

NWT LEGISLATIVE LIBRARY

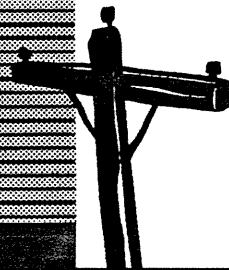


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# Open for Business

*Privatizing  
the Northwest  
Territories  
Power  
Corporation*

N.W.T.  
LEGISLATIVE LIBRARY  
APR 7 1994  
Yellowknife, N.W.T.



## Executive Overview

*"It's an excellent way of telling the world the Northwest Territories is open for business."*

Six years ago, when the Government of the Northwest Territories assumed ownership of the Northwest Territories Power Corporation, it made a commitment to examine privatization some time in the future. As a first step, the government contracted with F.F. (Fred) Abbott, F.C.A. to prepare a feasibility report. The first Abbott report was made available to the Legislative Assembly in September 1992. The government then requested that Mr. Abbott and his associates develop a proposal on how the Corporation could be privatized.

This second Abbott report, which was circulated to the Legislative Assembly in the spring of 1993, outlined how privatization could be accomplished through the creation of an investor owned utility. The report also addressed how a price could be set for the utility and a number of related issues, such as employment and taxation.

In summary, the two Abbott reports recommended the creation of an investor owned corporation, regulated by the Public Utilities Board.

This document is designed to stimulate public discussion and debate prior to the introduction of legislation to privatize the Power Corporation.

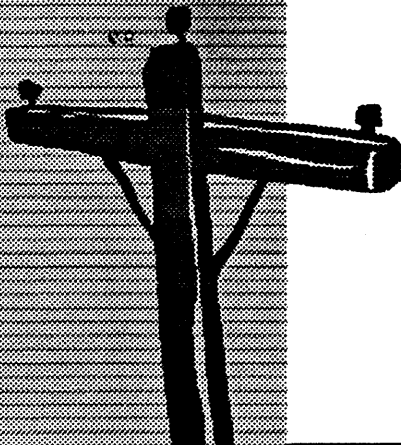
The recommended method of privatization is by sale of shares to the public. Northerners would have first option to purchase shares.

By buying shares in the Power Corporation, northern investors will influence the direction of the company.

In addition, the offering of any remaining shares in the Power Corporation in southern Canada will indicate to southern financial markets that the Northwest Territories is truly "open for business", and will help to encourage southern interest and investment in future northern projects.

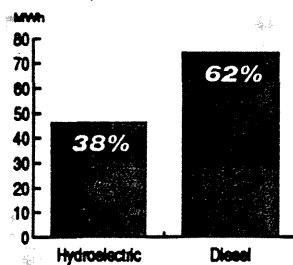
Through this offering, the government will divest all interest in the Power Corporation. Subject to market conditions at the time of sale, the government is expecting to receive about \$80 million from the sale of NWT Power Corporation shares. This amount will be reduced by underwriter expenses, professional fees and an adequate level of financing to establish the Corporation with an acceptable credit rating. Revenue generated from the investment of these funds will more than offset the current annual dividend payment and could be used to fund the Territorial Power Support Program and/or other government programs and services.

Following the creation of Nunavut, the Power Corporation could be regulated by two Public Utilities Boards, representing both eastern and western jurisdictions. As a single utility, the Corporation would continue to provide Head Office support services to both the eastern and western operations. Economies of scale would prevent the inevitable rate increases that a divided utility would bring to both jurisdictions.



# What is the NWT Power Corporation?

**Sources of Energy**



*"The Power Corporation has matured as a company. Government ownership is no longer necessary."*

The NWT Power Corporation is responsible for generating and distributing electricity to most communities in the NWT. It is a crown corporation, a business owned by the Government of the Northwest Territories.

The government created the Power Corporation in 1988 after purchasing the power plants and assets of the Northern Canada Power Commission from the federal government at a cost of \$53 million.

The Power Corporation provides about 98 percent of the power generation, 91 percent of the power transmission and 61 percent of the distribution of electric power in the NWT. In 1993, 36 percent of the Corporation's revenue came from residential customers, 49 percent from commercial and industrial customers and 15 percent from two wholesale customers.

Records indicate the Corporation is selling more electricity each year with a corresponding increase in revenue. And since its establishment, the Corporation has been able to pay the government nearly half the original purchase price.

The Power Corporation is now a profitable, self supporting business, fully regulated by the Public Utilities Board. As a private company, the Power Corporation would be able to raise money on its own, without government guarantees.

## **Why is the government looking at privatizing a profitable Crown Corporation?**

The Government of the NWT established several objectives at the time it purchased the Corporation. These objectives have now been

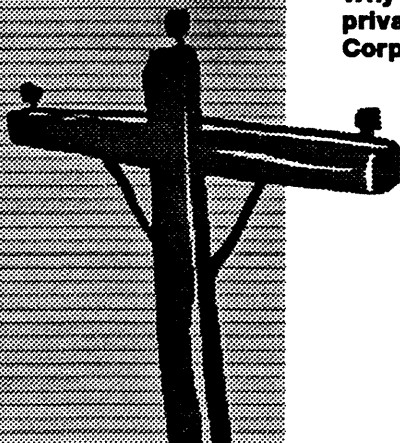
met, and the government can better use this investment to finance other programs and services.

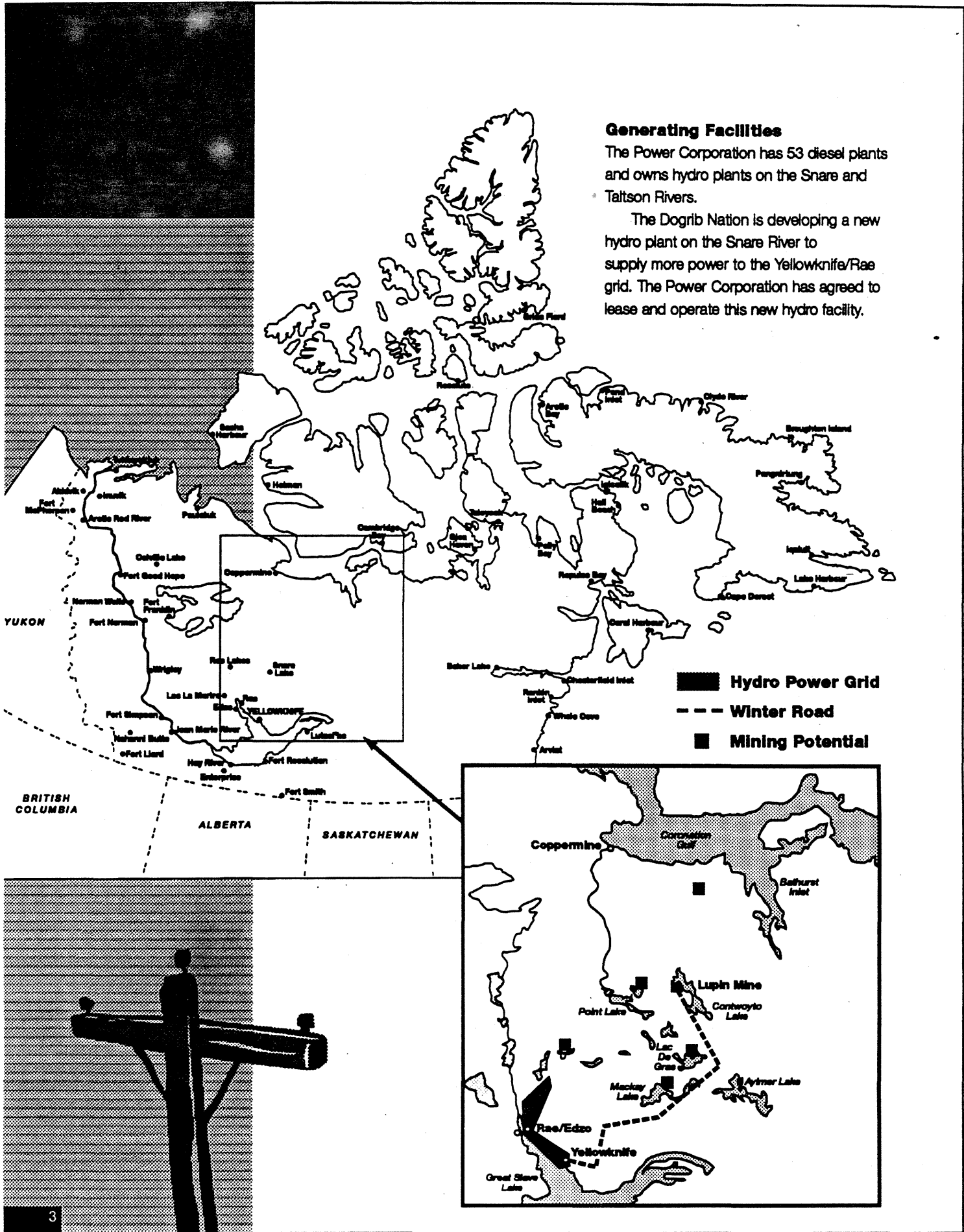
NWT Power Corporation established its Head Office in Hay River creating 70 jobs in the North, and operates in an independent and businesslike manner.

As the owner of the Power Corporation, the NWT government has a large investment in power generation facilities across the North. The proposal to create an investor owned utility is a proposal to "capture" that value, and turn it into cash the government can use for other investment priorities.

Financial experts estimate the government would receive about \$80 million, less expenses, by selling the Power Corporation to investors. In addition, the government would be free of the requirement to provide guarantees for any future loans needed by the Power Corporation. If the Corporation is going to grow and participate in the development of the northern economy, then any future borrowing as a crown corporation will be limited by the government's ability to provide a loan guarantee.

An added benefit of creating an investor owned utility in the Northwest Territories at this time is the interest such a step would stimulate in financial markets across Canada. By privatizing a profitable, well run company, the government would maximize its selling price and in doing so, help investors outside the North learn about the investment potential of the NWT.



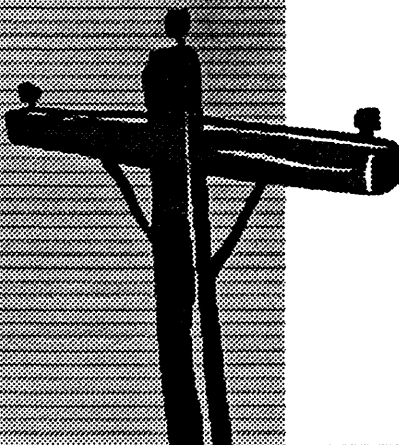


**Generating Facilities**

The Power Corporation has 53 diesel plants and owns hydro plants on the Snare and Taltson Rivers.

The Dogrib Nation is developing a new hydro plant on the Snare River to supply more power to the Yellowknife/Rae grid. The Power Corporation has agreed to lease and operate this new hydro facility.

- Hydro Power Grid
- Winter Road
- Mining Potential



*"The best time  
to sell a  
company is  
when it is  
making  
money"*

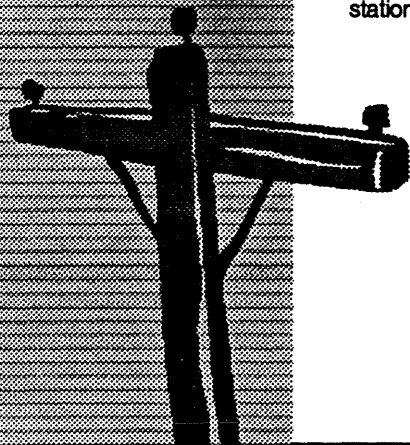
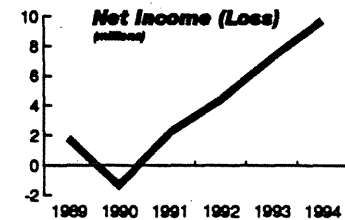
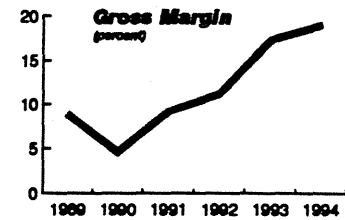
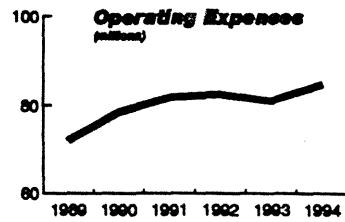
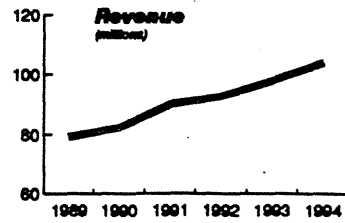
**Why not keep the Power Corporation, now it is making money?**

Investors normally look for stable, solid investments. Selling a business that is managed in a sound manner and is profitable, attracts investment. The price of the shares sold will be higher than if a company does not show a profit. Under these conditions the owner will realize the best price for the business.

The Power Corporation, after several years of changes and upgrades, is now operating at a profit. As the only shareholder, the government receives dividend payments, which are paid from the profit the company makes. In recent years the annual dividend has been \$3.3 million. While this is quite a lot of money, it is a very small amount compared to the current cash requirements of the NWT government.

The funds the government would receive from the sale of the power Corporation, invested wisely, could be used to provide services Northerners need, such as the financing of new housing.

Investors will be attracted by the good growth prospects of the utility. The company is in a position to take advantage of the above average growth of the northern economy as well as development opportunities created by discoveries of gold and diamonds close to its hydro generating stations.



# What does investor ownership mean?

*"The Power Corporation would be an attractive investment, offering good potential for growth."*

Privatization is not a new idea. Governments across Canada are taking a hard look at how they spend their money, and some have decided they have better uses for the dollars they have invested in crown corporations. Often, they choose to "privatize" crown corporations. Nova Scotia privatized its power corporation in 1992. Newfoundland, the Yukon and others are looking at privatization of crown owned power companies as well. In Alberta, responsibility for the generation and distribution of electrical energy has always rested with the private sector.

## **How do you "privatize" a Crown Corporation?**

When the NWT Power Corporation was purchased from the federal government in 1988, it was set up and run as an "arms length" company, and like most companies, ownership was divided into "shares". Both the federal government and the NWT government agreed at the time that privatization of the Power Corporation should be considered in the future.

Today, all the shares of the Corporation are held by the Government of the Northwest Territories.

To privatize the NWT Power Corporation, the government would sell its ownership by selling shares in the company. Each share sold would represent a portion of the total funds the government expects to receive for the Corporation. Shares would be offered to northern residents, first.

The remaining shares would be offered to other investors.

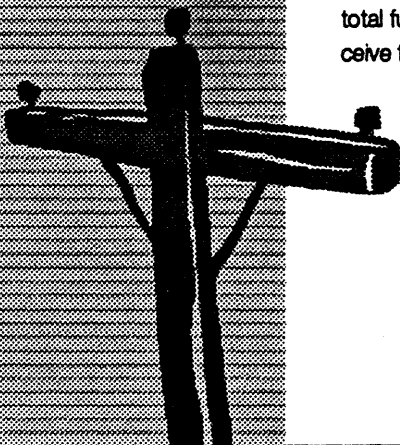
The creation of an investor owned utility would be accomplished by setting up the NWT Power Corporation as a new company which would have all the assets and liabilities of the existing Power Corporation.

The government would sell shares in the new company to an "underwriter", a company that will resell the shares to the public. The exact price the underwriter will pay is open to negotiation up until the moment of sale.

The shares would likely sell for about \$10 each. If the price was \$10, and there were 8 million shares, the government would receive \$80 million. This "gross" amount would be reduced by underwriter expenses and professional fees. In addition a portion of the sales revenue would be required to establish the new Corporation with a solid credit rating. The precise amount received will depend on the price and number of shares. In turn, price and volume will be determined by the utility's earnings and financial markets at the time of sale.

Prior to the share sale, the underwriter would conduct a public information program at selected locations across the North. Residents would be given every opportunity to obtain information on the "offering" and to purchase shares.

Once the underwriter has sold the shares to investors, the new power company would apply for a "listing" on the Toronto Stock Exchange. Shares could then be traded through that exchange.





### **Installment Receipts**

Northern residents will be offered special terms to encourage them to buy shares. They will be able to buy the shares with 60% cash at the time of purchase with the balance to be paid in one year. These "shares" are called "installment receipts". Owners of installment receipts would be eligible for any dividends declared by the new company's board of directors.

### **Resale of Shares: The Stock Exchange**

In Canada, the sale of shares is regulated by provincial securities commissions and stock exchanges, which protect the interests of the public.

The price of a listed share depends on many factors. One key factor is the health of the company, and its future prospects. Another factor is the demand for the shares - how many shares people want to buy and how many are for sale. If people want to buy more shares than there are for sale, the price of each share may increase. If people want to sell shares, and there are few buyers, the price of a share may decrease.

# Why would people buy shares in the Power Corporation?

Investors are interested in both security of capital and a good return on investment, and the shares of the Power Corporation would offer both.

The fact that the Power Corporation is regulated by the Public Utilities Board means that shareholders are assured their investment is generally stable and secure.

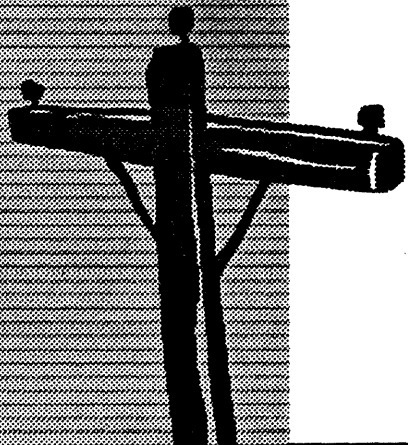
Investment advisors who have reviewed the plans to privatize the Power Corporation believe this is a good time to sell the business, when investors are looking for stable companies which have good potential to grow.

The dividends the Power Corporation might pay would also attract buyers. Shareholders, as owners, benefit from the company's income and from its growth. If the company can earn more money than it spends, shareholders might receive dividends, or a share of the profit. If the company continues to earn profits over a period of years, the shares may become more valuable.

The Power Corporation has paid dividends to its owner, the Northwest Territories government, for the past three years. The government has used the dividends to support the Territorial Power Support Program. In past years, the Power Corporation dividend has increased from \$2.6 to \$3.3 million dollars per year.

*"It's a stable, regulated business offering broad exposure to the economy of the NWT"*

*- Wood Gundy*





# Advantages of an Investor Owned Corporation

*"It's a  
good deal  
for the  
government,  
for the people  
of the North  
and for the  
corporation."*

## **For the Government**

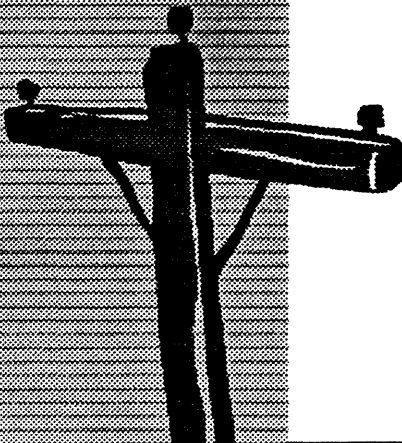
- Funds from the sale can be used for other essential services in the North.
- Current legislation ensures the government will continue to regulate the company through the Public Utilities Board.
- Legislation will require the company to keep its Head Office in the North. The benefits of northern based management, and northern ownership will be protected.
- The new Corporation will continue to pay down and assume responsibility for the existing debt.
- An investor owned Corporation will eliminate the need for government guarantees on the financing of additional power generation facilities.
- An investor owned Corporation will attract the interest of southern financial institutions, and will help to encourage interest in other northern businesses.

## **For the People of the North**

- An investor owned Corporation will provide a generally safe, secure investment opportunity for individual Northerners, investment managers and land claim organizations.
- An investor owned Corporation will allow northern investors to share in the growth of the company, while earning a return on their investment.
- An investor owned Power Corporation will be a viable business Northerners can be proud of.
- The Public Utilities Board will continue to regulate rates and through the efficiencies of a private sector environment, rate increases will be kept to a minimum.

## **For the Power Corporation**

- Investor ownership will encourage private sector discipline, with many watchful shareholders.
- Investor ownership will open the door to new sources of financing.
- Investor ownership will clarify the role of government as a customer of the Power Corporation.
- Investor ownership will allow the Corporation to grow with the northern economy, working on a "company to company" basis with potential developers.



## Northern Concerns and Control

### **If the NWT Power Corporation is privatized, how will Northerners retain control?**

Northerners would retain control of the Corporation if people in the North purchased a majority of the shares in the Power Corporation. However, no one knows how much money Northerners are willing to invest in their own future and in the Power Corporation.

The privatization proposal recommends Northerners be given the first opportunity to buy shares of the Power Corporation. In addition, Northerners will be offered shares on special terms, (Installment Receipts) available only in the North. The recommended terms would permit Northerners to pay part of the cost of a share at the time of purchase and the balance in one year. During the first year, if dividends are paid, holders of Installment Receipts would receive the same dividend per share as other shareholders, but at the time, they would have paid less for each share.

Share ownership generally includes a right to vote at annual meetings of shareholders. To prevent any one group controlling the Corporation, the voting power of large shareholders could grow to 10 percent but ownership greater than 10 percent would result in the loss of any voting right. The northern interest would be protected by this restriction.

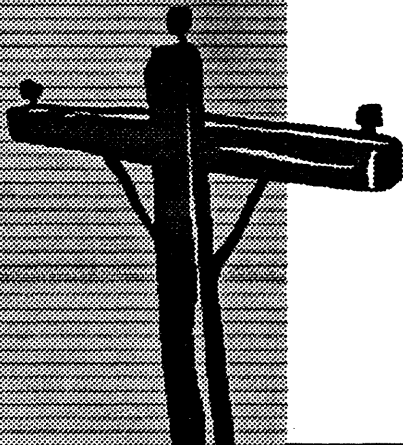
### **Isn't government ownership the most effective way to retain control of an essential service?**

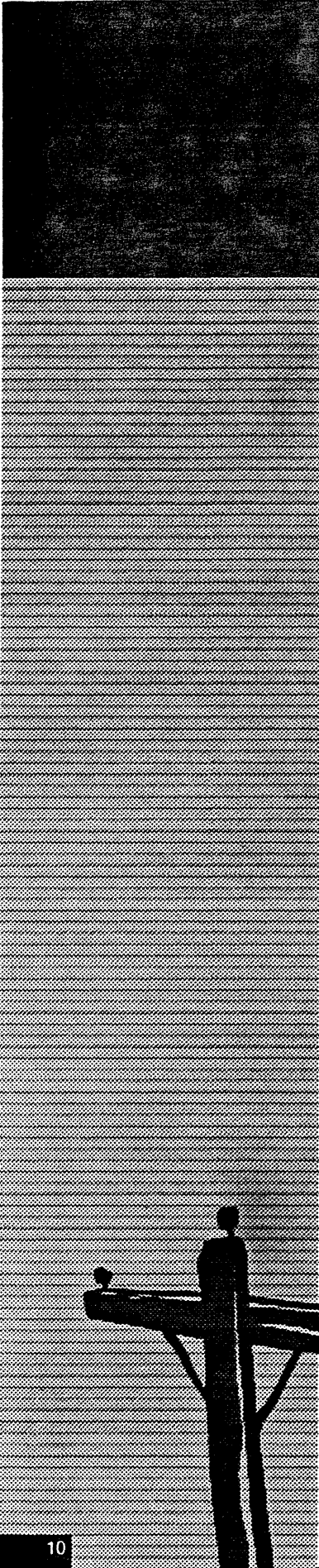
The most cost efficient and effective means of ensuring Northerners do not lose control of power generation and supply is the watchfulness of the NWT Public Utilities Board. The Public Utilities Board is appointed by the government Minister responsible for the Public Utilities Board. The Board has the role of watchdog for the public interest.

The Public Utilities Board has the obligation to review major income and spending decisions made by the Power Corporation. The Board has the power to set rates that can be charged by the Corporation, and to determine how much revenue the Corporation may earn. The Board also reviews every major decision the Corporation makes regarding future expansion. The Board controls the Power Corporation's expenditures by deciding what costs are justified and may be included when power rates are set. In addition, the Board approves the Corporation's terms and conditions of service, or the guidelines by which the Corporation conducts its business.

It is through regulation, not ownership, that the government has successfully exercised control over the NWT Power Corporation.

*"The voting power of large shareholders would be limited."*





**How will the residents of Nunavut control the new company?**

Following the creation of Nunavut, it is possible the Corporation would be required to report to two public utilities boards, one in each territory, a situation that is not uncommon for utilities. Alternatively, the residents of Nunavut may decide to continue with one Board with joint representation.

**If the government sells the Power Corporation, won't the new owners increase rates?**

The Public Utilities Board hearing process determines when power rates can increase. The Board has a duty to consumers not to increase rates beyond reasonable levels, and to the company to ensure it can operate at a profit. Although ownership of the company will change, the authority of the Public Utilities Board over rate setting will not change.

**How do we protect the jobs and benefits of people who work for the Corporation?**

When the Northern Canada Power Commission was sold to the government, employees kept their jobs and their seniority. Now that an effective, trained and largely northern workforce is in place at power plants across the North, the company will want to maintain the workforce.

Several new employee agreements would be required for privatization.

Existing agreements could be used as models.

A new collective agreement will be negotiated. It is expected that the terms of employment, the benefits and the seniority of employees would be maintained. Employees will have the opportunity to select union representation. Their decision may or may not include the Union of Northern Workers. Until a new collective agreement is signed, the terms and the intent of the existing contract would be maintained.

Employees and management would work together to ensure a new pension plan provides benefits comparable to the existing plan. Before federal pension funds can be released, the company will have to demonstrate the new plan is at least as good as the existing plan offered by the government.

At present, 37 percent of the Corporation's employees qualify as affirmative action candidates. Affirmative action is part of the corporate culture of the Corporation, and would remain a part of the culture of the new company. It is simply good business. Hiring local labour minimizes recruitment costs and ensures a stable workforce.

As northern residents, employees will be eligible to purchase shares in the new company. In addition, the company could offer an Employee Share Purchase Plan. This would encourage employees to purchase shares, by payroll deduction. Employees who invest in shares will join all shareholders in helping to decide the direction of the company at annual meetings.



**What would happen to power rates in smaller communities?**

Currently the government provides a subsidy to equalize the cost of power between larger and smaller diesel powered communities. The government has committed to continue providing a subsidy program for equalization of electrical rates if the Corporation is privatized.

**What will happen to the existing power rate subsidy?**

The present subsidy is funded from an annual dividend the Corporation is directed by the government to pay. The subsidy would be financed in future from the government's existing revenue base.

If the revenues from the sale of the Corporation are invested then their return will more than offset the cost of the subsidy program.

**What is the connection between the credit rating of NWT Power Corporation and the success of the Dogrib Power Project?**

As a crown corporation, NWT Power benefits from a preferred government credit rating and the advantage of Government of the Northwest Territories loan guarantees for all borrowings. As a private sector utility, the Power Corporation will be established with an A+ (or better) credit rating. While less secure than the government rating, an A+ rating is a measure of success by utility

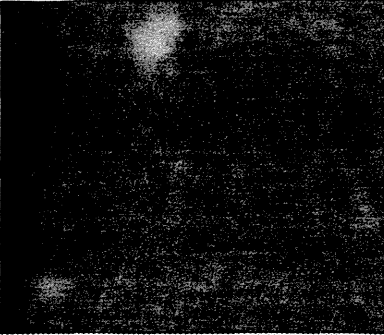
standards, and this will have no impact on the Dogrib project.

If NWT Power Corporation is to participate in the growth of the North and to meet future electrical energy demands then considerable capital investment will be required. If the company remains a crown corporation, these capital requirements may place a strain on the government's loan guarantee limits, and these limits may in turn restrict the Corporation's ability to play a leadership role in future development of the North's energy resources.

As a private sector utility, the Corporation's borrowing would be independent of government and the government's loan guarantee limits would be unaffected.

**What will happen to the Power Corporation when Nunavut is created?**

There would be no change in the new company when Nunavut is created. The company would continue to supply power to customers in the two new territories as it does now. Studies have shown it is necessary to maintain the existing customer base for the company to remain self supporting. The government of Nunavut may want its own Public Utilities Board. The power company would then report to two public utilities boards, one in each territory. Alternatively, one board with joint representation may be formed.



**Why not create two corporations, one in the east and one in the west?**

The NWT Power Corporation currently has a broad customer base and will benefit from development in any region of the Northwest Territories. This broad base allows the corporation to support the level of technical services and training currently provided without an upward effect on the cost of service.

**What would happen to the money from the sale?**

The government would receive the net proceeds from the sale of the Power Corporation. The government would need to examine its needs to determine how the funds could best be used. While the proceeds would represent a small amount compared to the government's annual budget, the cash could be invested and the income applied to identified government projects. Wisely invested, the principal, or cash from the sale, would be protected. The investment fund might be put to use to attract or "leverage" additional private money to assist with urgent government spending priorities across the North. One immediate priority area is housing and infrastructure development.

**A private company would be taxable. Won't that cause rates to rise?**

Federal tax rebates which the government now receives would go to the new company. The rebates would largely offset taxes payable.

# Investment Highlights

## **ATTRACTIVE PRICING**

To encourage broad ownership, the price of shares offered will be set at a level that makes the Power Corporation a "good buy" compared to other utility investments. Financial advisors anticipate that NWT Power Corporation shares will initially be offered for sale at the price of \$10 per share.

## **LOW RISK INVESTMENT**

The generation, transmission and distribution of electric power is generally considered a low risk, stable business. Prices of publicly traded power corporations are generally steady, even in difficult times.

## **FAVORABLE REGULATORY ENVIRONMENT**

The NWT Public Utilities Board is expected to allow companies within its jurisdiction to earn reasonable rates of return.

## **ECONOMIC GROWTH**

Population growth in the NWT has exceeded the Canadian average in the past ten years, and there has been a corresponding increase in demand for electrical power.

Exploration and discoveries of gold and diamonds will eventually lead to additional growth in the NWT economy, and the Power Corporation is well situated to take advantage of this growth.

## **IMPROVED COMPANY OPERATIONS**

The Corporation has dramatically improved its operating efficiency and the quality of its operations in the last five years.

## **GROWTH IN PROFITABILITY**

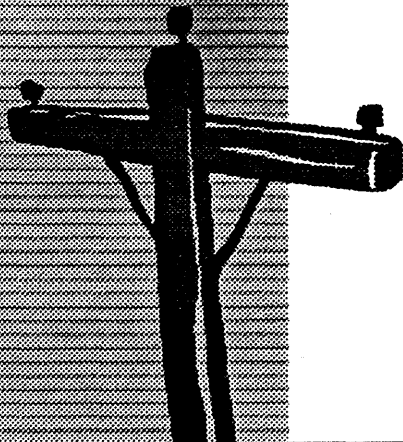
Over the last five years revenues have grown at an annual compound rate of 5.3 percent, and earnings have increased from \$1.8 million to \$7.8 million which approximates the Corporation's approved rate of return.

## **EMPLOYEE SHARE OWNERSHIP**

Employees would be offered shares in the company through payroll deduction. Employee share ownership is a positive signal to potential investors.

## **INDEPENDENCE FROM GOVERNMENT**

Through this offering, the government will divest all interest in the Power Corporation.



If the  
Assembly  
agrees to the  
proposal, what  
happens next?

*"You need to  
create a new  
company,  
transfer the  
power plants  
and the  
employees,  
and then sell  
shares."*

To implement Privatization, a **Privatization Act** would be required. The **Privatization Act** would include the following items:

#### **A new company**

1. A new power company, with a new name, would be incorporated.
2. The NWT Companies Act would apply to the new power company.
3. The new power company would be subject to all applicable NWT and federal legislation and regulation.
4. The Act creating the company would specify that:
  - a person or associated persons owning more than ten percent of the voting shares of the new company would have no vote;
  - the head office and executive offices of the new power company would be located in the North.

#### **Transfer of assets/operations**

5. Operating assets (the plants and power transmission lines) of the NWT Power Corporation would be transferred to the new power company.
6. The long term debt of the Power Corporation would also be transferred to the new company. The government would continue to guarantee the existing long term debt, but would be free of the obligation to guarantee new debt.

7. The new power company would continue to supply power and charge the rates the Power Corporation is charging now. The existing power rates, rate schedule and the rate base approved by the NWT Public Utilities Board would remain in place.

#### **Initial Public Offering**

8. Shares of the new company would be offered for sale to residents of the Northwest Territories. (Initial Public Offering)
9. Expenses for the privatization and the public offering of shares would be the responsibility of the government.

#### **Employment issues**

10. Employees would work for the new company, not the government:
  - the existing collective agreement would terminate. The new company would assist employees to establish a new collective agreement;
  - it would be in the company's interest to keep employees, so the new agreement would offer pay and benefits comparable to the existing agreement;
  - a new employee pension plan would be developed, and would have to meet the requirements of the existing plan before federally controlled pension funds would be released;
  - affirmative action programs would be retained.;
  - employees would be covered by the Canada Labour Code, not the Public Service Act.

