

LEGISLATIVE ASSEMBLY OF THE

NORTHWEST TERRITORIES

8TH ASSEMBLY, 59TH SESSION

TABLED DOCUMENT NO. 17-59

TABLED ON May 25, 1976

Tabled Document 17-59

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NORTHWEST TERRITORIES POWER STEERING COMMITTEE

Submission to the Council
of the
Northwest Territories

Re: Northern Canada Power Commission
Organization and Rate Adjustments

May 1976

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I. INTRODUCTION

The N.W.T Power Steering Committee is an organization, formed on March 1, 1976, to pressure the Federal Government into bringing the power monopoly in the north under Territorial jurisdiction. The other purpose of the Committee is to have the Northern Canada Power Commission (N.C.P.C.) verify rate increases as just and reasonable.

The Committee is made up of representatives from each of the following organizations:

- Business Opportunities Board
- N.W.T. Chamber of Commerce
- N.W.T. Association of Municipalities
- Inuit Tapirisat of Canada
- Consumer's Association of Canada
- N.W.T. Labour Council
- Chamber of Mines
- Hotel Association
- Tourist Association
- Mental Health Association
- Board of Trustees - School District #1 - Yellowknife
- Board of Trustees - School District #2 - Yellowknife

The Northwest Territories Power Steering Committee submission is intended to present a review of the nature, extent and adequacy of the information supplied by the N.C.P.C. in support or justification for its proposed rate increases in the Northwest Territories, together with a review of the manner in which N.C.P.C. is permitted to operate under the authority of N.C.P.C. Act.

It is recognized that, under the N.C.P.C. Act, section 10, the Commission is directed, subject to the approval of the Governor in Council, to establish rates for public utilities supplied by the Commission under the Act. Subject to such approval, required by the Governor in Council, the Commission appears to be free to establish rates at any level of its own choosing provided only that the revenue resulting from the rates so established "shall not be less than the estimated cost." However, the comments, observations and suggestions contained in this submission are made in light of the proposition by this Committee that the Commission should be required to justify and prove the reasonableness and need for the rates which it charges. It is further submitted, as an integral part of this proposition, that the consumers of the utility should have the opportunity to present an informed and constructive intervention with respect to any rate increases which are proposed by the Commission, and that any such intervenors should not be put in the position of having to disprove a case not presented. The Committee submits that the Commission would bear the burden of proof to justify any proposed rate increases before any such increases are approved and put into place.

Since its formation in March, the Power Steering Committee has met twice in formal hearings with the Northwest Territories Public Utilities Board (P.U.B.) and has maintained constant communication and cooperation with its members and officials. The Committee has met with Board and senior executive members of N.C.P.C. and has met with the Minister, Mr. Buchanan, to discuss mutual concerns. Just recently, representatives of the Committee appeared before the Standing Committee on Indian and Northern Affairs and met with Anti-Inflation Board officials in Ottawa. Most importantly, the Committee has been meeting regularly and maintaining constant communications between the member organizations and the central Committee. The Committee was able to function only through the financial and time contributions of its members. In many cases these contributions have been over and above what would logically have been expected. We submit that this effort should not have been necessary.

EXISTING AND PROPOSED RATES

| <u>Location</u> | | <u>Existing</u> | <u>Proposed</u> | <u>Ind/kwh</u> <u>% change</u> |
|-----------------|---------------------------|--------------------------------|-----------------|-----------------------------------|
| Fort Simpson | Domestic Non-Government | 5.5 | 11 | 100% |
| | Commercial Non-Government | 9 | 13.5 | 50% |
| | Domestic Government | 6.5 | 11 | 69.2% |
| | Commercial Government | 10.5 | 17 | 61.9% |
| Fort Smith | Domestic Non-Government | 2 | 2.5 | 25% |
| | Commercial Non-Government | 3 | 3.5 | 16.7% |
| | Domestic Government | 2 | 2.5 | 25% |
| | Commercial Government | 3 | 3.5 | 16.9% |
| Frobisher Bay | Domestic Non-Government | 8 | 10 | 25% |
| | Commercial Non-Government | 9 | 12 | 33.3% |
| | Domestic Government | 9 | 12 | 33.3% |
| | Commercial Government | 9 | 12 | 33.3% |
| Hay River | Domestic Non-Government | Service by Alberta Power - | | |
| | Commercial Non-Government | but rates up due to N.C.P.C. | | |
| | Domestic Government | unwillingness to co-operate | | |
| | Commercial Government | in interconnection negotiation | | |
| Inuvik | Domestic Non-Government | 5 | 8 | 60% |
| | Commercial Non-Government | 5.5 | 8 | 45.5% |
| | Domestic Government | 5 | 8.5 | 70% |
| | Commercial Government | 5.5 | 8.5 | 54.5% |
| Norman Wells | Domestic Non-Government | 10 | 10 | - |
| | Commercial Non-Government | 10 | 10 | - |
| | Domestic Government | 10 | 10 | - |
| | Commercial Government | 10 | 10 | - |
| Pine Point | Domestic Non-Government | 3 | 3.4 | 13.3% |
| | Commercial Non-Government | 3 | 3.5 | 16.7% |
| | Domestic Government | 3 | 3.4 | 13.3% |
| | Commercial Government | 3 | 3.5 | 16.7% |

II. COMMENTARY AND RECOMMENDATIONS

It is submitted that the financial and operating information compiled by the Commission and presented in support of its proposed rate adjustments was inadequate to support the revenue increases requested. The information set forth in the Commission's presentation is very limited and is accompanied by only nominal commentary or explanation.

It is further noted, with reference to the N.W.T.P.U.B. Report that

"The material in N.C.P.C.'s document entitled "Proposed Rate Adjustments - Northwest Territories" was incomplete and badly presented. The material was not of a standard to be expected of a utility company, nor did it follow the style of presentation and documentation usually adopted by a utility company seeking to justify a rate adjustment.

Officers of N.C.P.C. did respond quickly and with good grace to requests for additional information made after the first public hearing; however, it was again obvious that the material had not been maintained in the normal fashion of a utility company, and it tended to be incomplete. For example, in a plant by plant breakdown of costs supplied to the Board, the category "other costs" was proportionally very high. When this was questioned, a general listing of items included in this category was supplied, but the relative importance of the items could not be discerned. In addition, N.C.P.C.'s statements seemed to cause confusion to the public when dealing with percentage rate increases and the timing of the increases."

The Commission is required to recover through its rates its "estimated costs". The N.C.P.C. Act does not contain any definition or direction with respect to the determination of such costs, the Act being limited only to references to certain outlays which are required to be

included in determining the "costs". The Committee submits that the costs which the Commission is entitled to recover through its rates should be determined in accordance with generally accepted accounting principles. The recovery of costs to which the Commission is entitled should be limited to those costs which are considered, by some independent and objective authority, to be just, reasonable and prudent in the circumstances. To fail to restrict the costs which the Commission is entitled to recover is, in effect, equivalent to an open-ended cost-plus authority to operate. A limitation on the entitlement of the Commission to recover only reasonable costs should result in the Commission being provided with the necessary incentive to carefully monitor, control and limit its costs. To the extent that the Commission does experience costs which are "excessive" and not recoverable through rates, H.C.P.C. should absorb those excess costs, as is the case with virtually every other utility.

With deference to the limited time permitted for review, the Committee feels that N.C.P.C. has been inadequate and evasive in providing the necessary financial and operating information to do a comprehensive review. Through the course of our research the following observations were made. Without apology for the inadequacy of supportive material they are submitted for Council's consideration.

Interest Rates

We agree with the N.W.T.P.U.B. in reference to interest rates.

The Board recommends that the Federal Government provide either interest-free loans, or loans bearing an interest rate very substantially below the current rate, to H.C.P.C. for capital projects where the power generated is primarily for domestic and government use. From the resulting reductions in power costs, it would seem that this action would reduce substantially the amounts of transfers

and grants to the Territorial Government for social welfare and housing requirements. Had the Territorial Government continued to own and operate its electrical plants, it is likely that the capital funds necessary for plant expansion would have been provided as grants and, therefore, not become a cost factor in the amortization of those plants.

Working Capital

The P.U.B. has supported the Committee's recommendation of an interest-free working capital advance to N.C.P.C. by the Federal Government as being preferable to requiring the Commission to provide its working capital through rate increases to its customers. This would be consistent with what is believed to be the practice followed with a number of other federal agencies.

Fuel Tax

Considering the high cost of diesel fuel and the dependence of most of the communities on this method of electrical production it is difficult to understand the rationale for adding a Territorial fuel tax to this burden. We support the recommendation of the P.U.B. that that N.W.T. Government exempt N.C.P.C. from taxes on fuel oil used for the generation of power and heat.

Cumulative Costs

Other sections of this submission deal with the questions of burden of proof, jurisdiction for the setting and authorizing of rates and manner of regulation. On the assumption that such regulatory concepts are desirable, and will in some form be adopted, it is submitted that the utility be precluded from establishing rates for any future period which have the effect of recovering past losses. By the same token, given such a regulatory environment, any excess recoveries or return to the Commission through the rates would not necessarily be subject to direct refund to the consumers, but rather might be employed for capital purposes by the Commission.

Contingency Reserve

It is submitted that the concept of providing N.C.P.C. with a "contingency reserve fund" is inappropriate and has the effect of requiring current consumers to provide funds for future costs in advance of the time when those costs will be incurred. The concept of providing for the future and therefore "artificial" costs on a current basis should therefore be abandoned.

Rate Zones

It is recommended that the rate zone structure in the H.W.T. be changed so that systems of similar physical characteristics are grouped together. The suggestion of the P.U.B. that groups consumers into separate zones according to independent hydro systems and small and large diesel systems is worthy of serious consideration.

Rate Increases

The Committee contends that present cost of electrical power to consumers in the North is excessive at the present time. We do recognize, however, that, until fundamental changes are implemented regarding the philosophy of services to Northerners, certain additional recoveries must be made by N.C.P.C. The rate increases proposed by the P.U.B. in response to those presented by N.C.P.C. are considerably more reasonable and, as such, have our qualified support. The major qualification is that a vigorous and competent review of the operations and structure of N.C.P.C. is in order prior to finalization of a permanent rate structure.

Property Taxation

Under existing legislation and regulations N.C.P.C. is not required to pay either municipal taxes or grants in lieu of such taxes. It is recognized that to provide for such taxation to be levied upon N.C.P.C. would merely result in an increase in its costs which would therefore be required to be recovered through the consumers. However, in the interests of fair and equitable treatment as between groups of

consumers and/or various localities within the jurisdiction of N.C.P.C. it is submitted that the utility should be subjected to ordinary municipal taxation and regulation, or alternatively be required to pay equivalent grants in lieu of taxes. Such a provision would alleviate the disparity which arises as between the various communities in that the types of municipal services which are required to be provided to N.C.P.C. by those communities in which its facilities are located would be shared by all customers of the utility and not merely indirectly subsidized by the ratepayers of those communities in which the Commission has its facilities.

Quality of Service

Under the P.U.B. Act of Alberta (section 77), the Alberta Board is granted powers to exercise general supervision over public utilities and to make any such orders as might be necessary for the adequate provision of electric generating services. No such equivalent provision exists within the N.C.P.C. Act. Such a provision should be implemented in order that those customers who do not feel they are being adequately served by N.C.P.C. may present their case, and if successful, have N.C.P.C. directed to remedy any shortcomings in the services provided.

Just and Reasonable Costs

In determining just and reasonable rates to be charged to the consumers of N.C.P.C. the actual cost incurred by the Commission should be considered as a maximum - in other words to the extent that certain costs incurred by the Commission might be considered to be excessive, imprudent or unreasonable those costs should be properly attributable to and absorbed by the "shareholders" of the Commission - Canada.

The access which the consumers of the N.C.P.C. have to the process of determination and approval of the rates to be charged for electrical energy in the Northwest Territories is virtually non-existent. This lack of access to the process of determination of rates in effect

exposes the consumers of the Commission to a form of double jeopardy; on the one hand the control which would be presumed to exist over rates in a competitive environment is eliminated by virtue of the monopoly position which the Commission has with respect to the generation of power in the Northwest Territories and on the other hand there is no provision for regulation by an independent and objective tribunal in order to provide adequate protection to the consumers of the utility.

The Commission, or for that matter any utility, must be provided with sufficient revenues through its rates to recover its costs of service, within reason. However, to extend the right to recover costs without limitation results in the utility having no incentive to minimize its costs within the bounds of the necessary degree of service.

Electrical Energy Policy

One of the primary concerns expressed by the Committee during their meeting with the Minister of Indian and Northern Affairs, Judd Buchanan, was the apparent total lack of clearly defined policies regarding the provision of electrical services to Northerners. The P.U.B. shared this concern in recommending that these policies be reviewed and re-stated.

Capital Projects

Recognizing the substantial questions raised as to the ability of N.C.P.C. to function as its own general contractor on major capital projects, we support the recommendation of the P.U.B. that all future projects of this nature be tendered in the normal fashion. In consideration of the elements of inefficiency and the burden of environmental safeguards and studies, we strongly suggest that a significant portion of the current Strutt Lake project costs be absorbed by the Federal Government.

Talston - Pine Point System

The Committee offers full support to the endeavors of our members in the Fort Smith, Fort Resolution, Pine Point and Hay River areas in their attempts to encourage the continued exploitation of hydro power and the establishment of a grid system linking the Talston system to the Alberta Power grid through Hay River.

Exports

It is understood by the Committee that, as part of the long-range planning for the electric power system in the Mackenzie delta area of the Northwest Territories, the Commission is contemplating capital projects which would be sufficiently large to permit them to export energy to Alberta and/or British Columbia. If N.C.P.C. is permitted to develop generating facilities which would permit them to export energy, it should be done on such a basis that any export sales result in the Commission recovering its fully allocated cost of such excess energy. In other words, the resident Northwest Territories consumers of the Commission should not be expected to provide an indirect subsidy for any such export sales of energy.

Intervention

Perhaps the most important factor resulting from a comparison of the Public Utilities Board Act of the Province of Alberta and the N.C.P.C. Act of Canada is the provision in the Alberta Act relating to burden of proof. In section 89 (3) of the Alberta Act provision is made whereby the burden of proof to justify increases, changes or alterations in rates rests with the utility company. The N.C.P.C. Act does not contain any such provision, with the possible exception of the provision in the Canada Act which provides that the rates proposed by the Commission must be approved by the Governor in Council. We suggest that a similar burden of proof requirement should exist with respect to the regulation and operation of N.C.P.C. If such provision were incorporated into the Canada Act, one of the results of such a

provision would be that the Commission would be required to present sufficient financial and operating information, on both a historical and forecast basis, to permit an effective and informed intervention on behalf of the consumers of the Commission. The nature and amount of information which presumably should be forthcoming, were the burden of proof to be placed upon the Commission, would be a very dramatic contrast to that which was provided by the Commission with respect to the recent hearings of the P.U.B.

Conclusion

It is proposed that the recommendations contained herein can be dealt with by the appointment, by the Minister, of a Task Force to review the affairs and regulations of N.C.P.C. The terms of reference of any such task force should, it is suggested, include authority to obtain from N.C.P.C. all necessary information to permit an informed, thorough and effective evaluation of its operations, costs and the resulting rates charged to its consumers. In addition the terms of reference should include provisions whereby the Task Force may recommend to the Government the most appropriate manner of regulating N.C.P.C.

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