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Chairman's Office, #206, 5102-50<sup>th</sup> Ave., Yellowknife NT X1A 1X4 Phone (867) 766-5076 Fax (867) 730-3927

May 3, 2011

The Honourable Floyd Roland  
Minister Responsible for the  
Northwest Territories Hydro Corporation  
Government of Northwest Territories  
PO Box 1320  
Yellowknife, NT  
X1A 2L9

I am pleased to submit to you the Annual Report and the consolidated financial statements of the Northwest Territories Hydro Corporation for the 2009/10 fiscal year as required by the *Financial Administration Act (FAA)*.

We thank you and your staff for the cooperation extended to us during the past fiscal year.

On behalf of the Board,

A handwritten signature in black ink, appearing to read 'B. Bell', is written over the printed name and title of the signatory.

Brendan Bell  
Chairman

Enclosure



NORTHWEST TERRITORIES  
**HYDRO**  
CORPORATION

**2009/10**

**ANNUAL REPORT**

## **Management's Discussion and Analysis**

The following Discussion and Analysis is intended to provide a historical and prospective analysis of the Corporation with 2009/10 financial performance as the primary focus. 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.

### **Our Vision**

An energy self-sufficient NWT producing minimal greenhouse gas emissions with optimum development and marketing of NWT renewable energy resources.

#### **Mandate**

To plan and develop cost-effective, safe and environmentally responsible energy projects to serve existing and new energy requirements to the benefit of the NWT.

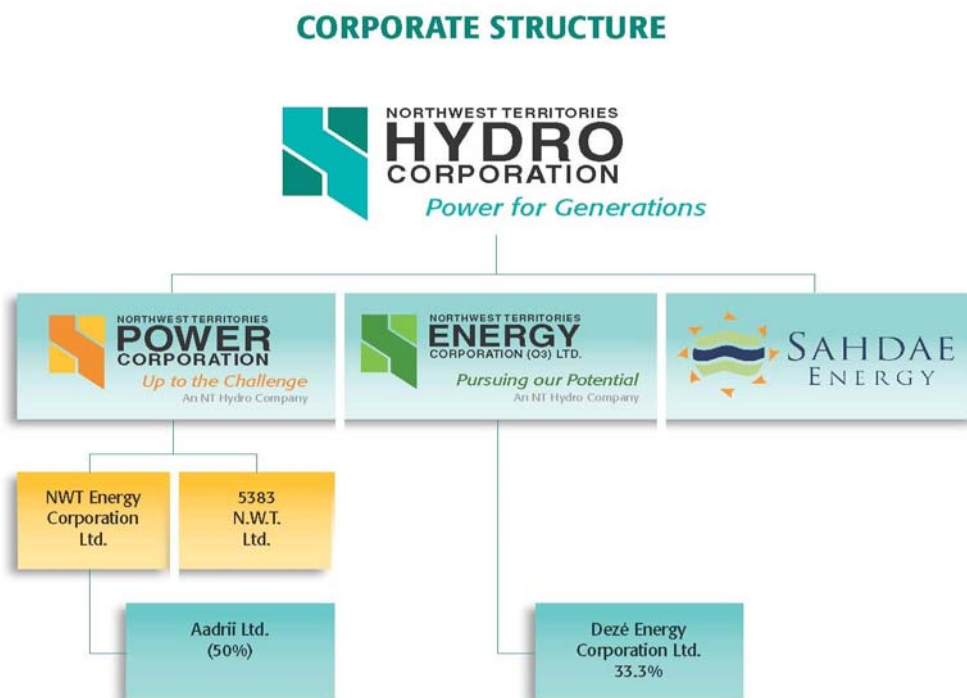
#### **Goals**

- To make a major contribution to development of new energy sources in the NWT.
- To be proactive in embracing and developing renewable energy technology.
- To provide energy on a timely and competitive basis to serve new energy demand.
- To be capable of managing and delivering large scale energy generation and related transmission projects.
- To have completed construction and started operating at least one significant hydroelectric project on time and within budget.
- To be a recognized leader in partnering on energy projects with aboriginal organizations and communities.
- To be profitable and financially strong and capable of generating wealth for the shareholder, partners, and NWT residents.
- To pursue opportunities and development that is consistent with an integrated power grid in the NWT.
- To be an exporter of energy where the benefits of such export primarily accrue to the NWT.
- To make a major contribution to the energy self-sufficiency of the NWT.
- To be a company that puts safety (public and worker), the environment and service reliability first.

## Description of NT Hydro (the Corporation) Operations

NT Hydro is a public agency, established in 2007 under the *Northwest Territories Hydro Corporation Act* and is owned 100% by the Government of the Northwest Territories (GNWT). NT Hydro owns 100% of the Northwest Territories Power Corporation (NTPC) which is also a public agency established under the *Northwest Territories Power Corporation Act*. In addition to NTPC, NT Hydro owns NWT Energy Corporation (03) Ltd. (NTEC(03)) and Sahdae Energy Ltd. (SEL) (reference Figure 1), both of which are incorporated under the *NWT Business Corporations Act*. This corporate structure has been adopted to facilitate the development of hydro on an unregulated basis while protecting the GNWT's investment in the regulated activities of NTPC.

**Figure 1 – NT Hydro Corporate Structure**



NT Hydro, through its wholly-owned subsidiary, NTPC operates hydroelectric, diesel and natural gas generation facilities on a self-sustaining basis 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).

NT Hydro is also involved in unregulated hydro development to serve industrial customers through its subsidiaries NTEC(03) and SEL. NTEC(03) is wholly-owned by NT Hydro and has two operations, the development of hydro electric business opportunities outside the regulated business and an investment in Deze Energy Corporation, which is pursuing the development of a hydroelectric project to provide power to the diamond mines. SEL is wholly-owned by NT Hydro and its mandate is to pursue a hydro development project on the Great Bear River to provide power to the potential Mackenzie Valley pipeline.

## **Strategies and Objectives for 2009/10**

NT Hydro set objectives and strategies for NTPC in 2009/10 to be efficient and effective while maintaining or improving reliability, delivering quality customer service, operating safely and protecting the environment. In addition, the Corporation continued to work with aboriginal partners to explore hydro development opportunities through NTEC(03) and Sahdae. During the next 5 -10 years, NT Hydro will focus in delineating and developing NWT's hydroelectric resources, evaluating and advancing alternative energy sources and reducing fossil fuel dependence. The shareholder set the strategic direction which encompassed the core regulated utility business as well as the development of hydro.

### **NTPC**

#### *Fully Integrated Regulated Utility*

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 2 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 insert map (reference Figure 2) illustrates the operating area of NTPC, a land area that rivals the largest province in Canada. The detailed map highlights the isolation of many of the communities that we serve – some accessible only by air, barge or winter road. The population is divided among the communities, 27 of which have a population less than 1,000, 5 communities have more than 1,000 persons and one community has a population of approximately 20,000.

Total electrical load is approximately 68 MW with isolated power systems having generating capacities ranging from 230 kW at Jean Marie River to 65 MW at Snare/Yellowknife with the exception of the two small hydro grids these systems are isolated and unconnected, each must be planned for and operated independently.

### **Figure 2 – NTPC Operating Area**



### *Environment and Safety*

NTPC continues to deliver services in an environmentally responsible manner. In 2009/10, NTPC had 15 hazardous material spills (2008/09 – 14). The total volume spilled decreased from 9,029 litres in 2008/09 to 1,435 liters in 2009/10. All spills were contained and cleaned up to the satisfaction of the regulators with no further action required on behalf of NTPC.

NTPC's five year accident severity rate decreased from 13.92 lost time days per 200,000 hours in 2008/09 to 10.98 in 2009/10. 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. NTPC'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. Reliability in most communities was on par or better than prior year. Overall reliability improved when compared to the prior year despite transportation challenges, accessibility constraints and ancillary events that negatively impacted efforts to restore power. NTPC worked closely with customers to minimize impacts and prevent third party damages. For the average customer the lights were on 99.96% (99.94% in 2008/09) of the time and when the lights did go out, the average time to restore power was 28 minutes compared to the 48 minutes it took to restore power in 2008/09.

NTPC is also concerned about providing high quality customer service, education and communication. These areas are crucial when assisting customers and delivering the

service our customers want and deserve. Helping customers understand their electricity bill, how they use energy and what they can do to reduce their usage were the key areas of focus in 2009/10. We introduced a power monitor lending program in 2008/09, which was continued throughout 2009/10. This program responded to many customers, particularly in thermal generation communities, by installing monitors to help them identify when and where they are using electricity. This program, along with energy conservation tips has helped our customers manage their energy use. NTPC will continue to focus on providing highly reliable services to our customers; communicate on a timely basis on matters of importance to our customers; and work with customers in an effort to assist them to lower their power bills.

### *Cost Effective Energy*

When it comes to generation source, renewable hydroelectricity represents by far the greatest source of power for NWT customers. In 2009/10 hydro power held steady at 74% of the total power generated. Although more expensive than hydro, diesel generation remains the most cost effective way to provide safe reliable power to small communities with no access to an electricity grid. NTPC has fuel stabilization funds that track the difference between forecast fuel cost used for rate setting purposes and the actual fuel cost when the power is generated. Currently fuel riders are in place in all communities to recover fuel cost paid by NTPC but not yet recovered from customers.

Yellowknife is served by hydro generation and rates are based on average water. Water stabilization funds and fuel stabilization funds were established in 1997.

Although riders were in place for part of the 2009/10 year, NTPC continued to work with the GNWT and the PUB to implement the recommendations from the GNWT's report: Efficient, Affordable and Equitable: Creating a Brighter Future for the Northwest Territories' Electricity System. In 2010/11, fuel and water riders will be discontinued, thermal community rates will be lowered and hydro community rates will be held constant. The GNWT committed to paying down our stabilization funds by \$3 million in 2010/11 and another \$3 million in 2011/12.

Over the next year, work will continue on finding ways of lowering costs by making administrative and operating systems more efficient and through possible synergies with others involved in the NWT energy sector.

### *Profitability, financial strength and sound business practices*

The Corporation's return on equity for its regulated subsidiary NTPC for 2009/10 was 6% (2008/09 - 7.3%). The target return on regulated equity approved by the Public Utilities Board (PUB) was 9.25%. In addition to profitability, the NTPC set a number of performance measures designed to measure differing aspects of corporate performance. In 2009/10 performance targets were set for system reliability, efficiency, safety, human resource retention and financial results. The 2009/10 Objectives and Strategies were set to maximize performance in each category. NTPC will be updating its performance measures in 2010/11 and will report on the new measures in the next period annual report.

Performance Measure	Long Term Target	2010/11 Expected Results	2009/10 Actual Results
Long-term Debt/Equity - NTPC	50/50	55/45	57/43
Long-term Debt/Equity – NT Hydro	50/50	57/43	59/41
Plant Efficiency	3.60	3.58	3.54
Operating Cost per kWh generated	17 -19 cents/kWh	20.6 cents/kWh	20.3 cents/kWh
Safety – Average lost workdays per 200,000 hrs worked – last 5 years	0	3.0	10.98
System Availability	99.99%	99.96%	99.96%
Net Staff Turnover	9.0%	6.25%	4.23%

### *Meeting our workforce needs*

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 staffing from outside of North America to try to address these needs.

### **NTEC(03)**

#### *Taltson Hydro Expansion*

NTEC(03) is actively working with its partners the Akaitcho Energy Corporation and the Métis Energy Company Ltd., through the Deze Energy Corporation (Deze), to pursue the expansion of the existing Taltson hydro system in order to transmit and sell power to the diamond mines in the Northwest Territories. Taltson hydro is an 18 MW hydro plant located on the Taltson River approximately 56 km north-east of Fort Smith. It was built by the Northern Canada Power Commission in 1965 to supply electricity to the Pine Point mine and now supplies power to the communities of Fort Smith, Fort Resolution, Hay River and Fort Fitzgerald.

The proposed Taltson hydroelectric expansion project will add a new power plant and transmission line to the existing Twin Gorges power plant on the Taltson River. The project will benefit northern communities, industry and the environment during its estimated 40-year lifespan. As a business venture between Aboriginal nations and a Crown corporation, the Taltson expansion will bring new jobs, training and business opportunities to the South Slave region of the NWT. The lifestyle, values and traditions of local communities are reflected in the project's ownership and design.



This project will provide a clean, renewable source of electricity for industrial customers in the North, and will greatly reduce greenhouse gas emissions from diesel fuel. The hydroelectricity produced by the project will take the place of up to 100 million litres of diesel fuel used every year by the diamond mines, and dramatically reduce the amount of truck traffic transporting fuel over northern roads. The new power plant will generate up to 56 megawatts of electricity and approximately 700 km of transmission line will be built to transport the energy. The estimated cost of expanding the site and building transmission lines to the diamond mines is over \$300 million.

The expansion project is now well into the environmental assessment/permitting stage of development and continues to receive the support of the Government of the Northwest Territories. A series of community consultation meetings were completed in 2008/09 to increase the understanding and support of the local residents for the project. Efforts will continue in this area as the project progresses to construction.

### **Sahdae Energy**

#### *Great Bear Hydro*

NT Hydro, through its subsidiary SEL, continues to observe the regulatory review of the Mackenzie Valley Pipeline project and awaits a decision from the regulator indicating whether the proponents of the project will be required to design and build the system with the potential to power the pipeline with hydro. Consultation and project education will be the focus over the next year and beyond, to solidify support for this world-class project that has potential to create significant benefits for the region and the North.

### **NT Hydro (parent)**

#### *Energy Planning and Renewable Energy*

NT Hydro is working with the GNWT to explore mini hydro projects and wind power as additional methods to reduce diesel generation.

NT Hydro also put out a call for proposals for the private sector to develop a demonstration wind project in the NWT. A long lead time was purposely incorporated into the proposal call to allow prospective respondents to put together a plan and develop partnerships for this project. The response to the proposal call was limited and as a result, NT Hydro will shift its focus to support third party wind projects through interconnection and purchase of wind power.

## **Financial Results**

### **Operations**

Net income for 2009/10 is \$5.3 million compared to 2008/09 of \$5.8 million. Interruptions in the supply of hydro power to a wholesale customer and a general decline in wholesale sales due in part to the economic slowdown resulted in lower sales revenue. There were no offsetting reductions in expenses due to the low operational costs of hydro power and as a result, net income was negatively impacted.

The Corporation recorded electricity sales of \$81.5 million in 2009/10, down marginally from 2008/09. By category, sales were lower to wholesale customers but up for both residential and general service. Sales growth was not sufficient to offset inflationary increases in expenses. As well, other revenues were down slightly from prior year resulting in an overall decrease in revenue of approximately \$1 million.

Operating expenses (net of government assistance for hydro projects) for 2009/10 were \$69.0 million compared to \$67.4 million for 2008/09 (2.3%). This is in line with growth in expenses for the past 2 years however with marginal declines in sales revenue, net income was negatively affected by the increase in expenses.

Strong performance in our sinking funds resulted in a decrease in our net interest expense of approximately \$2.1 million from 2008/09 to 2009/10

### **Financing Activities**

Throughout 2009/10 and prior 2 years, the Corporation funded most of its capital program and regulatory costs with short term debt. As such, the Corporation has issued \$50 million in new debt in 2010/11 to convert its short term debt to long term debt and to finance its capital program.

### **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. In 2009/10 the Corporation's capital program was higher than the previous year (approximately \$21.7 million versus \$15.2 million). The majority of projects were to maintain or improve reliability. The Corporation will continue to increase capital expenditures for 2010/11 and will include the largest capital project undertaken to date by the Corporation – replacement of the Bluefish hydro dam.

The Bluefish dam expenditures in 2009/10 were related to the completion of the regulatory process, engineering design. The 2010/11 expenditures will relate to mobilization of equipment and materials for the upcoming construction season. The new dam will be located downstream from the existing dam and will be constructed while the current dam continues to operate and provide hydro power to the Yellowknife area. NTPC will assign all resources necessary to meet an aggressive timeline for the replacement of the Bluefish hydro dam which is approximately 70 years old and has reached the end of its useful life.

## **Outlook for 2010/11**

In response to its review of regulation, rates and subsidies, the Government of the Northwest Territories issued its Electricity Rate Policy Guidelines. In response to these guidelines, the Corporation will file for PUB approval an application to implement these guidelines in 2010/11. The guidelines will reduce rates for customers by creating 7 rate zones across the Northwest Territories and territorial wide fuel and water stabilization funds. The leadership of this Corporation has provided input into this process and will

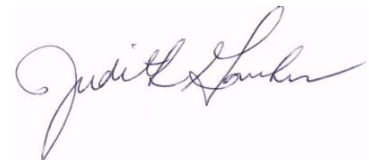
continue to cooperate with the government to support its vision for future public policy as it relates to the energy sector.

The Corporation is expecting sales of electricity to marginally increase next year. The new rate structure will reduce revenue by approximately \$1 million which we expect to be offset by a light increases in sales volumes. Although the economy in other parts of Canada is showing signs of recovery, the Corporation is not expecting significant relief in the cost of labour, materials, equipment or supplies. We face the challenge of attracting and retaining skilled labour, and transportation costs continue to place upward pressure on commodities resulting in expenses that are outpacing inflation.

In 2010/11 the Corporation will continue with its work in readiness for implementation of International Financial Reporting Standards (IFRS). The accounting regulatory bodies recently approved a one year deferral to implement the IFRS for all entities in Canada that have rate-regulated operations. The Corporation's first set of IFRS financial statements will be in the 2012/13 year. This project will require significant internal and external resources and are aimed at improving resource allocation, customer service and business opportunity response.

Safety and environment will continue to be emphasized in fiscal 2010/11. We will work to achieve results in line with our best years to date, demonstrating our commitment to safeguard the public, our employees and the environment.

Hydro development will be a significant focus for the Corporation in 2010/11. The Taltson expansion project will continue to be a priority for NTEC(03) and its aboriginal partners with most of the activity aimed at completing the regulatory process.



Judith Goucher  
Director, Finance and CFO

**NORTHWEST TERRITORIES HYDRO CORPORATION  
CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2010**

# NORTHWEST TERRITORIES HYDRO 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 Hydro Corporation (NT Hydro) 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.

NT Hydro 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 NT Hydro's objectives, are protected from loss or unauthorized use and that NT Hydro acts in accordance with the laws of the Northwest Territories and Canada. Management recognizes its responsibility for conducting NT Hydro'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 her opinion on the consolidated financial statements. She also considers whether the transactions that come to her 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.



**David Axford**  
President & CEO



**Judith Goucher**  
Director, Finance & CFO

Hay River, NT  
February 18, 2011



## AUDITOR'S REPORT

To the Minister responsible for the Northwest Territories Hydro Corporation

I have audited the consolidated balance sheet of the Northwest Territories Hydro Corporation as at March 31, 2010 and the consolidated statements of operations, comprehensive income, shareholder's equity and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act* of the Northwest Territories, I report that, in my opinion, these 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 Corporation and its wholly-owned subsidiaries and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Corporation and of 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 Hydro Corporation Act*, the *Public Utilities Act* and the by-laws of the Corporation and its wholly-owned subsidiaries, with the exception that the Corporation did not meet its statutory deadline for submitting its annual report to its Minister as described in the following paragraph.

Section 100 of the *Financial Administration Act* of the Northwest Territories requires the Corporation to submit its annual report to its Minister not later than 90 days after the end of its financial year, or an additional period, not exceeding 60 days, that the Minister of Finance may allow. The Corporation did not meet its statutory deadline for the year ended March 31, 2010.

Sheila Fraser, FCA  
Auditor General of Canada

Vancouver, Canada  
February 18, 2011

# NORTHWEST TERRITORIES HYDRO CORPORATION

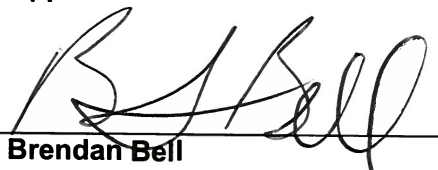
## Consolidated Balance Sheet As at March 31 (\$000's)


	2010	2009
<b>Assets</b>		
Current assets		
Cash	\$ 1,694	\$ 5,327
Accounts receivable (Note 6)	16,632	21,737
Inventories (Note 7)	4,148	3,977
Prepaid expenses	700	649
	<u>23,174</u>	<u>31,690</u>
Property, plant and equipment, net (Note 8)	289,469	272,686
Other non-current assets		
Sinking fund investments (Notes 9, 14)	34,368	27,954
Intangible assets (Note 10)	1,457	1,693
Regulatory assets (Note 4)	20,530	22,306
	<u>56,355</u>	<u>51,953</u>
	<u>\$ 368,998</u>	<u>\$ 356,329</u>
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities		
Short-term debt (Note 11)	\$ 38,639	\$ 29,357
Accounts payable, accrued liabilities and derivatives (Note 12)	17,281	20,826
Dividend payable (Note 13)	3,500	3,500
Current portion of long-term debt (Note 14)	1,255	1,202
	<u>60,675</u>	<u>54,885</u>
Long-term debt		
Long-term debt, net of sinking fund investments (Note 14)	117,633	125,180
Sinking fund investments presented as assets (Note 9)	34,368	27,954
Net lease obligation (Note 15)	1,652	1,540
	<u>153,653</u>	<u>154,674</u>
Other non-current liabilities		
Regulatory liabilities (Note 4)	36,073	35,420
Deferred government contributions (Note 16)	9,721	6,630
Asset retirement obligations (Note 17)	4,355	4,330
Environmental liabilities (Note 18)	3,233	3,240
Employee future benefits (Note 19)	3,223	2,905
	<u>56,605</u>	<u>52,525</u>
Shareholder's equity	98,065	94,245
	<u>\$ 368,998</u>	<u>\$ 356,329</u>

Commitments and contingencies (Note 26)

*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

# NORTHWEST TERRITORIES HYDRO CORPORATION

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

	<u>2010</u>	<u>2009</u>
<b>Revenues</b>		
Sale of power	\$ 81,535	\$ 82,016
Other revenues (Note 20)	1,355	1,235
General Rate Application shortfall	-	715
	<u>82,890</u>	<u>83,966</u>
<b>Expenses</b>		
Salaries and wages	20,279	19,222
Fuels and lubricants	19,054	19,598
Supplies and services	15,291	13,441
Amortization (Note 21)	14,146	13,304
Travel and accommodation	2,185	2,635
	<u>70,955</u>	<u>68,200</u>
Earnings from operations	11,935	15,766
Insurance proceeds (Note 22)	1,296	-
Insurance expenses (Note 22)	1,296	-
	-	-
Interest income	<u>289</u>	<u>197</u>
Earnings before interest expense	12,224	15,963
Interest expense (Note 23)	<u>8,858</u>	<u>10,959</u>
<b>Income before fuel rider and government assistance</b>	<b>3,366</b>	<b>5,004</b>
Fuel rider revenues (Note 4)	4,918	2,684
Offsetting fuel rider expenses (Note 4)	4,881	2,647
	<u>37</u>	<u>37</u>
Government assistance (Note 24)	1,870	776
<b>Net income</b>	<b><u>\$ 5,273</u></b>	<b><u>\$ 5,817</u></b>

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



# NORTHWEST TERRITORIES HYDRO CORPORATION

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

	<u>2010</u>	<u>2009</u>
<b>Net income</b>	\$ 5,273	\$ 5,817
<b>Other comprehensive income</b>		
Reclassification adjustment for gains included in net income	(495)	(1,019)
Unrealized gains (losses) on available-for-sale financial assets arising during the year	<u>2,542</u>	<u>(804)</u>
Other comprehensive income (loss)	<u>2,047</u>	<u>(1,823)</u>
<b>Comprehensive income</b>	<u>\$ 7,320</u>	<u>\$ 3,994</u>

*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)

	<u>2010</u>	<u>2009</u>
<b>Share capital (Note 25)</b>	\$ 43,129	\$ 43,129
<b>Retained earnings</b>		
Retained earnings at beginning of year	52,241	49,924
Net income	5,273	5,817
Dividend declared (Note 13)	<u>(3,500)</u>	<u>(3,500)</u>
<b>Retained earnings at end of year</b>	<u>\$ 54,014</u>	<u>\$ 52,241</u>
<b>Accumulated other comprehensive income</b>		
Accumulated other comprehensive (loss) income at beginning of year	\$ (1,125)	\$ 698
Other comprehensive income (loss)	<u>2,047</u>	<u>(1,823)</u>
<b>Accumulated other comprehensive income (loss) at end of year</b>	<u>\$ 922</u>	<u>\$ (1,125)</u>
<b>Shareholder's equity at end of year</b>	<u>\$ 98,065</u>	<u>\$ 94,245</u>

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

# NORTHWEST TERRITORIES HYDRO CORPORATION

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

	<u>2010</u>	<u>2009</u>
<b>Operating activities:</b>		
Cash receipts from customers	\$ 94,040	\$ 93,976
Government assistance	1,887	776
Cash paid to suppliers and employees	(68,818)	(79,901)
Interest received	289	197
Interest paid	(10,728)	(11,417)
Cash flows provided by operating activities	<u>16,670</u>	<u>3,631</u>
<b>Investing activities:</b>		
Property, plant and equipment constructed or purchased	(24,355)	(18,963)
Proceeds from insurance	-	540
Cash flows used in investing activities	<u>(24,355)</u>	<u>(18,423)</u>
<b>Financing activities:</b>		
Net proceeds (repayments) from short-term debt	9,282	(3,563)
Dividend paid (Note 13)	(3,500)	(3,500)
Government contributions (Note 16)	3,225	3,855
Sinking fund instalments	(3,872)	(1,810)
Repayment of long-term debt	(1,195)	(21,153)
Receipts from net lease obligation	112	15
Proceeds from long-term debt	-	25,000
Proceeds from sinking fund redemption	-	20,577
Cash flows provided by financing activities	<u>4,052</u>	<u>19,421</u>
<b>Net (decrease) increase in cash</b>	<b>(3,633)</b>	<b>4,629</b>
<b>Cash at beginning of year</b>	<b><u>5,327</u></b>	<b><u>698</u></b>
<b>Cash at end of year</b>	<b><u>\$ 1,694</u></b>	<b><u>\$ 5,327</u></b>

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

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### 1. Authority and operation

The Northwest Territories Hydro Corporation (NT Hydro) is established under the *Northwest Territories Hydro Corporation Act*. NT Hydro is a public agency under Schedule B of the *Financial Administration Act* of the Northwest Territories and is exempt from income tax. The Government of the Northwest Territories (GNWT) owns all shares of NT Hydro. NT Hydro controls three wholly-owned subsidiary companies: the Northwest Territories Power Corporation (NTPC), the Northwest Territories Energy Corporation (03) Ltd. (NTEC(03)) and Sahdae Energy Ltd. (SEL).

NT Hydro, through its wholly-owned subsidiary NTPC, operates hydroelectric, diesel and natural gas generation facilities on a self-sustaining basis to provide utility services in the Northwest Territories. NTPC is a regulated company, established under the *Northwest Territories Power Corporation Act* and 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. NTEC is also responsible for the operation, management and shared ownership (50%) in one residual heat project in Fort McPherson. See additional disclosure in Note 30. 5383 NWT Ltd. is an inactive company.

NT Hydro is also involved in unregulated hydro development to serve industrial customers through its subsidiaries NTEC(03) and SEL. NTEC(03) is wholly-owned by NT Hydro and has two operations, the development of hydroelectric business opportunities outside the regulated business and an investment in Dezè Energy Corporation, which is pursuing the development of a hydroelectric project to provide power to diamond mines. Sahdae is wholly-owned by NT Hydro and its mandate is to pursue a hydro development project on the Great Bear River to provide power to the potential Mackenzie Valley gas pipeline.

### Consolidation

The consolidated financial statements include the accounts of NT Hydro and its wholly-owned subsidiaries: NTPC, NTEC(03), SEL, as well as NTPC's wholly-owned subsidiaries: NTEC and 5383 NWT Ltd. NT Hydro 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. Correction of prior period disclosure error

It was determined during the year that there was an error in the disclosure of the impact on net income from the rate regulated accounting for normalized overhaul costs. In prior years, the Corporation did not segregate the major overhauls from minor overhauls in the regulatory account as the PUB-approved amortization is based upon both types. As a result, the note disclosure in the fiscal 2009 financial statements overstated the impact rate regulation had on net income. The comparative normalized overhaul costs information for fiscal 2009 has been restated to reflect the capitalization and amortization of major overhauls.

**Note 2. Correction of prior period disclosure error (continued)**

The impact of the retrospective correction of this prior period error in the note disclosure on the financial statement effects of rate regulation is to decrease the previously disclosed normalized overhaul costs amount by \$1,997 and also decrease the previously disclosed net increase in net income due to rate regulation by the same amount. There was no impact on the balance sheet, statement of operations, net income or the opening shareholders' equity as a result of this correction.

**3. Accounting policies and future accounting changes**

**(a) Accounting Policies**

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

**Rate regulation**

NTPC is currently the only NT Hydro subsidiary that undertakes activities regulated by the Public Utilities Board (PUB) of the Northwest Territories.

NTPC is regulated by the PUB 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.

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 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 fiscal 2008. 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.

**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.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 3. 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 the accumulated amortization with no gain or losses reflected in operations. Gains or losses arising from exceptional circumstances are included in earnings.

NT Hydro 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 4). 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 4.

Amortization rates are as follows:

	<u>%</u>
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

**Note 3. 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%.

**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**

Employees participate in the Public Service Pension Plan (the Plan) administered by the Government of Canada. Employer contributions to the Plan are expressed as a factor of employees' contributions. The factor may fluctuate from year to year depending on the experience of the Plan. Employer contributions are charged to operations on a current basis and represent the total pension obligations. There is no requirement to make contributions with respect to actuarial deficiencies of the Plan.

**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, NT Hydro 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 NT Hydro's credit-adjusted risk-free rate.

The fair value of the estimated asset retirement obligations are recorded as a liability under other non-current liabilities with an offsetting asset capitalized and included as part of property, plant and equipment. The liability for asset retirement obligations is increased annually for the passage of time by calculating accretion (interest) on the liability using NT Hydro's credit-adjusted risk-free rate. The offsetting capitalized asset retirement costs are amortized over the estimated useful life of the related asset.

NT Hydro has identified some asset retirement obligations for its hydro, thermal transmission and distribution assets where NT Hydro 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.

**Note 3. Accounting policies and future accounting changes continued**

**Environmental liabilities**

Environmental liabilities consist of the estimated costs related to the management and remediation of environmentally contaminated sites. NT Hydro 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. NT Hydro 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 capital contribution. Some of the contributions stemming from contribution agreements with the GNWT are repayable to the GNWT when the property, plant and equipment go into service. Contributions stemming from contribution agreements with the Federal Government are not repayable and are amortized into income on the same basis as the amortization of the related property, plant and equipment. All other contributions are recognized as revenue in the year the contributions are spent.

**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 significantly from these estimates. Significant estimates include amortization of 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 4.

**Financial instruments**

The financial instruments of the Corporation include financial assets classified as held for trading, available-for-sale, loans and receivables or held-to-maturity and financial liabilities classified as held for trading or 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. NT Hydro classifies cash, short-term debt, derivatives and embedded derivatives as held for trading. These items are recorded at their fair value with gains and losses recorded in interest expense.

*Available-for-sale*

Assets that are not actively traded, but may still be sold as a result of changes in market conditions or for liquidity purposes are classified as available-for-sale. NT Hydro classifies its equity investments as well as its fixed-income investments, other than immunized investments, as available-for-sale. These assets are recorded at fair value with any unrealized gains and losses recorded in other

## NORTHWEST TERRITORIES HYDRO CORPORATION

### Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

#### Note 3. Accounting policies and future accounting changes continued

comprehensive income. As gains and losses are realized they are recorded in sinking fund income offset against interest expense (refer to Note 23).

##### *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. NT Hydro classifies its accounts receivable 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.

##### *Held-to-maturity*

Held-to-maturity investments are non-derivative financial assets, other than those assets that meet the definition of loans and receivables, with fixed or determinable payments and a fixed maturity, which an entity has the positive intention and ability to hold to maturity. NT Hydro classifies its immunized investments as held-to-maturity. These assets are recorded at amortized cost using the effective interest rate method. As gains and losses are realized, they are recorded in interest income.

##### *Other financial liabilities*

NT Hydro classifies its long-term debt and accounts payable 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, their carrying value approximates their fair value.

##### *Other policy decisions:*

NT Hydro 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.

##### *Hedging relationships and derivative financial instruments*

NT Hydro may enter into interest rate and commodity swaps to reduce its exposure to fluctuations in interest rates and commodity prices. NT Hydro does not enter into any derivative financial instruments for speculative purposes. As NT Hydro does not account for these contracts using hedge accounting, these instruments are measured at fair value with changes in fair value recognized under rate regulated accounting in the rate stabilization funds described in Note 4. The fair value of these instruments is included in Accounts payable, accrued liabilities and derivatives.

#### **Adoption of new accounting standards**

##### *Financial instruments*

In June 2009, the Canadian Institute of Chartered Accountants (CICA) amended Handbook section 3862, "Financial Instruments – Disclosures". The purpose of the amendments is to enhance disclosure on fair value measurements and liquidity risk related to financial instruments.



**Note 3. Accounting policies and future accounting changes continued**

All financial instruments measured at fair value must be classified in fair value hierarchy levels, which are as follows:

- Level 1 – Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable.
- Level 3 – Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

Liquidity risk disclosure was also enhanced with the inclusion of a maturity analysis for derivative and non-derivative financial liabilities.

The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. NT Hydro adopted these new standards beginning in fiscal 2010. To provide relief for financial statement preparers, the CICA decided that comparative information for the new disclosures was not required in the first year of application.

As the amendments only concern disclosure requirements, they do not have an impact on the results of operations or the financial position of NT Hydro. The required disclosures are included in Note 28.

*Goodwill and intangible assets*

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets" which provides guidance on the recognition, measurement, presentation, and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Section 3064 also provides specific guidance on the recognition criteria when intangible assets are developed internally. This section became effective for NT Hydro beginning with fiscal 2010. The adoption of this standard resulted in the reclassification of software from property, plant and equipment to intangible assets. The impact of this reclassification consisted of an increase in the net carrying amount of intangible assets and a corresponding decrease in property, plant and equipment of \$1,457 as at March 31, 2010 (2009 - \$1,693). (See Notes 8 and 10).

**(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 July 2010 the AcSB proposed (and subsequently approved) a one year implementation deferral for rate-regulated entities. As such, NT Hydro will be required to issue its first IFRS financial statements in its fiscal year ending March 31, 2013 with comparative figures for the year ending March 31, 2012.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 3. Accounting policies and future accounting changes continued

NT Hydro'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.

### 4. Financial statement effects of rate regulation

NTPC is currently the only NT Hydro subsidiary undertaking activities that are regulated by the PUB. 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>2010</u>	<u>2009</u>	<u>Remaining recovery period</u>
Rate stabilization funds	\$ 10,131	\$ 13,153	Determined by PUB
Regulated employee future benefits	3,602	3,164	Determined by PUB
Reserve for injuries and damages	2,590	2,547	Determined by PUB
Normalized overhaul costs	1,889	611	Determined by PUB
Water licensing deferral account	1,083	949	Determined by PUB
Regulatory costs	916	1,434	Determined by PUB
Other regulatory assets	317	200	Determined by PUB
Snare Cascades deferral account	2	248	Determined by PUB
	<u>\$ 20,530</u>	<u>\$ 22,306</u>	

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 4. Financial statement effects of rate regulation (continued)

The total net (decrease) increase to net income resulting from rate regulation is as follows:

	2010	2009 (Restated - Note 2)
Rate stabilization funds	\$ (3,022)	\$ 5,765
Regulated employee future benefits	438	841
Reserve for injuries and damages	41	(482)
Normalized overhaul costs	(510)	(419)
Water licensing deferral account	134	245
Regulatory costs	(518)	(234)
Other regulatory assets	117	63
Snare Cascades deferral account	(246)	(222)
Reserve for future removal and site restoration	(576)	(264)
Deferred revenues	(77)	(137)
Equity component of AFUDC	804	352
Capitalized fuel	(39)	2,500
Net (decrease) increase in net income due to rate regulation	<u>\$ (3,454)</u>	<u>\$ 8,008</u>

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

### 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 2010 fuel expenses were deferred and consequently lower due to the differences in fuel prices of \$1,394 (2009 - \$7,980) and lower due to the volume of available water generation of \$314 (2009 - higher by \$616) The decrease to the balance of the stabilization fund accounts as a result of the change in the value of the fuel derivative was \$255 (2009 - increase to the accounts of \$3,253). The net interest revenues accrued on the balance of the funds also decreased interest expense by \$160 (2009 - \$308). In fiscal 2009 \$179 of insurance proceeds were applied against the Inuvik fuel stabilization fund account as a result of settling an insurance claim and the implementation of PUB Decision 27-2008 reclassified \$2,556 of

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

### **Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)**

#### **Note 4. Financial statement effects of rate regulation (continued)**

fuel expense from the opening balances of the Yellowknife water and diesel stabilization fund accounts to property, plant and equipment.

There were four fuel stabilization fund rate riders in effect in fiscal 2010 (2009 - four). These riders collected revenues related to fuel expenses deferred in prior years. In fiscal 2010 these riders resulted in collections of \$4,635 (2009 - \$2,425) and were reported as fuel rider revenues with an offsetting and equal charge to fuel expense. The net effect of rate regulation on net income was a decrease of \$3,022 (2009 - increase of \$5,765).

#### **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 19). 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 \$438 (2009 - \$841).

#### **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 NTPC 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 2010 actual costs deferred to this account totalled \$439 (2009 - \$188). 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 \$231 (2009 - \$482).

#### **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 expenses 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 \$835 (2009 - \$853) and annual amortization expense would increase by \$356 (2009 - \$257) as a result of an increase in the balance of property, plant and equipment of \$2,136 (2009 - \$2,418). 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 2010 actual costs deferred to this account totalled \$2,971 (2009 - \$3,271). The net effect of rate regulation on net income was a decrease of \$510 (2009 - \$419 - Restated - Note 2).

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

### **Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)**

#### **Note 4. Financial statement effects of rate regulation continued**

##### **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 2010 totalled \$271 (2009 - \$382). In the absence of rate regulation, GAAP would require that the cost of these 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 \$134 (2009 - \$245).

##### **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 2010 actual costs deferred to this account totalled \$82 (2009 - \$366). The net effect of rate regulation on net income was a decrease of \$518 (2009 - \$234).

##### **Other regulatory assets**

Other regulatory assets include costs incurred for intangible assets 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 \$153 (2009 - \$136) and annual amortization expense would decrease by \$36 (2009 - \$73). The net effect of rate regulation on net income was an increase of \$117 (2009 - \$63).

##### **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 2010 of \$283 (2009 - \$259) less an annual return earned on the balance in the account equal to \$37 (2009 - \$37), are 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 \$246 (2009 - \$222).

**NORTHWEST TERRITORIES HYDRO CORPORATION**

**Notes to the Consolidated Financial Statements  
For the year ended March 31, 2010  
(\$000's)**

**Note 4. Financial statement effects of rate regulation continued**

**Fuel rider revenues**

Rider revenues with an associated fuel expense:

	2010		2009	
	Rider Revenues	Associated fuel expense	Rider revenues	Associated fuel expense
Rate stabilization funds	\$ 4,635	\$ 4,635	\$ 2,425	\$ 2,425
Snare Cascades deferral account	283	246	259	222
	<u>\$ 4,918</u>	<u>\$ 4,881</u>	<u>\$ 2,684</u>	<u>\$ 2,647</u>

*Regulatory liabilities*

	2010	2009	Remaining settlement period
Reserve for future removal and site restoration	\$ 32,198	\$ 31,622	Determined by PUB
Deferred revenues	3,875	3,798	Determined by PUB
	<u>\$ 36,073</u>	<u>\$ 35,420</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 plant, property and equipment of those asset categories:

	%
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 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 2010 expenses would have been \$1,188

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

### **Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)**

#### **Note 4. Financial statement effects of rate regulation continued**

(2009 - \$1,534) higher by the amount of the removal and site restoration costs deferred. Amortization expenses were \$1,782 (2009 - \$1,731) 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 17) and environmental liabilities (Note 18) 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 \$18 (2009 - increase of \$67). The net effect of rate regulation on net income is a decrease of \$576 (2009 - \$264).

#### **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 (Note 8). 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 3 under Amortization. In fiscal 2010 revenues were \$512 (2009 - \$3,381) lower than they would have been and amortization on property, plant, and equipment was \$435 (2009 - \$3,244) 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 \$77 (2009 - \$137).

#### **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 and amortized over the expected life of the remaining pool of similar assets. 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 would require that 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 23). Due to the 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 2010 approximately \$804 (2009 - \$352) was capitalized as the return on equity component of the capitalized AFUDC based on NTPC's most recent PUB-approved cost of capital structure.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 4. Financial statement effects of rate regulation continued

#### Capitalized fuel

As per PUB Decision 27-2008, NT Hydro 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 2010 in association with this project. Therefore fuel expense in fiscal 2010 was the same as (2009 - \$2,556 lower than) it would have been in absence of rate regulation. Amortization expense was \$39 (2009 - \$56) 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 (2009 - increase of \$2,500).

#### 5. Capital management

NT Hydro's capital structure as at March 31, 2010 and March 31, 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Long-term debt	\$ 154,624	\$ 155,825
Less: Sinking funds	34,368	27,954
Less: Unamortized premium, discount and issuance costs	1,368	1,489
Net long-term debt	<u>118,888</u>	<u>126,382</u>
Short-term debt not used to fund regulatory assets and receivables	18,639	-
Net lease obligation	1,652	1,540
Shareholder's equity	98,065	94,245
Less (addback): AOCI	922	(1,125)
Adjusted shareholder's equity	<u>97,143</u>	<u>95,370</u>
Total capital	<u>\$ 236,322</u>	<u>\$ 223,292</u>

NT Hydro'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. Short-term debt not used to fund regulatory assets and receivables is included in fiscal 2010 as the balance is a positive number. In prior years short-term debt was used mainly to finance regulatory assets and receivables and therefore was not included in the capital structure as it was a regulatory financing item. 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 *NWT Power Corporation Act*. The amount of NT Hydro debt is also subject to the federally imposed borrowing cap on total GNWT debt of \$500,000 under which the Corporation is required to comply. Both NT Hydro and NTPC comply with these external restrictions on their debt limits.

NT Hydro'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 *NWT 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 2010 is 59/41 (2009 - 57/43).



**NORTHWEST TERRITORIES HYDRO CORPORATION**

**Notes to the Consolidated Financial Statements  
For the year ended March 31, 2010  
(\$000's)**

**Note 5. Capital management continued**

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.

**6. Accounts receivable**

The aging of accounts receivable was:

	<b>2010</b>				<b>2009</b>
	<b>Current (less than 28 days)</b>	<b>29-90 days</b>	<b>Over 90 days</b>	<b>Total</b>	<b>Total</b>
Utility	\$ 7,975	\$ 3,367	\$ 1,164	\$ 12,506	\$ 14,650
Non-utility	3,392	329	688	4,409	1,623
GRA receivable 2006/08	-	-	-	-	5,712
Allowance for doubtful accounts	-	-	(283)	(283)	(248)
	<u>\$ 11,367</u>	<u>\$ 3,696</u>	<u>\$ 1,569</u>	<u>\$ 16,632</u>	<u>\$ 21,737</u>

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

	<b>2010</b>	<b>2009</b>
Balance, beginning of the year	\$ (248)	\$ (186)
Receivables written off	63	113
Increase to allowance	(98)	(175)
Balance, end of the year	<u>\$ (283)</u>	<u>\$ (248)</u>

Accounts receivable are reviewed for indicators of impairment. An allowance for doubtful accounts is included in accounts receivable. Additional disclosures on NT Hydro's exposure and management of risk associated with accounts receivable can be found in Note 28.

*GRA receivable*

On May 12, 2008, the PUB finalized the revenue shortfalls and interest for both fiscal 2007 and fiscal 2008 in Decision 16-2008. The effect of this decision was reflected in the fiscal 2008 consolidated financial statements.

The PUB finalized rates in Decision 27-2008 on NTPC's Phase 2 of the GRA on October 31, 2008. The PUB decision approved final rates from the 2006/08 GRA, approved adjustments to rate riders to collect the shortfall from the 2006/08 GRA, approved rate riders to collect balances in the stabilization funds and directed NTPC to capitalize the fuel cost associated with the Bluefish capital projects. These adjustments were made in fiscal 2009. The GRA receivable 2006/08 was fully collected in fiscal 2010.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### 7. Inventories

	<u>2010</u>		<u>2009</u>
Materials, supplies and lubricants	\$ 3,990	\$	3,846
Fuel	158		131
	<u>\$ 4,148</u>	<u>\$</u>	<u>3,977</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 26. Fuel held as inventory and then expensed in fiscal 2010 totalled \$1,160 (2009 - \$1,995). The supplies and services expenses reported in fiscal 2010 includes \$835 (2009 - \$712) 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. A minor portion of materials, supplies and lubricants is used for undertaking revenue generating projects.

### 8. Property, plant and equipment

	<u>2010</u>			<u>2009</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Electric power plants	\$ 214,278	\$ (57,362)	\$ 156,916	\$ 151,428
Transmission and distribution systems	73,541	(17,564)	55,977	55,674
Electric power plant under capital lease	26,342	(5,541)	20,801	21,207
Warehouse, equipment, motor vehicles and general facilities	29,886	(10,907)	18,979	18,655
Other	8,536	(4,457)	4,079	4,117
Other utility assets	4,136	(1,353)	2,783	2,899
Assets held for future use	<u>2,322</u>	<u>-</u>	<u>2,322</u>	<u>685</u>
	359,041	(97,184)	261,857	254,665
Construction work in progress	<u>27,612</u>	<u>-</u>	<u>27,612</u>	<u>18,021</u>
	<u>\$ 386,653</u>	<u>\$ (97,184)</u>	<u>\$ 289,469</u>	<u>\$ 272,686</u>

Engineering and other direct overhead expenses capitalized during the year amounted to \$1,345 (2009 - \$2,322).

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### 9. 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 23).

The sinking fund agreements require annual installments to retire debt at maturity. Fair value information for sinking funds is included in Note 28. NT Hydro realized a mark-to-market return of 15.1% (2009 – 1.10%) on the general portfolio of sinking fund investments.

#### General portfolio

Cash and short-term investments include cash and fixed-income investments with a term to maturity not exceeding one year. All fixed-income securities are investment grade credit. NT Hydro's sinking fund policy limits investments in equities to 30% of the total sinking fund market value. Equities can be invested in two funds and are well diversified by sector, issuer, region and liquidity.

#### Immunized investments

Between February 2006 and November 2006, NT Hydro immunized a portion of the sinking fund investments for the redemption of the March 9, 2009 Sinking Fund Debenture. The assets held in Immunized investments consisted of federal government guaranteed securities. NT Hydro used these assets to retire the March 9, 2009 debenture.

	2010		2009	
	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	\$ 1,987	0.23%	\$ 2,443	0.48%
Available-for-sale (fair value)				
Corporate bonds	10,674	7.59%	10,511	5.83%
Canadian equities	6,475	50.20%	4,083	(24.52%)
Federal Government guaranteed bonds	4,155	3.52%	1,861	4.20%
Provincial Government guaranteed bonds	3,998	5.02%	3,731	5.14%
Municipal Government guaranteed bonds	3,771	5.67%	3,185	5.92%
International equities	1,876	27.20%	1,243	(3.70%)
US equities	1,432	21.90%	897	(19.08%)
	<u>32,381</u>		<u>25,511</u>	
Total	<u>\$ 34,368</u>		<u>\$ 27,954</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.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### 10. Intangible assets

	2010		2009	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Enterprise software	\$ 2,776	\$ (1,319)	\$ 1,457	\$ 1,693

### 11. Short-term debt

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

	2010	2009
Shareholder's advance	\$ 20,000	\$ 11,500
Bankers acceptances and bank overdraft	18,639	17,857
	<u>\$ 38,639</u>	<u>\$ 29,357</u>

The short-term debt outstanding at year-end had a weighted average 31 day term (2009 - 91 day term) and a 1.45% (2009 - 1.20%) weighted average annual interest rate.

### 12. Accounts payable, accrued liabilities and derivatives

	2010	2009
Accounts payable and accrued liabilities	\$ 17,281	\$ 17,573
Derivatives	-	3,253
	<u>\$ 17,281</u>	<u>\$ 20,826</u>

In fiscal 2009 NT Hydro entered into two commodity swap agreements in Canadian dollars for Nymex heating oil. As the price of heating oil has a close relationship to the price of fuel the Corporation uses to generate electricity, the Corporation entered into these agreements as a means of managing the risk of price changes. NTPC has fixed the future price of approximately 65% of the fuel used for thermal generation. The first derivative was entered into on October 15, 2008 and the second derivative was entered into on November 3, 2008. Each of these derivatives was settled in three periods - at the end of the month for each of July, August and September 2009.

The final settlement of these derivatives in fiscal 2010 and any change in the fair value of the derivatives for fiscal 2009 were recorded in the fuel stabilization fund accounts as reported in Note 4.

### 13. Dividend payable

Pursuant to Section 29 of the *Northwest Territories Power Corporation Act*, the GNWT directed NTPC to declare a dividend of \$3,500 (2009 - \$3,500).

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### 14. Long-term debt

	<u>2010</u>	<u>2009</u>
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
6.83% amortizing debenture, due December 18, 2032	15,333	16,000
11.125% sinking fund debentures, due June 6, 2011	15,000	15,000
5% debenture, due July 11, 2025	15,000	15,000
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	7,467	7,654
9.75% debentures series 2, due October 1, 2025 repayable in equal monthly payments of \$69	6,579	6,751
10% debenture series 1, due May 1, 2025 repayable in equal monthly payments of \$70	6,545	6,720
	<u>154,624</u>	<u>155,825</u>
Less: Unamortized premium, discount and issuance costs	1,368	1,489
	<u>153,256</u>	<u>154,336</u>
Less: Current portion	1,255	1,202
	<u>152,001</u>	<u>153,134</u>
Less: Sinking fund investments (Note 9)	34,368	27,954
Long-term debt, net of sinking fund investments	<u>\$ 117,633</u>	<u>\$ 125,180</u>

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Principal repayments	\$1,255	\$16,311	\$21,379	\$1,451	\$1,530
Sinking fund investment contributions	\$1,596	\$ 1,038	\$ 574	\$ 438	\$ 438

### 15. 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 \$19,269 (2009 - \$19,739). 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 \$20,813 (2009 - \$21,218).

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 \$26,342.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 15. Net lease obligation continued

Upon consolidation, the loan receivable held by NTEC is offset with the capital lease obligation of NTPC resulting in a net lease obligation of \$1,544 (2009 - \$1,479). 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 fiscal 2026 when only the capital lease obligation payments continue until fiscal 2061.

The current portion of the net lease obligation is a receipt of \$108 (2009 - \$61) and is recorded in accounts receivable. Fair value information for the net lease obligation is included in Note 28.

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

2011	2012	2013	2014	2015
\$108	\$159	\$216	\$278	\$347

### 16. Deferred government contributions - Capital funding

In fiscal 2010 the GNWT signed four new contribution agreements with NT Hydro and its subsidiaries for capital project funding. The first agreement was a one-year contribution agreement (2009 – year two of a two-year agreement) with NTEC(03) to provide \$2,500 (2009 – \$4,500) in financial assistance for the Taltson hydro expansion project. In the current year, \$2,500 (2009 - \$3,000) of this funding was received and the Corporation used all of this funding in furthering the project in fiscal 2010.

The second agreement was a one-year contribution agreement with NTPC to provide \$1,350 in financial assistance to proceed with a heat recovery project in Ft. Liard. As of March 31, 2010, only \$750 of this contribution was received from the GNWT, of which \$200 has been repaid, \$290 has been spent on the project and a payable for the difference of \$260 has been recorded in accounts payable, accrued liabilities and derivatives. The second year spending of \$31 (2009 - \$55) on a contribution agreement for residual heat studies in three communities, signed in fiscal 2009 between the GNWT and NTPC, was also finalized in fiscal 2010.

The third agreement was a one-year contribution agreement with NTPC to provide \$175 in financial assistance for the installation of a demonstration in-stream hydrokinetic power generation system in Ft. Simpson. As of March 31, 2010, \$175 of this contribution was received from the GNWT and all of the money was spent on the project in fiscal 2010. NTPC also received another \$32 towards the remaining costs spent on this project from NTEC(03) as part of its hydro development initiative.

The fourth agreement was between the GNWT and NT Hydro for \$1,500 for activities related to furthering the NWT Hydro Strategy. NT Hydro received \$750 of the funding from this agreement in fiscal 2010. \$733 of this funding was used on O&M related projects and is covered under Note 24. NT Hydro used \$63 of the funding from this agreement for a capital project. NT Hydro has recorded a \$46 receivable from the GNWT under accounts receivable.

The accumulated \$9,721 (2009 - \$6,630) in contribution funding includes \$7,875 (2009 - \$5,375) provided by the GNWT which is considered repayable to the GNWT should the Taltson Hydro Expansion Project proceed or if NTEC(03) acquires funding for these costs from other sources. The

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 16. Deferred government contributions - Capital funding (continued)

Taltson Hydro Expansion Project has not been given the authorization to proceed nor has NTEC(03) acquired funding for these costs from other sources, therefore at March 31, 2010, \$nil (2009 - \$nil) of these amounts were repayable to the GNWT.

### 17. Asset retirement obligations

	<u>2010</u>	<u>2009</u>
Balance, beginning of the year	\$ 4,330	\$ 4,397
Liabilities settled	(357)	(1,095)
Accretion expense	87	86
Valuation adjustment	256	839
Additions	39	103
Balance, end of the year	<u>\$ 4,355</u>	<u>\$ 4,330</u>

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

- Total undiscounted amount of the discounted cash flows - \$7,323 (2009 - \$7,372)
- 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 5.55% for those obligations identified prior to fiscal 2010 and 5.27% for those obligations identified in fiscal 2010.

### 18. Environmental liabilities

NT Hydro estimates that it would cost approximately \$12,931 (2009 - \$13,000) to clean up the environmentally contaminated soil at its 27 sites in the NWT. NT Hydro has recognized a provision for environmental liabilities of \$3,233 (2009 - \$3,240) for the portion of the remediation costs which it believes it is responsible for based on its analysis of the amount of soil impacted before and after the acquisition of the sites by NT Hydro on May 5, 1988, from the Northern Canada Power Commission.

### 19. Employee future benefits

NT Hydro 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) Contributions to the PSPP were as follows:

	<u>2010</u>	<u>2009</u>
Employer's contributions	\$ 2,270	\$ 1,981
Employees' contributions	1,094	930
	<u>\$ 3,364</u>	<u>\$ 2,911</u>

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 19. Employee future benefits (continued)

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

	<u>2010</u>	<u>2009</u>
Accrued benefit obligation, beginning of the year	\$ 2,905	\$ 2,350
Net increase in obligation for the year	437	892
Benefits paid during the year	(119)	(337)
Accrued benefit obligation, end of the year	<u>\$ 3,223</u>	<u>\$ 2,905</u>

### 20. Other revenues

	<u>2010</u>	<u>2009</u>
Connection fees	\$ 385	\$ 264
Contract work	357	77
Pole rental	271	281
Miscellaneous	141	288
Heat revenues	167	151
Interest on GRA shortfall	34	174
	<u>\$ 1,355</u>	<u>\$ 1,235</u>

### 21. Amortization

	<u>2010</u>	<u>2009</u>
Property, plant and equipment	\$ 11,209	\$ 9,926
Intangible assets	236	236
Regulatory and other assets (Note 4)	3,136	3,160
Deferred revenues (Note 4)	(435)	(18)
	<u>\$ 14,146</u>	<u>\$ 13,304</u>

### 22. Insurance proceeds and expenses

In fiscal 2010 the Corporation recorded \$1,296 (2009 - \$nil) in insurance proceeds related to a bearing failure at the Taltson hydro site. Insured costs of \$1,296 (2009 - \$nil) were expensed and \$250 (2009 - \$nil) of deductible and uninsurable costs were applied against the Reserve for Injuries and Damages deferral account.



**NORTHWEST TERRITORIES HYDRO CORPORATION**

**Notes to the Consolidated Financial Statements  
For the year ended March 31, 2010  
(\$000's)**

**23. Interest expense**

	<u>2010</u>	<u>2009</u>
Interest on long-term debt	\$ 13,960	\$ 13,978
Short-term debt financing costs	408	502
Sinking fund income	(4,167)	(2,620)
Capitalized allowance for funds used during construction	(1,343)	(901)
	<u>\$ 8,858</u>	<u>\$ 10,959</u>

**24. Government assistance**

The GNWT provided \$1,870 (2009 - \$1,006) to NT Hydro and its subsidiaries for operating costs related to furthering the NWT Hydro Strategy, feasibility studies of mini hydro projects and programs related to apprenticeship and rate review. Any funding provided under the contributions agreements and not expended during the current fiscal year is repayable to the GNWT. As at March 31, 2010, a net receivable of \$433 (2009 - payable of \$230) of funding under these agreements was still receivable from the GNWT and is recorded in accounts receivable (2009 - accounts payable, accrued liabilities and derivatives).

**25. Share capital**

	<u>Number of shares</u>	<u>2010</u>	<u>Number of shares</u>	<u>2009</u>
<b>Preferred shares</b>				
Authorized:				
One preferred share, non-cumulative, without par value				
Issued and outstanding:				
Issued on incorporation (one dollar)	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>
<b>Common shares</b>				
Authorized:				
One common share without par value				
Issued and outstanding:				
Issued on incorporation	<u>1</u>	<u>\$ 43,129</u>	<u>1</u>	<u>\$ 43,129</u>

NT Hydro may only issue its shares to the Government of the Northwest Territories.

## **26. Commitments and contingencies**

### **Capital projects**

By June 2010, the Board of Directors approved a capital plan of \$36,088 (2009 - \$19,730) which includes the costs to complete projects already in progress at March 31, 2010.

### **Natural gas purchase commitment**

NT Hydro has an agreement to purchase natural gas to produce electricity in Inuvik. The minimum obligation is to purchase 5,622,900 m<sup>3</sup> of natural gas per annum until July 2014, consistent with NT Hydro's operational requirements. The price is calculated annually on August 1 and will depend on the Edmonton Average Unbranded High Sulphur Diesel Price as posted in the Bloomberg Oil Buyers Guide on that date.

### **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 and the amount of fuel purchased by NTPC from PPD in a given year.

### **Litigation**

NT Hydro 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 NT Hydro will result from this claim. In the event that the claim is not settled in favour of NT Hydro, NT Hydro has insurance which may cover all or a portion of the settlement cost.

### **Dyke breach**

On June 15, 2006, a breach occurred at a dyke in the Snare Forks hydro system when water overtopped the dyke. The breach was closed and remediation work on the channel that was created has occurred with input from the Department of Fisheries and Oceans (DFO). The breach deposited silt into a lake and has impacted fish habitat. NT Hydro was charged with one count under the *Fisheries Act* of depositing a deleterious substance in water frequented by fish. Subsequent to the year end, NT Hydro was ordered by the courts to pay a penalty of \$450 in connection with this matter. This is provided for in accounts payable as of March 31, 2010.

### **Workplace incident**

In June 2008, a contractor was working at NT Hydro's Snare hydro facility. An accident occurred that resulted in injury to a contractor's employee. In May 2009, NT Hydro was charged with 15 violations under the *NWT Safety Act*. Other co-defendants were also charged with violations under this Act. Penalties can range from nil to \$500 per offence. It is too early to assess whether NT Hydro will be convicted of any of the charges.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 26. Commitments and contingencies (continued)

NT Hydro is named as a defendant (together with other co-defendants) in a separate civil action brought by the contractor's employee relating to the June 2008 incident at the Snare Hydro facility. The damages claimed exceed \$1,000 plus costs. NT Hydro is challenging the right of the worker to bring the action before the Appeals Tribunal of the Workers' Safety & Compensation Commission. It is too early to assess any potential liability resulting from this claim.

#### Other

Refer to Notes 14, 16 and 18 for other commitments and contingencies disclosed elsewhere in these financial statements.

### 27. Related party transactions

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

NT Hydro 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:

	<u>2010</u>	<u>2009</u>
<b>Transactions during the year:</b>		
Sale of power and other	\$ 25,334	\$ 22,825
Purchase of fuel from PPD	13,701	18,102
Dividend paid to GNWT	3,500	3,500
Other purchases and payments	2,067	1,266
Government assistance	1,870	776
Fuel tax paid to GNWT	508	481
<b>Balances at year-end:</b>		
Shareholder's advance (included in short-term debt)	20,000	11,500
Deferred government funding	7,875	5,430
Dividend payable to GNWT	3,500	3,500
Accounts payable, accrued liabilities and derivatives	2,396	1,468
Accounts receivable	1,493	2,572
Accounts payable to PPD	1,824	2,590
Government assistance repayable to the GNWT	194	365

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### 28. 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	
Immunized Investments	Held-to-maturity				X	
<b>Measured at fair value</b>						
Cash	Held for trading	X				
Short-term debt	Held for trading		X		X	
Derivatives	Held for trading	X	X		X	X
Equity investments	Available-for-sale	X		X		X
Fixed-income investments	Available-for-sale	X		X	X	

#### a) Credit risk

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

	2010	2009
Accounts receivable	\$ 16,632	\$ 21,737
Snare Cascades loan receivable	19,269	19,773
Sinking fund fixed-income investments	18,443	17,427
Sinking fund equity investments	9,734	6,223
Sinking fund short-term investments	1,987	2,443
Cash	1,694	5,327
	<u>\$ 67,759</u>	<u>\$ 72,930</u>

#### *Accounts receivable*

The majority of NT Hydro's accounts receivable are held by NTPC. 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-three percent (2009 - 34%) of NTPC's sales are to two other utilities. Seventeen percent (2009 - 19%) of sales are to the GNWT, through the Territorial Power Support Program and Housing Support Program. Note 6 analyzes the age of customer accounts receivable.

#### *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.

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 28. Financial instruments continued

#### *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. The sinking fund fixed-income investments do not include federal instruments as these are deemed risk free.

#### *Derivatives*

NTPC is not exposed to significant credit risk relating to derivative transactions.

#### b) Liquidity risk

Debt liquidity risk is managed by the use of sinking fund and amortization provisions on eight of the eleven debentures. NT Hydro 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 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 NT Hydro's short and long-term debt as at March 31, 2010:

<u>Timeframe</u>	<u>Dollar Value</u>	
	<u>2010</u>	<u>2009</u>
Less than 1 year	\$ 37,257	\$ 25,702
Greater than 1 year and not later than 6 years	42,284	41,926
Greater than 6 years and not later than 20 years	84,083	85,030
Greater than 20 years	27,000	27,667
	<u>\$ 190,624</u>	<u>\$ 180,325</u>

#### c) Currency risk

##### *Accounts payable*

NT Hydro 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.

##### *Sinking fund investments*

NT Hydro is exposed to currency risk by making sinking fund investments in foreign securities. The Corporate sinking fund policy has the flexibility to allow the use of derivatives to effectively hedge the currency exposure if required. The currency risk from investing in foreign markets, both bonds and

**Note 28. Financial instruments continued**

equities, is not hedged in the sinking fund portfolio 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.

NT Hydro's short-term debt instruments have short maturities and fixed rates, thus their fair value will fluctuate as the funds 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 NT Hydro's financial instruments will fluctuate because of changes in market prices, other than those arising from interest rate risk or 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 the Corporation 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.

The Corporation's sinking fund policy allows investment in Canadian and foreign equity and changes in equity prices modify the fair value of the equity investments and future cash flows. To reduce the Corporation's exposure to equity price fluctuations, the policy allows the use of derivatives to effectively hedge the price changes.

f) Sensitivity analysis for market risks

Market risk is the risk that the fair value or future cash flows of NT Hydro'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 instruments subject to market risk had varied by reasonably possible amounts from their actual balance sheet date values.

The sensitivity analysis of the 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

# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 28. Financial instruments continued

calculations. Purchases of U.S. dollar 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 NT Hydro'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. 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. Long-term debt interest expense varies due to the August 2008 issue. 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.

In the table, the effect of a variation in a particular assumption on the amount of net income and/or other 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 10%</b>	<b>Interest rate risk 25 basis points</b>	<b>Other price risk 10%</b>
Net income	\$ 1	\$ 387	\$ 48
Other comprehensive income	\$ 296	\$ 352	\$ 973

#### g) Fair value determination

The carrying value of cash, accounts receivables, accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these financial instruments. These are level one classification.

**NORTHWEST TERRITORIES HYDRO CORPORATION**

**Notes to the Consolidated Financial Statements  
For the year ended March 31, 2010  
(\$000's)**

**Note 28. Financial instruments continued**

The fair value of sinking fund investments were determined by using published price quotes. The fair value determination for short-term debt, 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.

The fair value of the Corporation's derivative financial instruments used to manage exposure to commodity price risk is estimated based on quoted market prices for the same or similar financial instrument.

As at March 31, 2010, the fair value and carrying value of NT Hydro's financial instruments are:

	<b>Fair Value Determination Level</b>	<b>Fair Value</b>		<b>Carrying Value</b>	
<b>Held for trading financial assets</b>					
Cash	Level 1	\$	1,694	\$	1,694
Short-term investments	Level 1		1,987		1,987
		\$	3,681	\$	3,681
<b>Available-for-sale financial assets</b>					
Federal Government guaranteed bonds	Level 1	\$	4,155	\$	4,155
Provincial Government guaranteed bonds	Level 1		3,998		3,998
Municipal Government guaranteed bonds	Level 1		3,771		3,771
Corporate bonds	Level 1		10,674		10,674
Canadian equities	Level 1		6,475		6,475
US and international equities	Level 1		3,308		3,308
		\$	32,381	\$	32,381
<b>Other financial liabilities</b>					
Short-term debt	Level 2	\$	38,639	\$	38,639
Long-term debt	Level 2		179,760		153,256
Net lease obligation	Level 2		3,611		1,544
		\$	222,010	\$	193,439

h) Impairment

NT Hydro 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.



# NORTHWEST TERRITORIES HYDRO CORPORATION

## Notes to the Consolidated Financial Statements For the year ended March 31, 2010 (\$000's)

### Note 28. Financial instruments continued

As at March 31, 2010, NT Hydro provided an allowance for doubtful accounts of \$283 (2009 - \$248) for some of its accounts receivable accounts with amounts outstanding longer than 90 days. The Corporation does not consider any other financial instruments to be impaired (2009 - \$nil).

### 29. Segment information

NT Hydro has two reportable segments: Regulated operations and Non-regulated operations. Regulated operations are operations under NTPC and include the generation, supply and distribution of energy regulated under the *Public Utilities Act*. Management assesses performance of the regulated operations based on the ability to meet targets set out by the Board of Directors. These targets cover the following areas: net income, customer service, safety and environmental, financial integrity, employee satisfaction, reliability and operational efficiency.

Non-regulated operations include operations from NT Hydro unconsolidated, Northwest Territories Energy Corporation Ltd., Northwest Territories Energy Corporation (03) Ltd., Sahdae Energy Ltd. and 5383 NWT Ltd. Management assesses performance of the non-regulated operations based on each company's ability to achieve its objectives.

Included in the Corporation's regulated operations are power sales to three customers that each purchase more than 10% of NT Hydro's power revenues as disclosed in Note 28 under credit risk.

	<b>Regulated operations</b>	<b>Non- regulated operations</b>	<b>Total</b>
<b>Year ended March 31, 2010</b>			
Revenues from external sources	\$ 82,786	\$ 104	\$ 82,890
Operating expenses including amortization	68,573	2,382	70,955
Earnings (loss) from operations	14,213	(2,278)	11,935
Insurance proceeds	1,296	-	1,296
Insurance expenses	1,296	-	1,296
Interest income	478	(189)	289
Interest expense	8,762	96	8,858
Net fuel rider revenues	37	-	37
Government assistance	153	1,717	1,870
Net income (loss)	<u>\$ 6,119</u>	<u>\$ (846)</u>	<u>\$ 5,273</u>
Capital expenditures	\$ 21,795	\$ 2,560	\$ 24,355
<b>As at March 31, 2010</b>			
Total assets	\$ 320,975	\$ 66,779	\$ 387,754

**NORTHWEST TERRITORIES HYDRO CORPORATION**

**Notes to the Consolidated Financial Statements  
For the year ended March 31, 2010  
(\$000's)**

**Note 29 Segment information continued**

	<b>Regulated operations</b>	<b>Non- regulated operations</b>	<b>Total</b>
<b>Year ended March 31, 2009</b>			
Revenues from external sources	\$ 83,858	\$ 108	\$ 83,966
Operating expenses including amortization	66,430	1,770	68,200
Earnings (loss) from operations	17,428	(1,662)	15,766
Interest income	197	-	197
Interest expense	10,793	166	10,959
Net fuel rider revenues	37	-	37
Government assistance	51	725	776
Net income (loss)	<u>\$ 6,920</u>	<u>\$ (1,103)</u>	<u>\$ 5,817</u>
Capital expenditures	\$ 12,542	\$ 4,812	\$ 17,354
<b>As at March 31, 2009</b>			
Total assets	\$ 310,188	\$ 65,414	\$ 375,602

**30. Investments in joint ventures**

Included in NT Hydro's 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:

	<b>2010</b>	<b>2009</b>
Other revenues	\$ 104	\$ 95
Operating expenses including amortization	44	56
Earnings from operations	60	39
Interest income	-	3
Net income	<u>60</u>	<u>42</u>
Current assets	\$ 142	\$ 177
Non-current assets	529	629
	<u>\$ 671</u>	<u>\$ 806</u>
Current liabilities	\$ 25	\$ 17
Non-current liabilities	-	53
Shareholder's equity	646	736
	<u>\$ 671</u>	<u>\$ 806</u>
Cash flows provided by operating activities	\$ 111	\$ 61
Cash flows provided by investing activities	22	4
Cash flows used in financing activities	(150)	-

## **NORTHWEST TERRITORIES HYDRO CORPORATION**

**Notes to the Consolidated Financial Statements**  
**For the year ended March 31, 2010**  
**(\$000's)**

### **31. Subsequent events**

#### a) Changes resulting from GNWT Electricity Review

In May 2010, the Government of the Northwest Territories released its report titled "Efficient, Affordable and Equitable: Creating a Brighter Future for the Northwest Territories' Electricity System". The report outlined certain Territorial Government policies that were implemented December 2, 2010. In fiscal 2011, these changes are expected to have the following impacts on the Corporation's financial statements:

1. The Corporation's new electricity rates are expected to reduce revenues from sale of power by approximately \$1,000 annually.
2. The Government of the Northwest Territories will contribute \$3,000 towards the payment of deferred fuel and purchased power expenses in the Corporation's fuel and water stabilization funds. This will reduce regulatory assets by \$3,000 in fiscal 2011. An additional \$3,000 contribution is identified for payment of stabilization fund balances in fiscal 2012.
3. The Government of the Northwest Territories will forego a dividend for the 2011 and 2012 fiscal years.

#### b) Long-term debt

In August 2010, the Corporation issued a new \$50,000 debenture at 5.16% due September 2040. The debenture is repayable interest only to September 2012 and in blended semi-annual payments of \$1,624 thereafter. Approximately \$40,000 of the proceeds was used to repay short-term debt. The remainder is expected to fund the 2011 capital plan.

#### c) Bluefish hydro dam contract

In November 2010, NT Hydro signed a contract for the construction of a new dam at its Bluefish hydro site. The estimated total project cost is \$33,000 with a planned completion date of August 2012.

### **32. Comparative figures**

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

**Directive One:**

Date: June 25, 2009

Financial Management Board

SUBJECT: Write-Off of Debts – Northwest Territories Power Corporation

DECISION: Financial Management Board

The Financial Management Board approves the 2008-09 write-off of debts for the Northwest Territories Power Corporation totalling \$62,432.01, from the following:

Petanea Co-op in Wrigley	\$40,147.01
Town and Country Store in Tuktoyaktuk	<u>22,285.00</u>
TOTAL	<u>\$62,432.01</u>

**Northwest Territories Power Corporation  
Utility Write-off by Plant 2009/10 - Amounts over \$500**

<b>Name</b>	<b>Amount</b>
SARAH BEAULIEU	\$1,074.95
RICKY MCINTYRE	\$692.16
BUDDY KENNY	\$606.66
GEORGE BATON	\$3,314.03
MICHEAL COTCHILLY	\$1,326.49
ANTOINETTE EDGI	\$679.42
MARC SCHMITZ	\$626.12
ESTATE OF ANDREW TSETSO	\$920.29
ESTATE OF LEO NORWEGIAN	\$907.54
ELSIE GRESL	\$1,227.28
JAMES NAHANNI	\$673.53
ROBERT MCLARNON JR	\$503.83
JENNIFER CARDINAL	\$2,694.97
ELIZABETH BIGSKY	\$1,193.78
LAWRENCE'S CONSTRUCTION	\$2,073.24
GARDTAL HOLDINGS LTD.	\$17,354.28
DAN CATLING	\$561.19
CHARLENE BLAKE	\$715.29
CONTRACTING JENSEN'S	\$4,634.18
MARY STORR	\$1,858.44
LEONARD KIKOAK	\$4,251.61
MEL JACOB	\$1,376.23
TONIA RITIAS	\$584.71
FRED ALUNIK	\$1,432.09
BRUCE/BEVERLY ROSS	\$683.65
JAMES MARING JR.	\$746.18
JESSE PETRIN	\$1,188.08
DENNIS MCLEOD	\$836.33
ANNIE GIONET	\$5,463.77
KATHIE BJORNSON	\$1,372.40
CHRIS MCDONALD	\$1,151.16
GARRETT RUBEN	\$1,422.98
5138 NWT LTD.	\$1,406.92
JAMES MCPHERSON	\$866.31
JOLENE AYHA	\$679.04
PETER LOUIE	\$3,150.88
EDDIE GREENLAND	\$686.88
ARCTIC CIRCLE ENTERPRISES	\$7,590.00
BAT CONSTRUCTION	\$1,360.63
IKHIL RESOURCES	\$3,500.00
FENTON LAKE HOLDINGS	\$885.05
<b>Total Amounts over \$500</b>	<b>\$84,272.57</b>