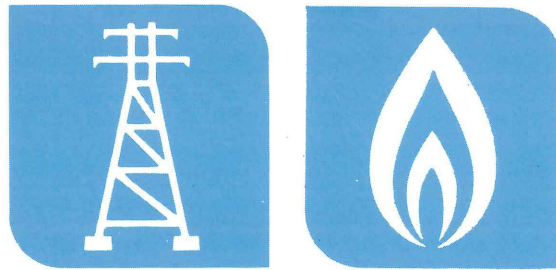


**PUBLIC UTILITIES BOARD
OF THE
NORTHWEST TERRITORIES
1996 ANNUAL REPORT**



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**PUBLIC UTILITIES BOARD
OF THE
NORTHWEST TERRITORIES
1996 ANNUAL REPORT**

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Minister Responsible for the Public Utilities Board

MAR 13 1997

THE HONOURABLE HELEN MAKSAGAK
COMMISSIONER OF THE NORTHWEST TERRITORIES

I take pleasure in submitting the Annual Report of the Northwest Territories Public Utilities Board for the calendar year ending December 31, 1996.

A handwritten signature in black ink, consisting of stylized, overlapping loops and lines.

John Todd

Attachment



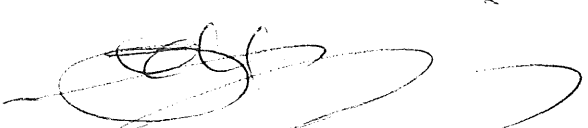
March 14, 1997

**The Honourable John Todd
Minister Responsible for
the Public Utilities Board
of the Northwest Territories**

Sir:

I have the honour to present the report of the activities of the Northwest Territories Public Utilities Board for the calendar year ending December 31, 1996.

Respectfully submitted,



**John E. Hill
Chairperson
Public Utilities Board**

THE PUBLIC UTILITIES BOARD

The Northwest Territories Public Utilities Board is an independent regulatory agency operating under, and administering the Public Utilities Act ("**the Act**"). The Board has a full-time Chairperson and four part-time members, as well, the Act provides for the appointment of not more than six temporary members. Temporary members have never been appointed. The Chairperson is the Chief Executive Officer of the Board.

At December 31, 1996 the Public Utilities Board consisted of the following members:

Chairperson	John Hill, Hay River, NT
Vice-Chairperson	Ray Mercer, Rankin Inlet, NT
Member	Gene Nikiforuk, Inuvik, NT
Member	Peter Allen, Yellowknife, NT
Member	Vacant

Board Staff consisted of:

Board Secretary/Analyst	Jamie Cameron
Asst. Board Secretary	Louise Larocque
Legal Counsel	Craig Bell, Department of Justice
Consultants	Marshall Energy & Regulatory Consulting

REGULATORY JURISDICTION

The following utilities are subject to the Board's jurisdiction:

Northland Utilities (Yellowknife) Limited
Head Office: Yellowknife, NT

Northland Utilities (NWT) Limited
Head Office: Hay River, NT

Northwest Territories Power Corporation
Head Office: Hay River, NT

Stittco Utilities NWT Limited
Head Office: Hay River, NT

The Town of Norman Wells
Head Office: Norman Wells, NT

Northland Utilities (Yellowknife) Limited ("**Northland Yellowknife**") and Northland Utilities (NWT) Limited ("**Northland NWT**") are investor-owned utilities fully regulated by the Board.

The Northwest Territories Power Corporation ("**NWTPC**") is a territorial crown corporation. On October 1, 1989, the Board assumed limited regulatory jurisdiction over NWTPC and was given full jurisdiction effective April 1, 1992, pursuant to the provisions of the Public Utilities Act and the Northwest Territories Power Corporation Act.

Stittco Utilities NWT Limited ("**Stittco**") is an investor-owned utility. In 1990, the utility was exempted from certain provisions in the Public Utilities Act until August 1993. The utility's affairs were reviewed in 1994, and it was determined that a level of 'eased regulation' was warranted.

The Town of Norman Wells became owner and operator of the natural gas distribution system within the Town as of April 1, 1995, pursuant to the provisions of the Norman Wells Gas Distribution Act, which also stipulated that the natural gas distribution system be subject to regulation by the Board.

UTILITY REGULATION

Energy utilities, as defined in the Act, are subject to Board regulation. The Board's principal responsibility is to ensure that each utility provides safe, adequate service at rates which are just, and reasonable. When setting rates the Board must balance the competing interests of consumers, and the utilities. Rates are set through a public hearing process. The Board's objective through the hearing process is to guarantee that the public interest is served, and protected.

The Board considers public involvement essential in the regulatory process. To ensure the opportunity for public participation the Board directs the applicant to publish notice of the proceeding in newspapers throughout the utility's service area, or to provide such other notice to the public that the Board considers appropriate.

The Board has the authority to award costs at the conclusion of a hearing. Intervenors before the Board may receive up to 100% of their reasonably incurred costs, provided that in the Board's opinion the intervention contributed in a meaningful way to the Board's understanding of the application.

Intervenors are interested parties who register with the Board and receive copies of the application and all written questions and answers.

Intervenors may take an active role in the hearing process. They may submit written questions, give evidence, call expert witnesses, and cross-examine the applicant. The applicant as well as other intervenors are provided the opportunity to cross-examine the intervenor and the intervenor's expert witnesses.

Alternatively, the intervenor may choose to not actively participate in the hearing, but simply receive all available information.

After hearing and reviewing all the evidence the Board issues its decision which outlines the Board's determination of the application. The Board may turn down the rate change, modify it, or approve the entire request. The Board's decision and its reasons are then filed in the Supreme Court of the Northwest Territories.

The Board also approves major capital projects, the issuance of long-term debt and franchise agreements.

1996 IN REVIEW

Negotiated Settlement Process

During 1996, the Board encouraged negotiated settlement processes as a way of resolving rate applications, and other issues more efficiently. While the Board is required to hold a public hearing when dealing with rate applications, it recognized the merit of the negotiated settlement process, which enables prior agreement to be reached on identified issues that would normally be examined, often in an adversarial manner, through the public hearing process. Any agreement between the parties is submitted to the Board for review at the public hearing. The settlement of the identified issues can reduce hearing time, and the related costs.

Rules of Practice & Procedure

The Board is constantly striving to improve the manner in which it conducts its business. The Board established Rules of Practice and Procedure, which came into effect on May 9, 1996.

Northwest Territories Power Corporation

On January 23, 1996, the Board in response to an application dated January 12, 1996, approved the issuance of Sinking Fund Debentures in an amount of \$20,000,000.

By letter dated December 20, 1995, NWTPC submitted to the Board, a General Rate Application ("GRA") for the test period consisting of NWTPC's fiscal years ending March 31, 1996 and March 31, 1997 ("Test Years").

In its application, NWTPC requested that the Board:

1. determine a rate base for the Test Years;
2. determine the revenue requirements for the Test Years;
3. fix and approve just and reasonable rates;
4. approve a deferral account for compensation that may be payable in

accordance with the Northwest Territories Water Board Licence respecting the Taltson River Basin;

5. approve a Rate Stabilization Fund to mitigate the adverse impact on rates of unanticipated changes in fuel prices and deviation in hydro conditions from average water levels;
6. approve the capitalization of the Power Acquisition Agreement between the Dogrib Power Corporation and NWTPC in respect of the Snare Cascades Hydro Project.

Notice of the public hearing was published in Territorial newspapers. The notice included details of the GRA and the time and place of the public hearing, and invited interested persons to file a request with the Board for intervenor status.

In a letter, dated July 16, 1996, NWTPC amended its application to incorporate a 1997/98 Test Year and also proposed that it enter into negotiations with the intervenors with a view to reaching a negotiated settlement regarding any or all elements of the application.

The Board responded to NWTPC on July 23, 1996 and advised that the Board was prepared to permit a negotiated settlement conference. The response required NWTPC to publish notice of the Negotiated Settlement Conference, and to provide the Board with a draft list of issues.

Subsequently, NWTPC advised that notice of the negotiated settlement meeting had been published in six territorial newspapers, that there had been no response to the advertisements, and NWTPC assumed that only the parties who had registered as intervenors would participate in the negotiated settlement meeting. The days of October 28, 1996 through to November 1, 1996 were scheduled for the settlement meeting, with Yellowknife selected as the location.

The Board acknowledged that the conditions stipulated in its letter of July 23, 1996 had been met, and appointed Yellowknife lawyer Mr. John Donihee as facilitator for the negotiated settlement meeting.

In a letter dated November 13, 1996, NWTPC advised the Board that a negotiated settlement had been reached with the interested parties and filed a copy of the negotiated settlement agreement.

The hearing respecting the GRA was held in the Town of Hay River on December

3, 1996. The Board will issue its Decision in January 1997.

On August 2, 1996, NWTPC filed the second phase of its GRA for the 1995/98 test period. The filing included, a cost of service study for each community and for each rate class within each community, as directed by the Board in Decision 5-95.

The Phase II hearing will be held in Yellowknife early in 1997.

The Board approved four Franchise Agreements between municipalities and NWTPC for the supply and distribution of electrical power.

As well, during 1996 the Board approved, on an interim basis, the establishment of a special interruptible rate for the Town of Fort Smith with respect to an experimental hydrogen production facility.

The Board also approved the continuation of interim rate riders in the Snare/Yellowknife zone designed to recover additional operating expense for diesel generation in 1995/96.

Northland Utilities (NWT) Limited

By letter dated February 22, 1996, Northland NWT submitted to the Board, a GRA for the test period consisting of the Company's fiscal years ending December 31, 1996 and December 31, 1997.

In its application, Northland NWT requested that the Board:

1. determine the rate base and revenue requirements for each of the test years;
2. approve a Hay River purchased power zone and a remote diesel system zone;
3. approve rates for the Hay River, Fort Providence/Dory Point/Kakisa, Trout Lake and Snare Lake service areas for the test years, and;
4. approve the revised Electric Service Regulations.

On March 21, 1996 and March 22, 1996, the Board received letters from NWTPC and the Town of Hay River ("**the Town**") respectively advising of their interest in

Northland NWT's application and their intention to intervene in the proceeding. By letter dated April 12, 1996, the Hamlet of Fort Providence also registered as an intervening party.

Subsequent to an exchange of correspondence between the Counsel for Northland NWT and Counsel for the Board, the Board gave leave for a negotiated settlement conference to take place, subject to the public hearing schedule being adhered to.

On May 22, 1996, Northland NWT advised the Board that a negotiated settlement of the revenue requirement had been reached with the intervenors.

A public hearing was held in Hay River on June 11, 1996, following which the Board issued its decision approving the elements of the negotiated settlement, other than Northland NWT's Electric Service Regulations.

In its initial filing Northland NWT proposed to move all classes of customers to acceptable revenue to cost ratios of 95-105% over five years. The Board, in its decision, directed that the changes to revenue to cost ratios be accomplished in three years and ordered Northland NWT to file rates for a three year period, within 30 days to reflect the Board's directive.

On August 22, 1996, Northland NWT filed rate schedules as directed by the Board. The Board, on August 28, 1996, approved the 1996 and 1997 rate schedules, as well as the Electric Service Regulations with some exceptions. A decision on the 1998 rate schedules was deferred to consider concerns raised by Counsel for the Town.

Subsequently, on October 1, 1996, after considering the opinion expressed by Counsel for the Town, the Board approved the 1998 rate schedules as filed.

Northland NWT, in a letter dated September 5, 1996, submitted a request to review and vary the Board's Decision of August 28, 1996 as it pertained to Clause 9.2 of the Electric Service Regulations, and proposed a replacement of the original wording. The Board varied its earlier Decision and approved the revised wording.

Northland Utilities (Yellowknife) Limited

By letter dated April 9, 1996, Northland Yellowknife submitted to the Board, a GRA for the test period consisting of the Company's fiscal years ending December 31, 1996 and December 31, 1997.

In its application, Northland Yellowknife requested that the Board:

1. determine the rate base and revenue requirements for each of the forecast Test Years 1996 and 1997;
2. approve rates for the Yellowknife service area for the forecast test years 1996 and 1997;
3. approve revised depreciation parameters and;
4. approve the revised Electric Service Regulations.

On April 25, 1996, the Board received a letter from the City of Yellowknife ("the City") advising of their interest in the Application and their intention to intervene in the proceeding. On May 7, 1996, the Yellowknife Co-op also registered as an interested party.

Northland Yellowknife, by letter dated June 27, 1996, sought leave of the Board to enter into negotiations with the intervenors with a view to reaching a negotiated settlement regarding any or all elements of the application.

The Board responded to Northland Yellowknife on July 9, 1996 and advised that the Board was prepared to permit a negotiated settlement conference. The response also indicated the parameters that the Board wished the parties to follow and the information the Board would require regarding any settlement agreement.

By letter dated July 19, 1996, Northland Yellowknife wrote the Board to advise that the days of August 15 and 16 had been agreed to by the interested parties as the most suitable for a settlement conference and that Yellowknife had been selected as the location.

In a letter dated August 26, 1996, Northland Yellowknife advised the Board that a negotiated settlement on both Phase I and Phase II matters had been reached with the City and filed a copy of the negotiated settlement as well as a letter of endorsement from the City. The Board was also provided a revised cost of service study and rate schedules reflecting the settlement agreement.

The settlement participants stated that the agreement represented a package proposal within which there had been give and take by all parties. Further, no issue could be severed from the proposed settlement without allowing signatories

the opportunity to address other issues in the package.

During the course of the hearing, Northland Yellowknife stated that it believed that the 95-105% target range of revenue to cost ratios that the Board has consistently relied on is too narrow, and does not recognize the reality of the cost of service study.

The revenue to cost ratios achieved by Northland Yellowknife were outside the Board's target range. By letter dated September 17, 1996, the Board advised the parties that it was not prepared to accept the revenue to cost ratios proposed in the settlement agreement. The Board acknowledged that it was not reasonable to move rates within the accepted range over the test years, but advised that it expected movement towards the 95-105% range within the test period.

Northland Yellowknife submitted revised schedules which resulted in cost allocations acceptable to the Board. Northland Yellowknife was directed to file rate schedules to reflect the Board's decision.

Electric Service Regulations were approved with changes agreed to by the applicant in a letter to the Board dated September 5, 1996.

Northland Yellowknife filed rates as directed by the Board, on November 6, 1996. The new rates were approved by the Board November 20, 1996.

On November 26, 1996, the Board approved the issuance of a \$1,500,000 Debenture with a nominal interest rate of 3.70% to Canadian Utilities Limited.

Stittco Utilities NWT Limited

The Board, in Decision 9-94 dated July 26, 1994, concluded that sufficient competition for alternative fuels exists, in the Hay River market area, to negate the need for Stittco to be fully regulated. The Board ordered, pursuant to section 18 of the Act, that with some exceptions the provisions of the Act would not apply to Stittco. The exceptions provide a complaint mechanism, analogous to that which was in place when the Town and Stittco first entered into a franchise agreement. Decision 9-94 was similar to a previous decision of the Board issued on August 17, 1990.

Included in Board Decision 9-94 was an Order that 60 days before Stittco commences to charge a different rate, it file the new rates with the Board, and

provide appropriate notification to the Town.

On October 4, 1995 Stittco advised the Board and the Town that it proposed to increase gas rates by 4%.

The Town, in its letter dated November 27, 1995, advised the Board that it had met with representatives of Stittco to discuss the rate increase and indicated that the Town had asked Stittco to either forgo a rate increase, or consider revising its rate design. The essence of the discussions was that the Rate Categories proposed by Stittco were not representative of the costs associated with each class of service. The Town was advised by Stittco that it must have the increase. The letter went on to indicate that the Town, supported by the Hay River Chamber of Commerce, was complaining with respect to the increase, and asked how the Board proposed to deal with the matter.

The Board, in its letter of December 5, 1995, asked the Town to provide its analysis of Stittco's rate design, and the specifics of the Town's concerns with respect to the allocation of costs. As well, the Board indicated that it wished to ensure that the matter be dealt with through written review rather than a public hearing. Stittco, by letter dated December 5, 1995, was advised of the Board's proposed treatment of the matter, and that the Board would consider the rate increase to be in effect on an interim refundable basis.

Subsequent to several information requests, Stittco, in a letter dated March 28, 1996, provided an Allocated Cost of Service Assessment prepared by Emerald Regulatory Services Inc. The Town prepared, in response, its 'Proforma Cost of Service Assessment'.

The Board noted that it had enabled both parties to conduct a full review of the matter, and that the Town did not oppose an increase of 4% in rates, but rather objected to cost allocations to revenue sources and customer classes.

The Board was unable to accept the cost allocations proposed by the Town and dismissed the complaint, at the same time making final the interim rates.

Town of Hay River

The Town applied for costs pertaining to its intervention in the Northland NWT GRA hearing. The Board reviewed and approved the intervenor costs as submitted.

Hamlet of Fort Providence

The Hamlet of Fort Providence applied for costs pertaining to its intervention in the Northland NWT GRA hearing. The Board reviewed and approved the intervenor costs as submitted.

Town of Norman Wells

On June 25, 1996 the Town of Norman Wells applied for an extension of interim rates approved by the Board in Decision 4-95, pending the filing of an application that would enable the Board to establish a rate base and fix rates for the Town's gas distribution system.

The Town explained that it was still negotiating a supply contract with Imperial Oil Resources Ltd., and that these negotiations had contributed to the delay in filing a rate application.

The Board approved the extension of interim rates and directed the Town to file its rate application in sufficient time for the Board to deal with the matter prior to December 31, 1996.

The Town filed its application December 5, 1996.

The Board expects to issue its decision early in 1997, after a written hearing.

SUMMARY OF 1996 BOARD DECISIONS

DECISION 1-96 - January 23, 1996

Application - On January 12, 1996, NWTPC applied for approval to issue Sinking Fund Debentures in an amount of \$20,000,000.

Order - After reviewing the application and the information provided in support thereof, the Board approved long term borrowing at a rate not to exceed, either 8.75% irrespective of the spread over the bench mark long Canada, or a spread over bench mark long Canada not to exceed 85 basis points.

DECISION 2-96 - February 26, 1996

Application - NWTPC applied for approval of a proposed Franchise Agreement for the supply and distribution of electrical power to users within the Town of Iqaluit.

Order - The Board approved the Electric Franchise Agreement.

DECISION 3-96 - July 24, 1996

Application - NWTPC filed for approval of a revised rate schedule for the Town of Fort Smith, effective August 1, 1996. Specifically, NWTPC requested approval of an interruptible rate to be used in hydrogen demonstration projects.

Order - After reviewing the application and responses to information requests provided by NWTPC, the Board approved the application as applied for on an interim basis.

DECISION 4-96 - July 24, 1996

Application - The Town of Norman Wells, by letter dated June 25, 1996, applied for an extension of interim rates pending the filing of a rate application for rates effective January 1, 1997.

Order - The Board approved the continuation of existing rates, fees and charges on an interim basis until December 31, 1996. The Board directed the Town of Norman Wells to file its rate application in time for the Board to deal with the matter prior to December 31, 1996.

DECISION 5-96 - July 24, 1996

Application - By letter dated November 27, 1995, the Town of Hay River complained with respect to Stittco Utilities NWT Limited's rate increase of 4% over existing rates effective December 4, 1995.

Order - After reviewing both submissions of the Town and Stittco, the Board dismissed the complaint by the Town and made final the increase which had been granted on an interim refundable basis.

DECISION 6-96 - August 7, 1996

Application - Northland Utilities (NWT) Limited filed a GRA with the Board, dated February 22, 1996 requesting an Order or Orders of the Board to:

- "a) determine the rate base and revenue requirements for each of the forecast Test Years 1996 and 1997;
- b) approve a Hay River purchased power zone and a remote diesel system zone;
- c) approve rates for the Hay River, Fort Providence/Dory Point/Kakisa Trout Lake and Snare Lake service areas for the forecast Test Years, and;
- d) approve the revised Electric Service Regulations

Order - The Board, after reviewing the information provided, approved the terms of the negotiated settlement agreement and ordered Northland to file, within 30 days of the Decision, a schedule of just and reasonable rates for the Test Years ending December 31, 1996 and December 31, 1997.

Northland was directed to prepare and file information required to comply with the directions contained in the Decision.

DECISION 7-96 - August 19, 1996

Application - NWTPC requested an order of the Board to continue the 1995/96 Snare/Yellowknife Riders B-1, B-2 and B-3 until March 31, 1997 or until such time as the amount of additional operating expense for diesel generation in 1995/96 is collected in full.

Order - The Board approved the continuation of the Riders on an interim refundable basis.

DECISION 8-96 - August 28, 1996

Application - On August 22, 1996, Northland Utilities (NWT) Limited submitted rate schedules reflecting the directions of Decision 6-96. Included in the application were rate schedule for 1998, reflecting the Board's direction that rates be moved to 95-105% revenue to cost ratios for all customer classes within 3 years.

Order - The Board approved the 1996 and 1997 Rate Schedules as filed and deferred the matter of 1998 rate schedules until issues raised by Counsel for the Town of Hay River were reviewed. The Board approved the Electric Service Regulations as submitted, with some exceptions.

DECISION 9-96 - August 30, 1996

Application - The Town of Hay River applied for Intervenor costs pertaining to Northland Utilities (NWT) Limited's General Rate Application hearing dated June 11, 1996.

Order - The Board reviewed and approved the intervenor costs as submitted.

DECISION 10-96 - October 1, 1996

Application - On August 22, 1996, Northland Utilities (NWT) Limited submitted rate schedules reflecting the directions of Decision 6-96, including proposed rates for 1998. The Board had deferred dealing with 1998 rate schedules pending a review of issues raised by Counsel for the Town of Hay River.

Order - After considering the opinion expressed by Counsel for the Town of Hay River, the Board approved the 1998 Rate Schedules as filed August 21, 1996.

DECISION 11-96 - October 1, 1996

Application - Northland Utilities (NWT) Limited, by letter dated September 5, 1996, submitted a request for review and variance of Decision 8-96 as it pertained to Clause 9.2 of the Electric Service Regulations.

Order - The Board approved the application to Vary Decision 8-96 by replacing Clause 9.2 of the Electric Service Regulations.

DECISION 12-96 - October 1, 1996

Application - The Hamlet of Fort Providence applied for Intervenor costs pertaining to Northland Utilities (NWT) Limited's General Rate Application hearing dated June 11, 1996.

Order - The Board reviewed and approved the intervenor costs as submitted.

DECISION 16-96 - November 26, 1996

Application - By letter dated November 18, 1996, Northland Utilities (Yellowknife) Limited applied for approval to issue a Debenture in the principal amount of \$1,500,000 with a nominal interest rate of 3.70% to Canadian Utilities Limited.

Order - The Board approved Northland's Debenture issue as applied for.