assets	237	80
Regulatory costs	(65)	(401)
Capitalized fuel	(39)	(39)
Snare Cascades deferral account	-	(2)
Net increase (decrease) in net income due to rate regulation	<u>\$ 3,283</u>	<u>\$ (7,043)</u>

Revenues approved by the PUB to recover deferred amounts are not reflected in the above analysis.

**Normalized overhaul costs**

Normalized overhaul costs include costs over the life of the assets to overhaul hydro, diesel and natural gas units. In the absence of rate regulation, GAAP would require that major overhauls be capitalized in the year in which they were incurred and amortized to expense over the useful life of the asset while all other overhaul costs are expensed in the year in which they were incurred. In the absence of rate regulation, operational expenses would increase by \$2,860 (2011 - \$1,226) and annual amortization expense would increase by \$486 (2011 - \$435) as a result of an increase in the balance of property, plant and equipment of \$796 (2011 - \$2,162). In the 2006/08 GRA, the PUB approved \$1,693 to be included in annual expenses for this fund. The balance in the account will depend on the frequency and the cost of overhauls and therefore the recovery period is considered to be indeterminate. In fiscal 2012 actual costs deferred to this account totalled \$3,656 (2011 - \$3,388). The net effect of rate regulation on net income was an increase of \$1,653 (2011 – decrease of \$32).

**Water licensing deferral account**

The water licensing deferral account was established in PUB Decision 13-2007. This account is set up to mitigate the uncertainty around the costs to acquire and maintain water licenses associated with the Taltson hydro plant, Bluefish hydro plant and the Snare Hydro system. In the 2006/08 GRA, the PUB approved \$137 to be included in annual expenses for this fund. Costs allocated to this account in fiscal 2012 totalled \$4,002 (2011 - \$451), including \$3,221 (2011 - \$nil) related to the addition of baseline water study costs used in the Taltson water license renewal application. These studies were purchased by NTPC from NTEC03. These studies were used in the development of the renewal application for the Taltson water license. See Note 10 for additional details on NTPC's purchase of the studies from NTEC03. In the absence of rate regulation, GAAP would require that the cost of these

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**Note 3. Financial statement effects of rate regulation (continued)**

events be expensed or capitalized in the year in which they were incurred. The net effect of rate regulation on net income was an increase of \$3,865 (2011 – increase of \$314).

**Regulated employee future benefits**

Regulated employee future benefits represent benefits accrued under employment agreements since April 1, 2001. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the rate at which hires, retirements, terminations and new employment agreements contribute to Employee Future Benefits (see Note 17). In the absence of rate regulation, GAAP would require that the actual cost of these employee future benefits be expensed in the year in which they were incurred. The net effect of rate regulation on net income was an increase of \$385 (2011 – increase of \$185).

**Reserve for injuries and damages**

The reserve for injuries and damages includes costs for uninsured and uninsurable losses and the deductible portion of insured claims. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the types and size of emergencies NT Hydro faces during a given year. In the 2006/08 GRA, the PUB approved \$670 to be included in annual expenses for this fund. In fiscal 2012 actual costs deferred to this account totalled \$231 (2011 - \$942). In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed in the year in which they were incurred. The net effect of rate regulation on net income was a decrease of \$439 (2011 - increase of \$272).

**Other regulatory assets**

Other regulatory assets include costs incurred that create a long-term benefit to customers. These costs are subject to recovery from the customers through PUB decisions. In the absence of rate regulation, GAAP would require that the actual cost of these events be expensed as they occurred. The remaining recovery period is indeterminate as the amounts deferred to the various accounts depend on what issues arise during the year. The amortization of the various accounts to deferred charges is done on a straight-line basis over periods ranging from 5 to 10 years. Consequently, in the absence of rate regulation, operational expenses would increase by \$264 (2011 - \$107) and annual amortization expense would decrease by \$27 (2011 - \$27). The net effect of rate regulation on net income was an increase of \$237 (2011 – increase of \$80).

**Regulatory costs**

Regulatory costs include all third party costs and staff overtime, supplies, services and travel NTPC incurs directly related to general rate applications and related regulatory proceedings. In the absence of rate regulation, GAAP would require that the actual regulatory costs be expensed as they were incurred. The remaining recovery period is indeterminate as the amounts deferred to the account depend on the actual regulatory costs NTPC incurs and this will vary from year to year as regulatory issues arise. In the 2006/08 GRA, the PUB approved \$600 to be included in annual expenses for this fund. In fiscal 2012 actual costs deferred to this account totalled \$535 (2011 - \$199). The net effect of rate regulation on net income was a decrease of \$65 (2011 – decrease of \$401).



**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**Note 3. Financial statement effects of rate regulation (continued)**

**Rate stabilization funds**

The rate stabilization funds were originally established by the PUB in fiscal 1998 through Decision 1-97 and updated through subsequent decisions. The funds mitigate the impact on utility rates from changes in diesel and natural gas fuel prices as well as fluctuations in hydro generation caused by water levels. The impact of any increases or decreases in fuel prices or hydro generation over the PUB-approved amounts is deferred. The deferred amounts are accumulated until the PUB-specified limits are reached and management's judgement deems the recovery (refund) appropriate, at which time rate-riders are applied, with PUB approval, to recover or refund the amounts necessary to bring the funds back to the approved limits. The remaining recovery period is indeterminate as the amounts deferred in the account depend on the market price of fuel and water levels on the Snare and Yellowknife river systems. Traditionally, once the PUB-specified trigger limits are reached, the recovery period of the balance of the rate stabilization fund receivable (payable) has been approximately 12 to 24 months.

In the absence of rate regulation, GAAP would require that actual fuel expenses be included in the operating results of the year in which they were incurred. In fiscal 2012 fuel expenses were deferred and consequently lower due to the differences in fuel prices of \$4,830 (2011 - \$1,719) and lower due to the volume of available water generation of \$383 (2011 - \$1,487). The net interest revenues accrued on the balance of the funds also decreased interest expense by \$59 (2011 - \$186).

There were four fuel stabilization fund rate riders in effect in fiscal 2011. There were none of these riders in effect in fiscal 2012. In fiscal 2011 the fuel stabilization riders resulted in collections of \$2,853 and were reported as fuel rider revenues with an offsetting and equal charge to fuel expense. In fiscal 2012 the GNWT made specified contributions of \$8,957 (2011 - \$3,000) to pay down the stabilization funds. At the end of fiscal 2012, \$3,856 (2011 - \$3,000) of this balance was recorded in accounts receivable. In addition to offsetting the balances accumulated in the stabilization funds, these contributions have been reported as rider revenue with an offsetting and equal charge to fuel expense.

The PUB approved the 2006/08 GRA shortfall rider collections of \$nil (2011 - \$3,900) and the Snare Cascades deferral account riders of \$nil (2011 - \$85) to be applied against the rate stabilization funds.

The net effect of rate regulation on net income was a decrease of \$3,685 (2011 - decrease of \$6,446).

**Snare Cascades deferral account**

The Snare Cascades deferral account eased the impact on utility rates resulting from the Snare Cascades project being added to the rate base in 1997. The increase in costs caused by the hydro project addition to the rate base, net of savings from displaced diesel generation, was deferred for five years to be amortized and collected through a rate rider over the next ten years to fiscal 2011. In the absence of rate regulation, GAAP would require that the actual cost of operations resulting from operating the Snare hydro system with the addition of Snare Cascades be expensed in the year in which the costs were incurred. The rider revenues collected in fiscal 2012 of \$nil (2011 - \$24) less an annual return and other adjustments to the balance in the account equal to \$nil (2011 - \$22) were applied against the balance in the deferral account. The effect of rate regulation on net income as a result of the net rider revenue was a decrease of \$nil (2011 - decrease of \$2).

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
(\$000's)

**Note 3. Financial statement effects of rate regulation (continued)**

**Fuel rider revenues**

Fuel rider revenues with offsetting fuel expense:

	<u>2012</u>		<u>2011</u>	
	<u>Rider Revenues</u>	<u>Associated fuel expense</u>	<u>Rider Revenues</u>	<u>Associated fuel expense</u>
GNWT contributions	\$ 8,957	\$ 8,957	\$ 3,000	\$ 3,000
07/08 shortfall rider	-	-	3,900	3,900
Rate stabilization fund riders	-	-	2,853	2,853
Snare Cascades deferral account	-	-	85	61
	<u>\$ 8,957</u>	<u>\$ 8,957</u>	<u>\$ 9,838</u>	<u>\$ 9,814</u>

**Regulatory liabilities**

	<u>2012</u>	<u>2011</u>	<u>Remaining settlement period</u>
	Reserve for future removal and site restoration	\$ 35,209	\$ 36,152
Deferred revenues	4,936	4,349	Determined by PUB
	<u>\$ 40,145</u>	<u>\$ 40,501</u>	

**Reserve for future removal and site restoration**

The reserve for future removal and site restoration is a deferral account that records the funds collected from customers for the future removal of assets and the restoration of NTPC's operating sites that are not otherwise related to an asset retirement obligation or environmental liabilities. The balance of the reserve increases annually using PUB-approved amortization rates applied over the estimated useful lives of the related assets on a straight-line average group useful life basis. Due to the long-term nature of the assumptions made in deriving these estimates, the amortization rates applied are periodically revised and updated for current information. Actual costs incurred in a given year for asset removals and site clean-up are charged to this account.

The remaining recovery period is indeterminate due to the amounts added to the fund and the amounts drawing down the balance of the fund each year. The amount by which the fund is drawn down each year depends on which assets are removed from service in that year, the cost of disposal, the site restoration projects undertaken in the year and the costs associated with those projects. The fund is built up each year based on the following rates and the balance in property, plant and equipment of those asset categories:

	<u>%</u>
Electric power plants	0.00 – 2.11
Transmission and distribution systems	0.00 – 1.88
Electric power plant under capital lease	0.00 – 0.26
Warehouse, equipment, motor vehicles and general facilities	(0.74) – 0.35

In the absence of rate regulation, GAAP would require that future removal and site restoration costs would be limited to asset retirement obligations and environmental liabilities and the removal and site

**Notes to the Consolidated Financial Statements**  
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**(\$000's)**

**Note 3. Financial statement effects of rate regulation (continued)**

restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation or environmental liabilities and the remaining balance in the reserve would be taken into equity. In the absence of rate regulation, NTPC's fiscal 2012 expenses would have been \$725 (2011 - \$798) higher by the amount of the removal and site restoration costs deferred. Amortization expenses were \$1,889 (2011 - \$1,838) higher than they would be in the absence of rate regulation.

In the absence of rate regulation, GAAP would also require the net change in the balance of asset retirement obligations (Note 14) to be booked to net income rather than to the reserve for future removal and site restoration. The net change in the reserve for future removal and site restoration account balance as a result of changes in the asset retirement obligations and environmental liabilities account balances recorded against the reserve for future removal and site restoration was a decrease in the account balance of \$2,107 (2011 - increase of \$132). The net effect of rate regulation on net income is an increase of \$943 (2011 - decrease of \$1,172).

**Deferred revenues**

Deferred revenues reflect contributions to aid in the construction and acquisition of property, plant and equipment. Deferred revenues are amortized on the same basis as the related property, plant and equipment, and the resulting credit is offset against the corresponding provision for amortization of property, plant and equipment (Notes 7, 19). In the absence of rate regulation, GAAP would require that the contributions received in a given year be recorded in revenues for that year and amortization expense would not be offset by the amortization of the deferred revenues. The remaining recovery period is indeterminate as the account is increased each year by new contributions received from customers and drawn down by the straight-line amortization of the account balance. The amortization rates for deferred revenues are the same as those found in Note 2 under Amortization. In fiscal 2012 revenues were \$1,104 (2011 - \$951) lower than they would have been and amortization on property, plant, and equipment was \$518 (2011 - \$476) lower than it would have been in the absence of rate regulation. The net effect of rate regulation on net income is a decrease of \$586 (2011 - decrease of \$475).

**Gains and losses on disposal of property plant and equipment**

As approved by the PUB, the gains or losses on disposal of property, plant and equipment are deferred. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

**Capitalized allowance for funds used during construction**

The PUB allows NTPC to capitalize an allowance for funds used during construction (AFUDC) based on the most recent PUB-approved cost of capital which is 9.674% for fiscal 2008 and future years until the next GRA. The AFUDC rate includes a component for the return on equity. In the absence of rate regulation, GAAP allows interest during construction (IDC) be capitalized based on the related cost of debt instead of an AFUDC. Therefore, the AFUDC as recorded by NTPC is higher than it would be in a non-regulated operation, as is the subsequent amortization of the capitalized equity component. Capitalized AFUDC is recorded as an offset to interest expense (Note 20). Due to the



**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**Note 3. Financial statement effects of rate regulation (continued)**

complexities in the calculation, it is not possible to make a reasonable estimate of the carrying value of the equity component of AFUDC to determine the impact of amortization on net income.

In fiscal 2012 approximately \$1,014 (2011 - \$673) was capitalized as the return on equity component of the capitalized AFUDC based on NTPC's most recent PUB-approved cost of capital structure. The net effect of rate regulation on net income is an increase of \$883 (2011 – increase of \$673).

**Capitalized fuel**

As per PUB Decision 27-2008, NTPC capitalized fuel associated with the new intake structure capital project at the Corporation's Bluefish dam. In the absence of rate regulation, GAAP would require that fuel costs be expensed in the year incurred. There was no fuel used in fiscal 2012 (or 2011) in association with this project. Therefore fuel expense in fiscal 2012 (and 2011) was the same as it would have been in absence of rate regulation. Amortization expense was \$39 (2011 - \$39) higher than it would have been in the absence of rate regulation. The net effect of rate regulation on net income is a decrease of \$39 (2011 – decrease of \$39).

**Notes to the Consolidated Financial Statements**  
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**(\$000's)**

#### 4. Capital management

NTPC's capital structure as at March 31, 2012 and March 31, 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Long-term debt	\$ 187,004	\$ 203,320
Less: Sinking funds	25,052	38,726
Less: Unamortized premium, discount and issuance costs	1,389	1,495
Net long-term debt	<u>160,563</u>	<u>163,099</u>
Net lease obligation	2,028	1,811
Shareholder's equity	108,748	105,664
Less: AOCI	-	521
Adjusted shareholder's equity	<u>108,748</u>	<u>105,143</u>
Total capital	<u>\$ 271,339</u>	<u>\$ 270,053</u>

NTPC's capital structure consists of its financing sources for capital projects: adjusted shareholder's equity, capital lease obligation, net long-term debt and short-term debt not used to finance regulatory assets. The Corporation's opportunity to earn income is based on the amount of shareholder's equity it has invested in its rate base. The amount of debt for NTPC is limited to no more than three times shareholder's equity by the *Northwest Territories Power Corporation Act*. The amount of NTPC debt is also subject to the federally imposed borrowing cap on total GNWT debt of \$800,000 under which the Corporation is required to comply. NTPC complies with these external restrictions on its debt limits.

NTPC's objectives with respect to managing its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates and within the limitations set by the *Northwest Territories Power Corporation Act* and the debt cap limitations of the federal government on the GNWT while striving to deliver targeted financial returns as set by the PUB. The Corporation manages its capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing quarterly financial results. The Corporation has set a long-term debt capitalization target of 50/50. The debt capitalization ratio for fiscal 2012 is 60/40 (2011 – 61/39).

NTPC's capital structure is approved by the PUB as part of the Corporation's GRA process. The Corporation's long-term debt requires the approval of the GNWT and the PUB and to date has been subject to a guarantee by the GNWT. These objectives are consistent with previous years.

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
(\$000's)

**5. Accounts receivable**

The aging of accounts receivable was:

	2012				2011
	Current (less than 28 days)	29-90 days	Over 90 days	Total	Total
Utility	\$ 9,597	\$ 946	\$ 1,143	\$ 11,686	\$ 11,325
Non-utility	7,027	64	729	7,820	3,235
Allowance for doubtful accounts	-	-	(728)	(728)	(361)
	\$ 16,624	\$ 1,010	\$ 1,144	\$ 18,778	\$ 14,199

The changes in the allowance for doubtful accounts were as follows:

	2012	2011
Balance, beginning of the year	\$ (361)	\$ (283)
Receivables written off	93	154
Increase to allowance	(460)	(232)
Balance, end of the year	\$ (728)	\$ (361)

Accounts receivable are reviewed for indicators of impairment. An allowance for doubtful accounts is included in accounts receivable. Additional disclosures on NTPC's exposure and management of risk associated with accounts receivable can be found in Note 25.

On Feb 14, 2012, a Canadian Forces Griffon helicopter struck the Snare hydro transmission lines near Yellowknife which temporarily cut power to Yellowknife and surrounding communities. Power was supplied by back up sources until Feb 23, 2012, when the transmission lines were rebuilt and hydroelectric power from the Snare system was restored. While the Department of National Defense (DND) has not publically admitted liability for the incident, they directed NTPC to file a claim against the Crown to recover costs associated with restoring power and they have assisted with that process. Accounts receivable includes \$1,739 at March 31, 2012 (2011 – \$nil) owing from DND related to this accident.

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**6. Inventories**

	<u>2012:</u>	<u>2011</u>
Materials, supplies and lubricants	\$ 3,981	\$ 4,300
Fuel	181	128
	<u>\$ 4,162</u>	<u>\$ 4,428</u>

Inventories are comprised of fuel and materials, supplies and lubricants used in the production of electricity. Production fuel inventory is only held by the Corporation in four of its operating plants. The fuel requirements for the remaining plants are all managed under the fuel management services agreement described in Note 23. Fuel held as inventory and then expensed in fiscal 2012 totalled \$1,540 (2011 - \$1,302). The supplies and services expenses reported in fiscal 2012 includes \$1,099 (2011 - \$960) of materials, supplies and lubricants held as inventory throughout the year. The majority of materials, supplies and lubricants are used by the Corporation to make repairs, complete overhauls or generate electricity.

**7. Property, plant and equipment**

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Electric power plants	\$ 228,277	\$ (65,279)	\$ 162,998	\$ 161,739
Transmission and distribution systems	77,844	(20,311)	57,533	56,429
Electric power plant under capital lease	26,349	(6,347)	20,002	20,396
Warehouse, equipment, motor vehicles and general facilities	38,027	(12,956)	25,071	24,076
Other utility assets	7,544	(1,936)	5,608	2,871
Other	6,583	(4,921)	1,662	1,163
Assets held for future use (critical spare parts)	3,648	-	3,648	3,197
	<u>\$ 388,272</u>	<u>\$ (111,750)</u>	<u>\$ 276,522</u>	<u>\$ 269,871</u>
Construction work in progress	35,442	-	35,442	19,207
	<u>\$ 423,714</u>	<u>\$ (111,750)</u>	<u>\$ 311,964</u>	<u>\$ 289,078</u>

Engineering and other direct overhead expenses allocated to assets placed in service during the year amounted to \$3,565 (2011 - \$1,674).



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### 8. Sinking fund investments

Sinking fund investments are held by the Trustee for the redemption of long-term debt. As the sinking funds exist to fund the payout of long-term debt, sinking fund income is treated as a reduction of finance charges and is reflected in interest expense (Note 20).

The sinking fund agreements require annual installments to retire debt at maturity. Fair value information for sinking funds is included in Note 25. NT Hydro realized a mark-to-market return of 5.20% (2011 – 8.6%) on the general portfolio of sinking fund investments.

In May 2012 \$20,000 of the sinking fund balance will be retired to offset the repayment of the May 2012 debenture and only two smaller sinking fund debentures will remain. In anticipation of this reduced balance, in February 2012 the sinking fund policy was revised to reduce the investment risk of the portfolio and reduce administrative costs. The new policy allows only Canadian fixed-income and short-term investments. Cash and short-term investments include cash and fixed-income investments with a term to maturity not exceeding one year. Fixed-income securities have investment grade credit. In previous years, all fixed-income securities were of investment grade credit. NT Hydro's sinking fund policy limited investments in equities to 30% of the total sinking fund market value. Equities could be invested in two funds and were well diversified by sector, issuer, region and liquidity.

	<u>2012</u>		<u>2011</u>	
	Class value	Weighted average effective rate of return <sup>(1)</sup>	Class value	Weighted average effective rate of return <sup>(1)</sup>
Held for trading (fair value)				
Cash and short-term investments	\$ 25,052	0.90%	\$ 16,042	0.90%
Available-for-sale (fair value)				
Corporate bonds	-		7,555	5.10%
Canadian equities	-		4,125	19.90%
Federal Government guaranteed bonds	-		3,665	3.51%
Provincial Government guaranteed bonds	-		2,641	4.72%
Municipal Government guaranteed bonds	-		1,977	5.42%
International equities	-		828	5.50%
US equities	-		1,893	11.40%
	-		<u>22,684</u>	
Total	<u>\$ 25,052</u>		<u>\$ 38,726</u>	
Less: current portion	<u>20,000</u>		<u>15,000</u>	
	<u>\$ 5,052</u>		<u>\$ 23,726</u>	

<sup>1</sup> Equities rate is calculated based on time-weighted, mark-to-market return. All other rates calculated on market yield for cash and fixed-income securities.

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**9. Intangible assets**

	<b>2012</b>		<b>2011</b>	
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	<b>Net Book Value</b>
Enterprise software	\$ 2,938	\$ 1,922	\$ 1,016	\$ 1,268

**10. Receivable from NTEC(03) for Taltson studies**

NTPC contributed to hydro studies undertaken by NTEC(03) for the Taltson hydro expansion project. Prior to fiscal 2012, this contribution earned interest at a rate of prime less fifty basis points and was recoverable from NTEC(03) with no repayment terms specified for this contribution. In fiscal 2012, NTPC purchased these studies from NTEC(03). NTPC capitalized \$695 of these studies under plant, property and equipment. These studies will assist regulated operations with future transmission line developments. The remaining \$3,221 related to baseline water information on the Taltson river system has been added to NTPC's water licensing deferral account. See Note 3 for additional details.

**11. Short-term debt**

NTPC has a \$20,000 unsecured line of credit with its bank and on a temporary basis the bank will increase the operating line. NTPC also has access on occasion to short-term funds from its shareholder, the GNWT.

	<b>2012</b>	<b>2011</b>
Bankers acceptances and bank overdraft	\$ 16,351	\$ 1,316

The short-term debt outstanding at year-end had a weighted average 30 day term (2011 - 90 day term) and a 2.25% (2011 - 2.84%) weighted average annual interest rate.

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**12. Long-term debt, net of sinking fund investments**

	<u>2012</u>	<u>2011</u>
5.16% amortizing debenture, due September 13, 2040	\$ 50,000	\$ 50,000
5.443% debenture, due August 1, 2028	25,000	25,000
5.995% debenture, due December 15, 2034	25,000	25,000
10.75% sinking fund debentures, due May 28, 2012	20,000	20,000
5% debenture, due July 11, 2025	15,000	15,000
6.83% amortizing debenture, due December 18, 2032	14,000	14,667
6.33% sinking fund debentures, due October 27, 2018	10,000	10,000
8.41% sinking fund debentures, due February 27, 2026	8,700	8,700
9.11% debenture series 3, due September 1, 2026 repayable in equal monthly payments of \$73	7,021	7,245
9.75% debentures series 2, due October 1, 2025 repayable in equal monthly payments of \$69	6,165	6,374
10% debenture series 1, due May 1, 2025 repayable in equal monthly payments of \$70	6,118	6,334
11.125% sinking fund debentures, due June 6, 2011	-	15,000
	<u>\$ 187,004</u>	<u>\$ 203,320</u>
Less: Unamortized premium, discount and issuance costs	1,389	1,495
	<u>185,615</u>	<u>201,825</u>
Less: Current portion	22,184	16,316
	<u>163,431</u>	<u>185,509</u>
Less: Sinking fund investments (Note 8)	25,052	38,726
Long-term debt, net of sinking fund investments	<u>\$ 138,379</u>	<u>\$ 146,783</u>

Principal repayments and estimated sinking fund investment requirements for the next five years are as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Principal repayments	\$22,184	\$2,292	\$2,437	\$2,544	\$2,691
Sinking fund investment contributions	\$ 580	\$ 580	\$ 580	\$ 580	\$ 580

**13. Net lease obligation**

NTEC loaned funds to the Dogrib Power Corporation to finance the construction of a hydroelectric generating plant on the Snare River in the Northwest Territories from 1994 to 1996. The balance of the loan receivable is \$18,191 (2011 - \$18,756). The loan bears interest at an annual rate of 9.6%, which is the average rate of interest on NTEC's long-term debt issued to finance the loan. It is due July 2026 and is repayable in equal monthly payments of \$195. The loan is secured by a charge against the plant and the lease agreement.

NTPC has an initial 65-year lease for the plant at an imputed interest rate of 9.6% from the Dogrib Power Corporation until 2061. The value of the capital lease obligation is \$20,003 (2011 - \$20,408).

**Notes to the Consolidated Financial Statements**  
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**Note 13. Net lease obligation (continued)**

To reflect the effective acquisition and financing nature of the lease, the plant is included in electric power plants in property, plant and equipment at an original cost of \$26,349. (Note 7)

Upon consolidation, the loan receivable held by NTEC is offset with the capital lease obligation of NTPC resulting in a net lease obligation of \$1,812 (2011 - \$1,652). The current portion of the net lease obligation is a receipt of \$216 (2011 - \$159) and is recorded in accounts receivable. As a result, upon consolidation, in the early years there will be a net payment and in later years there will be a net receipt until such time as the loan receivable is fully repaid in 2026 when only the capital lease obligation payments continue until 2061.

Fair value information for the net lease obligation is included in Note 25.

The net lease obligation receipts due over the next five years are:

<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
\$278	\$347	\$423	\$506	\$597

**14. Asset retirement obligations**

	<b>2012</b>	<b>2011</b>
Balance, beginning of the year	\$ 4,674	\$ 4,806
Liabilities settled	(576)	(646)
Accretion expense	174	186
Valuation adjustment	2,087	43
Additions	421	285
Balance, end of the year	<u>\$ 6,780</u>	<u>\$ 4,674</u>

Following is a summary of the key assumptions upon which the carrying amount of the asset retirement obligations is based:

- Total expected future cash flows - \$21,380 (2011 - \$15,416)
- Expected timing of payments of the cash flows – majority of expenditures expected to occur after fiscal 2030
- The weighted average discount rate is the credit-adjusted risk-free rate of 5.43% for those obligations identified prior to fiscal 2012 and 3.78% for those obligations identified in fiscal 2012

**15. Environmental liabilities**

NTPC estimates that it would cost approximately \$14,802 (2011 - \$10,072) to clean up the environmentally contaminated soil at its 27 sites in the NWT. The discounted present value of these obligations is \$3,536 (2011 - \$1,879) and is included in asset retirement obligations.

NTPC and the GNWT are jointly pursuing a claim against the Government of Canada for site contamination that occurred prior to the May 5, 1988 transfer of assets from the Northern Canada



**Notes to the Consolidated Financial Statements**  
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**Note 15. Environmental liabilities (continued)**

Power Commission (NCPC) to the GNWT and NTPC. Management estimates that over 75% of the contamination occurred prior to May 5, 1988 when the Government of Canada controlled NCPC.

There is no provision recorded in these financial statements for a potential recovery from the Government of Canada.

**16. Deferred government contributions**

Following is a summary of deferred government contributions:

	<u>2012</u>	<u>2011</u>
Balance, beginning of the year	\$ 2,103	\$ 582
Eligible funding	892	1,521
	<u>2,995</u>	<u>2,103</u>
Amortization for the year	(195)	-
Balance, end of the year	<u>\$ 2,800</u>	<u>\$ 2,103</u>

In fiscal 2012 the GNWT signed two one-year capital contribution agreements with NTPC for capital project funding.

The first agreement was to provide \$700 in financial assistance for the installation of a photovoltaic generation system in Ft. Simpson. As of March 31, 2012, eligible costs incurred were \$741. There is \$200 owing to NTPC by the GNWT under this agreement at the end of the year. Total project costs of \$741 were capitalized during the year.

The second agreement was to provide \$1,400 in financial assistance to continue with a heat recovery project in Inuvik. As of March 31, 2012, \$700 of this contribution was received from the GNWT, total eligible project costs for the year were \$151 and \$549 has been included in accounts payable related to this agreement. Total project costs of \$151 were capitalized during the year.

**17. Employee future benefits**

NTPC and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the Consumer Price Index.

a) Public Service Pension Plan Contributions:

The employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation.

**Notes to the Consolidated Financial Statements**  
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**Note 17. Employee future benefits (continued)**

The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The employer contribution rate effective at the end of the year was 1.74 times employees' contributions (2011 – 1.86 times). Total contributions of \$2,833 (2011 - \$2,858) were recognized as expense in the current year.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2 percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

b) Liability for severance and ultimate removal benefits is as follows:

	<b>2012</b>	<b>2011</b>
Accrued benefit obligation, beginning of the year	\$ 2,120	\$ 3,223
Net increase in obligation for the year	385	186
Benefits paid during the year	(567)	(1,289)
Accrued benefit obligation	1,938	2,120
Less: current portion	(413)	(327)
Accrued benefit obligation, end of the year	<u>\$ 1,525</u>	<u>\$ 1,793</u>

**18. Other revenues**

	<b>2012</b>	<b>2011</b>
Contract work	\$ 570	\$ 361
Connection fees	349	298
Pole rental	247	277
Heat revenues	214	135
Miscellaneous	88	104
	<u>\$ 1,468</u>	<u>\$ 1,175</u>

**19. Amortization**

	<b>2012</b>	<b>2011</b>
Property, plant and equipment	\$ 12,329	\$ 11,797
Regulatory assets	3,127	3,127
Intangible assets	287	271
Deferred revenues (Note 3)	(518)	(476)
	<u>\$ 15,225</u>	<u>\$ 14,719</u>

**Notes to the Consolidated Financial Statements**  
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**20. Interest expense**

	<u>2012</u>	<u>2011</u>
Interest on long-term debt	\$ 15,216	\$ 15,216
Short-term debt financing costs	410	231
Income from sinking fund investments	(1,561)	(3,161)
Income on loan receivable (Note 13)	(1,776)	(1,828)
Capitalized allowance for funds used during construction	<u>(2,783)</u>	<u>(1,455)</u>
	<u>\$ 9,506</u>	<u>\$ 9,003</u>

**21. Other government assistance**

The GNWT provided \$68 (2011 - \$48) of funding to NTPC to offset costs incurred in its rate review program and a further \$100 (2011 - \$nil) to offset operating costs related to a 25 kilowatt hydro-kinetic turbine in the Mackenzie River at Fort Simpson.

Total assistance received from all sources was \$176 (2011 - \$48). Funding receivable as at March 31, 2012 is \$18 (2011 - \$48).

**22. Share capital**

	<u>Number of shares</u>	<u>2012</u>	<u>Number of shares</u>	<u>2011</u>
<b>Preferred shares</b>				
Authorized:				
One preferred share, non-cumulative, without par value				
<hr/>				
Issued and outstanding:				
1 preferred share (one dollar)	1	\$ -	1	\$ -
<hr/>				
<b>Common shares</b>				
Authorized:				
Unlimited number of voting common shares without par value				
<hr/>				
Issued and outstanding: 431,288 common shares	431,288	\$ 43,129	431,288	\$ 43,129

NTPC may only issue its preferred shares to the Government of the Northwest Territories.

NTPC declared dividends totalling \$500 (2011 - \$825) payable to NT Hydro.

**Notes to the Consolidated Financial Statements**  
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## **23. Commitments and contingencies**

### **Capital projects**

In December 2011, the Board of Directors approved a capital plan of \$22,860 (2011 - \$37,849) which includes the costs to complete projects already in progress at March 31, 2012.

### **Natural gas purchase commitment**

NTPC has an agreement to purchase natural gas to produce electricity in Inuvik. In September 2011 NT Hydro received a letter from the gas supplier, which is a partnership of IKHIL Resources Ltd., Altagas Marketing Inc. and IPL Holdings Inc., providing notice that the gas supply in the Inuvik Gas Reservoir was limited and unlikely to last to the end of the contract period. NTPC reduced its consumption of natural gas in a good faith attempt to extend the supply of gas to the residents of Inuvik so that alternative gas supplies could be pursued. For the period of January through March 2012 generation was curtailed to 10% with gas and the remainder produced by the backup diesel plant.

The Corporation also agreed to forgo its legal remedies for the partnership's inability to supply its full obligations as outlined in the agreement on the basis that the partnership agreed to not enforce the minimum purchase clause within that agreement or any damages against NTPC for not consuming gas.

### **Fuel management services agreement**

NTPC has a fuel management services agreement with the Petroleum Products Division (PPD) of the GNWT. This agreement transferred the fuel inventory and maintenance of fuel tank farms of 20 communities served by NTPC to PPD, consistent with NTPC's operational requirements. The price of fuel under this agreement changes with the change in market price, the cost of freight, the GNWT fuel tax rate and the amount of fuel purchased by NTPC from PPD in a given year.

### **Litigation**

NTPC was named as a co-defendant in a 2005 lawsuit arising out of an all-terrain vehicle accident. It is management's estimate that no significant loss to NTPC will result from this claim. In the event that the claim is not settled in favour of NTPC, NTPC has insurance which may cover all or a portion of the settlement cost.



**Notes to the Consolidated Financial Statements**  
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**Note 23. Commitments and contingencies (continued)**

**Other**

Refer to Notes 12, 13, 14 and 15 for other commitments and contingencies disclosed elsewhere in these consolidated financial statements.

**24. Related party transactions**

NTPC is a Territorial public agency and consequently is related to the GNWT and its agencies and corporations.

NTPC provides utility services to, and purchases fuel and other services from, these related parties. These transactions are in the normal course of operations and are at the same rates and terms as those with similar unrelated customers. Transactions with related parties and balances at year-end not disclosed elsewhere in these consolidated financial statements are as follows:

	<b>2012</b>	<b>2011</b>
<b>Transactions during the year:</b>		
Sale of power and other	\$ 20,197	\$ 20,488
Purchase of fuel from GNWT	16,398	14,816
Other purchases and payments	1,544	3,311
Dividend paid to NT Hydro	500	812
Fuel tax paid to GNWT	155	615
Dividend paid to GNWT	-	3,500
Deposit paid to GNWT for purchase of land and building	-	2,043
GNWT refunded deposit for purchase of land and building	2,043	-
<b>Balances at year-end:</b>		
Accounts payable to PPD	7,298	1,274
Accounts receivable	5,606	1,705
Prepaid deposit on hand for purchase of land and building	-	2,043
Dividend payable to NT Hydro	75	29
Accounts payable, accrued liabilities and derivatives	62	51

In November 2011, NTPC no longer remits Territorial fuel tax to the GNWT. It pays the tax directly to its suppliers.

**Notes to the Consolidated Financial Statements**  
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## 25. Financial instruments

### Risks – overview

The Corporation's financial instruments and the nature of risks which they may be subject to are set out in the following table:

Financial Instrument	Classification	Risks			
		Credit	Liquidity	Currency	Market risks
Interest Rate	Other price				
<b>Measured at cost or amortized cost</b>					
Accounts receivable	Loans and receivables	X			
Accounts payable	Other financial liabilities		X	X	
Long-term debt	Other financial liabilities		X		X
Net lease obligation	Other financial liabilities	X	X		X
Short-term debt	Other financial liabilities		X		X
<b>Measured at fair value</b>					
Cash	Held for trading	X			
Short-term investments	Held for trading	X		X	X

#### a) Credit risk

Credit risk is the risk that a third party or a related party will cause a financial loss for NTPC by failing to discharge its obligation. The following table sets out NTPC's maximum exposure to credit risk under a worst case scenario and does not reflect results expected by the Corporation:

	<u>2012</u>	<u>2011</u>
Sinking fund short-term investments	\$ 25,052	\$ 16,042
Snare Cascades loan receivable	18,192	18,756
Accounts receivable	18,778	14,199
Net receivable from related parties	4,402	4,817
Cash	1,155	2,563
Sinking fund fixed-income investments	-	15,838
Sinking fund equity investments	-	6,846
Receivable from NTEC(03) for Taltson studies	-	3,741
	<u>\$ 67,579</u>	<u>\$ 82,802</u>

#### *Snare Cascades loan receivable*

The credit risk for the loan receivable for the Snare Cascades hydro project was minimized by an assignment of lease payments and the security of the hydro facility itself.

#### *Accounts receivable*

NTPC minimizes accounts receivable credit risk by having a collections policy and terms and conditions of service consistent with industry standards. Credit risk is minimized by NTPC's large customer base. Thirty six percent (2011 - 35%) of NTPC's sales are to two other utilities. Eleven percent (2011 - 13%) of sales are to the GNWT, through the Territorial Power Support Program and Housing Support Program. Note 5 analyzes the age of customer accounts receivable.

**Notes to the Consolidated Financial Statements**  
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**Note 25. Financial instruments (continued)**

*Net receivable from related parties*

Net receivable from related parties is comprised of the following balances:

	<b>2012</b>		<b>2011</b>
Receivable from NT Hydro			
for transfer of investment in NTEC(03) and SEL	\$ 4,565	\$	4,565
Short-term payable to NT Hydro	(163)		(186)
Short-term receivable from NTEC(03)	-		438
	\$ 4,402	\$	4,817

Receivable from NT Hydro for transfer of investment in NTEC(03) and SEL

This balance is the receivable NTPC holds from NT Hydro for NT Hydro's investment in NTEC(03) and SEL and is due on demand and bears interest at prime less fifty basis points. The credit risk associated with this receivable is minimized by the fact that this receivable is to NTPC's parent company, which is a public agency and which in turn is owned by the Government of the Northwest Territories.

Short-term payable to NT Hydro

This balance is the receivable NTPC holds from NT Hydro for various transactions and is due on demand and bears interest at prime less fifty basis points. The credit risk associated with this receivable is minimized by the fact that this balance is receivable from NTPC's parent company, which is a public agency and which in turn is owned by the Government of the Northwest Territories.

There are no active markets for the amounts owing from related parties. NTPC has no immediate plans to demand repayment of the remaining balances.

*Cash and sinking fund investments*

NTPC minimizes the credit risk of cash and sinking fund investments by dealing with only reputable financial institutions and investing in securities that meet minimum credit ratings as stipulated by its investment policy and limiting exposure to any one security or asset class. An ongoing review is performed to evaluate changes in the status of counterparties.

b) Liquidity risk

Debt liquidity risk is managed by the use of sinking fund and amortization provisions on eight of the twelve debentures. NTPC arranges its financing in such a manner that the total amount of debt maturing in any given year does not exceed its ability to borrow in any given year. This practice gives the Corporation the maximum flexibility over the use of its cash flow such that both its existing capital

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**Note 25. Financial instruments (continued)**

expenditure program and its ability to consider any future investment opportunities will not be constrained.

Liquidity risk is also managed by continuously monitoring actual and forecast cash flows, having the opportunity to borrow on a short-term basis from the shareholder and by maintaining a \$20,000 operating line with a reputable financial institution. The operating line can be temporarily increased on a short-term basis if required.

The following table shows the maturities of the NTPC's short and long-term debt (excluding bank overdraft) as at March 31, 2012:

<u>Timeframe</u>	<u>Dollar Value</u>	
	<u>2012</u>	<u>2011</u>
Less than 1 year	\$ 35,678	\$ 16,316
Greater than 1 year and not later than 6 years	12,791	32,066
Greater than 6 years and not later than 20 years	103,484	103,557
Greater than 20 years	48,612	51,381
	<u>\$ 200,565</u>	<u>\$ 203,320</u>

## c) Currency risk

*Accounts payable*

NTPC is exposed to currency risk by purchasing supplies and property, plant and equipment in U.S. dollars. The Corporation does not hedge the risk related to fluctuations in the exchange rate between the U.S. and Canadian dollar due to the short-term and relatively small dollar value of the exposure.

## d) Interest rate risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of loans receivable, the net lease obligation, long-term debt, short-term debt, interest rate derivatives, and fixed-income investments.

NTPC's short-term debt instruments have short maturities and fixed rates, thus their fair value will fluctuate as the funds are borrowed at current market interest rates.

All of the Corporation's outstanding long-term debt is fixed rate debt and the fair value of fixed rate debt fluctuates with changes in market interest rates but absent early redemption, cash flows do not.

Similar to long-term debt, if the Corporation holds a derivative instrument in the form of an interest rate swap, the fair value fluctuates with changes in market interest rates but absent early redemption, as the fixed rate payer, cash flows do not.

## e) Other price risk

Other price risk is the risk that the fair value or future cash flows of NTPC's financial instruments will fluctuate because of changes in market prices, other than those arising from interest rate risk or



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**Note 25. Financial instruments (continued)**

currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

When NTPC holds a derivative instrument in the form of a fuel commodity swap, the fair value fluctuates with changes in market commodity prices but absent early redemption, as the fixed price payer, cash flows do not.

f) Sensitivity analysis for market risks

Market risk is the risk that the fair value or future cash flows of NTPC's financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Net income and other comprehensive income could have been different if the variables impacting the financial instrument subject to market risk had varied by reasonably possible amounts from their actual balance sheet date values.

The sensitivity analysis of Corporation's exposure to currency risk at the reporting date has been determined based upon the hypothetical change taking place at the current balance sheet date. The U.S. dollar denominated sinking fund investments as at the balance sheet date has been used in the calculations. Purchases of U.S. denominated goods throughout the year have not been included in this analysis due to the small dollar value of these purchases.

The sensitivity analysis of NTPC's exposure to interest rate risk at the reporting date has been determined based upon the hypothetical change taking place at the beginning of the fiscal year and being held constant through to the current balance sheet date. For fiscal 2011, realized gains and losses on sinking fund fixed-income sales throughout the year have been recalculated and the unrealized gains and losses at the current balance sheet date have been recalculated for comprehensive income. For fiscal 2012, all of the Corporation's gains and losses have been realized. Short-term interest expense and revenue will vary throughout the year.

The sensitivity analysis of the Corporation's exposure to other price risk arising from equity investments at the reporting date has been determined based upon the hypothetical change taking place at the current balance sheet date.

These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in an increased amount, and unfavourable hypothetical changes in the assumptions result in a decreased amount, of net income and/or other comprehensive income. Changes in net income and/or other comprehensive income generally cannot be extrapolated because the relationship of the change in assumption to the change in net income and/or other comprehensive income may not be linear.

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**Note 25. Financial instruments (continued)**

In the table, the effect of a variation in a particular assumption on the amount of net income and/or comprehensive income is calculated without change to any other assumption. In reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in more favourable foreign exchange rates as a result of the increased strength in the Canadian dollar), which might magnify or counteract the sensitivities.

	<b>Reasonable possible changes in market variables</b>					
	<b>Currency risk</b>		<b>Interest rate risk</b>		<b>Other price risk</b>	
	<b>10%</b>		<b>25 basis points</b>		<b>10%</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$25	\$ 42	\$531	\$328	\$60	\$162
Other comprehensive income	-	\$247	-	\$242	-	\$685

## g) Fair value determination

The carrying value of cash, accounts receivables, net receivable from related parties, accounts payable and accrued liabilities and short-term debt approximates their fair value due to the immediate or short-term maturity of these financial instruments.

The fair value of sinking fund investments were determined by using published price quotes. The fair value determination for long-term debt and the net lease obligation was estimated based on quoted market prices for Federal government bonds with the same or similar maturities adjusted for the credit spread at the point of issue.

As at March 31, 2012, the fair value and carrying value of NTPC's financial instruments are:

	<b>Level</b>	<b>Fair Value</b>		<b>Carrying Value</b>	
		<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Held for trading financial assets</b>					
Cash	Level 1	\$ 1,155	\$ 2,563	\$ 1,155	\$ 2,563
Short-term investments	Level 1	25,052	16,042	25,052	16,042
		\$ 26,207	\$ 18,605	\$ 26,207	\$ 18,605
<b>Available for sale financial assets</b>					
Bonds	Level 1	\$ -	\$ 15,838	\$ -	\$ 15,838
Equities	Level 1	-	6,846	-	6,846
		\$ -	\$ 22,684	\$ -	\$ 22,684
<b>Other financial liabilities</b>					
Long-term debt	Level 2	\$ 237,792	\$ 229,201	\$ 185,615	\$ 201,825
Net lease obligation	Level 2	6,024	3,472	1,812	1,652
		\$ 243,816	\$ 232,673	\$ 187,427	\$ 203,477

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**Note 25. Financial instruments (continued)**

h) Impairment

NTPC assesses the decline in the value of the individual investments for impairment to determine whether the decline is other than temporary. The Corporation makes this assessment by considering available evidence, including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the fair value has been less than cost, the financial condition and the near-term prospects of the individual investment.

As at March 31, 2012, NTPC provided an allowance for doubtful accounts of \$728 (2011 - \$361) for some of its accounts receivable accounts with amounts outstanding longer than 90 days. The Corporation does not consider any other financial instrument to be impaired (2011 - \$nil).

**26. Investments in joint ventures**

Included in NTPC's consolidated financial statements, through its subsidiary NTEC, is the shared ownership (50%) in one residual heat project in Fort McPherson. The impact of this investment is as follows:

	<u>2012</u>	<u>2011</u>
Other revenues	\$ 98	\$ 70
Operating expenses including amortization	34	45
Net income	<u>\$ 64</u>	<u>\$ 25</u>
Current assets	\$ 145	\$ 56
Non-current assets	479	504
	<u>\$ 624</u>	<u>\$ 560</u>
Current liabilities	\$ 14	\$ 13
Shareholder's equity	610	547
	<u>\$ 624</u>	<u>\$ 560</u>
Cash flows provided by operating activities	\$ 88	\$ 50
Cash flows provided by investing activities	-	-
Cash flows used in financing activities	-	(125)

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2012**  
**(\$000's)**

**27. Subsequent events**

Following are significant events occurring after March 31, 2012:

- (a) The Board of Directors approved a new long term debt issuance of \$25,000 for December 2012. The borrowing is subject to PUB approval and the terms are not yet known.
- (b) Subsequent to the year, the Corporation signed a contribution agreement with the GNWT to cover anticipated revenue shortfalls related to its General Rate Application. Contributions will be provided by the GNWT to the Corporation to mitigate the impact of rate increases on customers over a three year period. The agreement specifies maximum contributions as follows:

- 2013 - \$17,600 (including \$2,000 of foregone dividends)
- 2014 - \$11,400 (including \$2,000 of foregone dividends)
- 2015 - \$ 4,800 (including \$2,000 of foregone dividends)

**28. Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.



# In Memoriam

## JIM ROBERTSON



In 1988, Nellie Courmoyea, Inuvialuit leader and Premier of the NWT, appointed Jim Robertson as Chair of the NWT Power Corporation. Assets of the Corporation were purchased from the Northern Canada Power Commission (NCPC) and

Robertson set about creating a new corporation, with characteristic quiet resolve.

Jim recruited a blue-chip board of directors and advisors to govern the entity, and moved its headquarters from Edmonton to Hay River. He hired a management team and embarked on a goodwill tour that, in the first year, took him to some 53 power plants and communities, from Grise Fiord in today's Nunavut to Fort Liard - something never before done.

Known to everyone simply as Jim, his firm but affable leadership style earned the trust, loyalty and respect of his team.

Ever the entrepreneur, Jim was determined to return a dividend to the NWT Government every year, paying down the debt it assumed from the former NCPC, plus a return that helped pay for a new government power subsidy program.

"He was a gentleman in every sense of the word. He helped people when they needed help and he never looked for recognition," said Pierre Alvarez, Jim's successor as Corporation Chair, in a recent newspaper article about his passing.

Jim also left a legacy of community service as Inuvik's mayor for two terms and as the first president of the NWT Association of Municipalities (now Communities). His business and northern acumen opened other corporate doors, as he served on national boards, including Pacific Western Airlines and Petro Canada.

When cancer struck in 2009, Jim fought back with a predictable strength and inspiring optimism, but succumbed in April of 2012 at the age of 74. He is survived by wife Glory, and sons Ian and Bruce, and leaves behind a wide and deep following of friends across the North and Canada.

"The North had been good to him and I don't think there were many people who gave back as much as Jim Robertson did," added Alvarez.

## TIM HARRIS



Tim Harris was killed on October 5, 2011 when a flight from Yellowknife crashed near Lutsel'e.

Tim, 54, was the Powerline Manager, Hydro Region and had spent his entire career in electric utility industry in

Ontario, Nunavut and the NWT.

His affable manner and understanding of electricity systems made him a well-liked and respected employee at all levels of the organization. He was a great ambassador for NTPC who had a lot of frontline customer experience. He is survived by spouse Geraldine Hunter, children Courtney, Jessica and Jordan, and their mother, Debra Harris.

Tim is missed by all. He made a difference.

