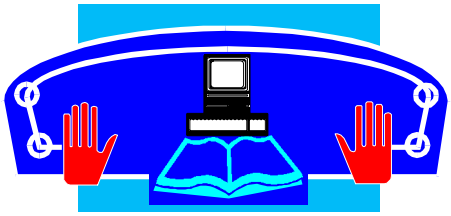

Before The National Energy Board In The Matter Of An Inquiry Into Matters Relating To The Northen Canada Power Commission

Mining/oil/energy, Energy General

Date of Report: 1985

Author: G.n.w.t. - Energy, Mines And Resources Secretariat

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BEFORE
THE NATIONAL ENERGY BOARD

IN THE MATTER OF an Inquiry into matters
relating to the
NORTHERN CANADA POWER COMMISSION

DIRECT EVIDENCE OF
THE GOVERNMENT OF THE NORTHWEST TERRITORIES

Northwest Territories Energy, Mines and Resources Secretariat

THE NATIONAL ENERGY BOARD

ORDER NO. EHR-1 -84

IN THE MATTER OF an Inquiry into matters relating to the Northern Canada Power Commission pursuant to Subsections 22(2) and 20(3) of the National Energy Board Act.

Energy. Mines and Resources Secretariat
Government of the Northwest Territories
February 1985

List of Witnesses for
The Government of the Northwest Territories

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BEFORE
THE NATIONAL ENERGY BOARD

IN THE MATTER OF an inquiry into
matters relating to the
Northern Canada Power Commission

PANEL 1 - POLICY

PREPARED EVIDENCE OF PANEL CONSISTING OF:

THE HONORABLE T. CURLEY
MINISTER FOR ENERGY, MINES AND RESOURCES
GOVERNMENT OF THE NORTHWEST TERRITORIES

PREPARED TESTIMONY

Panel I - Policy

The Honorable Tagak Curley

Q1 **Would you introduce yourself, Sir?**

A1 My name is Tagak Curley. I am the Minister for Energy, Mines and Resources and the Minister of Economic Development and Tourism. I am also responsible for the NWT Public Utilities Board.

Q2 **In what capacity are you presenting this evidence and what is your purpose?**

A2 I am speaking on behalf of the Executive Council of the Government of the Northwest Territories and on behalf of the citizens of the Northwest Territories.

I intend to present to you the concerns and the position of the Executive Council.

Q3 **Could you describe the Executive Council of the Government of the Northwest Territories?**

A3 The Executive Council is the senior decision-making body of the Government of the NWT. The Commissioner and eight elected ministers chosen from the Legislative Assembly, serve as members.

...2

The Council fulfils a Cabinet function, establishing territorial government priorities, policies and programs.

Q4 **Would you describe the general attitude of the Executive Council concerning the recent developments of NCPC?**

A4 Let me say, at the outset, we were encouraged by the decision of the federal Minister to relocate the Head Office of N.C.P.C. to Yellowknife.

With all due respect Mr. Chairman, I believe it is also appropriate to say that the G.N.W.T. is still firmly committed to the position it outlined before this Board in 1983. The Commission should be divided into separate Yukon and N.W.T. companies, these companies should be regulated by local authorities, and in the N.W.T., the company should be transferred to territorial ownership. These changes should take place coincidental with a financial restructuring of the Commission with a view to reducing the interest burden and establishing equity. The Honorable Richard Nerysoo's evidence was very clear on these points, and I refer you to his previous testimony.

...3

I do not intend to infer that the National Energy Board is incapable of adequately regulating N.C.P.C. We are saying that the N.W.T. is capable of, and has a right to control the instrument of their power supply. This is a proper thing, it will come, and we are prepared for it now.

Therefore we will continue to work closely with the Honorable David Crombie, to effect the orderly transfer of the Commission to the N.W.T.

Q5 **What is the opinion of the Executive Council on the rate design With forms the basis of N.C.P.C.'s current rate proposal?**

A5 I would like to deal first with the rate design itself, as a separate question, putting aside for the moment the effects of its implementation. We see the adoption of a single diesel zone rate schedule and a single hydro zone rate schedule, both based on costs, as a reasonable rate design practice in the NWT. Such a scheme will add a measure of simplicity and stability that we have not had to date. Moreover, I believe such a design meets our definition of fairness and will be acceptable to most citizens of the NWT.

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On the other hand, we believe that this rate design will impair our ability to replace diesel electric generation with local energy sources. In this event, the design would frustrate the attainment of the energy goals of the federal and territorial governments, goals which were struck to improve the economic and social well being of the citizens in the N.W.T.

The point is that communities must be allowed to benefit in exchange for the local risks and disruptions that will accompany any alternative energy project. The application of equalized rates across diesel communities must allow for some flexibility to accommodate an incentive to accept more efficient means of generation.

Turning now from the theoretical aspects of the proposed rate design, we begin to have a great deal of difficulty with the system as soon as the resulting prices and their effects on certain customers are considered.

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The implementation of the new schedules is utterly impossible without a significant degree of subsidization. **Without this subsidization, we are absolutely opposed to the implementation of this design and these rates.**

I realize I am talking about two things here, rates and subsidies. It can be argued that these two issues must be kept separate. Perhaps they can be theoretically, but certainly not practically.

Mr. Chairman, I suggest that in the hearings that are taking place now, you are getting only one side of the picture - that being the costs that are attributable to groups of customers. In another time and another place, these would be translated into prices that customers would be asked to pay.

However, in this time and place there is a necessary second side that must be considered, that being a subsidization package to be blended with the published rates. The two combined should result in fair and bearable charges to consumers in the NWT.

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Our position, Mr. Chairman, is that you may determine an appropriate allocation of costs, and you may allow this determination to be translated to rates. However, you may not allow these rates to be imposed until such time as a compatible subsidy system has been put in place.

We believe that it is within your current authority and responsibility to elaborate to the Federal Minister those issues which you touched on your August, 1983 report, and I quote from page 15;

> "... the Board notes that, given the high cost of electricity in the North, it appears that subsidies will continue to be required".

In addition, we on our part, will seek an opportunity to discuss this issue with the Minister of Indian and Northern Affairs prior to decisions being made. This would be in concert with the recommendations of the Subcommittee on the Northern Canada Power Commission's report Electrical Power North of 60°, the well known Penner Report. Their recommendations with respect to the charges ultimately levied on customers are discussed on Page 63 of the report:

...7

> "the subcommittee has no magic formula for deciding what rates are fair in the North. "

> "the federal and territorial governments, through negotiations , will establish maximum prices for electrical power rates in each of the territories taking into account rates elsewhere in Canada."

It may not be possible for the two governments to reach a satisfactory agreement before March 31, 1984. In that event the current rate structure should remain in force, with price increases subject to the 4% cap of the federal Administered Price Guideline.

Mr. Chairman, that concludes my remarks today. There are other important issues of an accounting and technical nature that will be addressed by officials of this government. I have appeared before you today to ensure that there is no doubt or confusion with respect to our perception of these rates and their application to customers in the NWT.

...8

As a last item, I would like to take this opportunity to welcome the Edmonton employees of N. C. P.C. that will be moving here. The economic development of the North is a stimulating challenge for us all. We need the assistance of these dedicated men and women.

Those employees whose situation allows them to move, will find Yellowknife a truly hospitable and vibrant community. I am sure that when the dust of the move has settled, they will not regret their decision.

HONORABLE TAGAK E.C. CURLEY

MLA Aivilik

Department Responsibilities:

Economic Development and Tourism

Other Responsibilities:

Energy, Mines and Resources Secretariat.

Boards/Agencies/Committees:

Public Utilities Board, Priorities & Planning Committee, Resource Committee (Deputy Chairman), Aboriginal Rights and Constitutional Development Committee

Tagak Curley was born in Coral Harbour in 1944. He worked for the Territorial Government and the federal government Department of Indian and Northern Affairs between 1966 and 1970, and then was settlement manager in Repulse Bay in 1970-71.

He was founding member and was the first president of the Inuit Tapirisat of Canada. He was also president of the Nunasi Corporation from 1979-83.

Mr. Curley was elected to the Legislative Assembly in 1979 as member for the Keewatin South and re-elected in the renamed riding, Aivilik, in 1983.

BEFORE
THE NATIONAL ENERGY BOARD

IN THE MATTER OF An Inquiry into
Matters Relating to the
Northern Canada Power Commission

PANEL - 2 - TAB 2 REVENUE REQUIREMENT

TAB 3 RATE DESIGN

PREPARED EVIDENCE OF PANEL CONSISTING OF:

MR. P.J. HART
MR. S.C.W. WOOD

PREPARED TESTIMONY

PANEL 2 - REVENUE REQUIREMENT

Stuart Cameron Walker Wood

Q1 Would you please introduce yourself, describe the responsibilities of your position, and your previous experience with the National Energy Board (Board)?

My name is Stuart Wood. I am employed with the GNWT as a Resource Economist in the Energy, Mines and Resources Secretariat.

I am responsible for the analysis and evaluation of the economics of resource development. I am required to provide advice and counsel to Ministers of the Government of the Northwest Territories (GNWT) on matters pertaining to the economic and financial aspects of resource development and energy related proposals. I appeared before the Board in the previous inquiry into NCPC in June 1983 at Inuvik.

Q2 What is the purpose of your testimony?

A2 This testimony is intended to identify GNWT areas of concern relating to NCPC accounting practises. More specifically, I believe NCPC's cost allocation methods with respect to head office and interest expenses are inappropriate. As well, I feel there is a need for the separation of NCPC'S financial accounts along territorial lines.

Q3 **In what way are NCPC cost allocations inappropriate?**

A3 A basic objective of a rate structure is to enable a utility to meet its revenue requirements without burdening one group of customers to the benefit of another. Because cost is the principle criterion in the design of rates, an appropriate allocation of costs is vital to the determination of just and reasonable rates. We note that the National Energy Board, in its August 1983 recommendations, endorses cost base rates (4.1 pg. 9, 4.3.2 pg. 12). Mr. Christie, in this evidence, also supports this concept (3-17). Price Waterhouse and Associates in Appendix I page 6 of Mr. Christie's evidence, further stresses the importance of "track[ing] the manner in which head office and regional office expenses are incurred on behalf of the plants".

...3

Although the NEB, NCPC and its consultants appear to agree on the importance of relating costs incurred to their cause, it is not at all clear that NCPC has followed this objective in the allocation of its head office costs and interest expenses.

Head office costs have been allocated on the sole basis of employee salaries and wages. Total interest costs for NCPC have been averaged and applied equally across all rate zones. Because these two costs add up to almost 30% of NCPC'S cost of service, they are material and should be allocated to rate zones on the basis of cost causation to the extent that this can reasonably be done.

Q4 **Could you elaborate on your statements with respect to head office expense allocation?**

A4 Head office costs have been allocated to rate zones on the basis of total wages and salaries projected for each rate zone. In my view, costs should be allocated using a more scientific method based on cost causation where practical.

...4

1 note that the National Energy Board recommended that NCPC conduct a study to determine the extent to which its current allocation procedure tracks the manner in which head office expenses are actually incurred on behalf of service areas (4.3.2 pg. 12). Presumably this study is the one prepared by Price Waterhouse and Associates and submitted by Mr. Christie as evidence.

With respect to head office cost allocations this report recommends that:

> "Head and regional office costs should be assigned directly to functional levels where practical, and otherwise allocated based on the relationship to functionalized assets and costs."

Price Waterhouse and Associates describe functional levels as production, transmission, distribution and customer categories.

The Price Waterhouse study further states that "Costs which can be identified specifically to the Yukon or NWT or a particular plant should be assigned directly to these areas. .." (pg. 8).

...5

The essential point is that Price Waterhouse and Associates in their study were attempting to rationalize head office costs so that these costs could be matched with their cause. Nowhere in the Price Waterhouse and Associates study was there reference to the method of cost allocation being proposed by NCPC.

Price Waterhouse and Associates suggest that production costs be allocated on a per kWh basis, and transmission and distribution be distributed on the basis of customer group coincident demand. They also recommended customer costs be allocated based 95% on the number of customers and 5% according to revenues assessed.

Q5 **What is your specific concern regarding the head office cost allocation method being proposed by NCPC?**

A5 Head office expenses relate to all the cost elements of NCPC's activities including the costs of customer service, labour, materials, supplies and capital. A simple allocation on the basis of labour costs does not constitute as correct an assignment of these costs as is possible. For example, 54% of head office expense has been allocated to the NWT diesel zone. This does not appear to be warranted considering that these customers consume only 20% of system power.

In addition, it is proposed that NWT customers be assigned 84% of head office costs. If NCPC had chosen a different method of cost allocation, such as kWh consumption, the NWT would only be paying 60% of head office costs.

The size of head office costs and the significantly different results obtained under various methods of cost allocation, require that these costs be distributed as logically and as fairly as practical.

Q6 **What direction should NCPC be given with respect to head office cost allocations?**

A6 There are many methods that can be used to assign head office expense. It is not my intention to recommend a specific practice, but rather to suggest that the one chosen is unacceptable. NCPC should be asked to perform its cost allocations in a way that more accurately reflects the cause of these costs.

...7

Q7 **You mentioned the al location of loan interest as a concern. Would you please elaborate on this issue?**

A7 NCPC, in its evidence, lists each of its loans by rate zone along with the interest rate charged on each loan. The NWT diesel zone is recorded as having an average cost of debt amounting of 9.7992% while the NWThydro zone average cost of debt is 8.7730%. In Yukon the diesel zone has an average cost of debt of 11.8290% and the hydro zone 11.0121%. NCPC's overall average cost of debt is recorded at 10.1984% (R. Philips Evidence Appendix I).

In Section 2 of Appendix I of the Board's hearing order No. EHR-1-84 the Board stated:

"For each rate zone, revenue requirement . ..[should include] . . . return on rate base."

I concur with the Board's desire that return on rate base should be determined on a rate zone by rate zone basis.

...8

The principle of allocating cost to customers who cause these costs should be applied to interest expense. The proposed treatment results in any increase in the debt cost rate being allocated across the entire company and borne by customers in all rate zones. For example, if a large capital project was developed at a time of high interest rates, the interest cost of the facility would be charged to all customers, even though only one small group might benefit.

An illustration of the effect and magnitude of this phenomenon can be seen by examining interest costs in the two NWT rate zones. Both NWT rate zones have a lower average cost of capital than NCPC as a whole (9.29% vs. 10.20%). Averaging debt costs across all rate zones has the effect of shifting one million dollars of cost from Yukon customers to NWT customers.

...9

Q8 **What direction should NCPC be given with respect to its interest cost allocations?**

A8 Interest constitutes a material cost element. It represents 21.5% of N.C.P.C.'s total expenses. The cost allocation method used will have a significant impact on the rates charged in individual rate zones. Rates charged to individual rate zones should reflect the interest cost of the debt incurred to provide zone based generating facilities.

Q9 **You stated that the separation of NCPC's financial accounts was an issue of concern. Would you please elaborate on this issue?**

A9 I feel that NCPC needs a completely separate set of financial records for its NWT operations which are distinct from its Yukon or Field B.C. operations.

It is my opinion that this separation should include an allocation of the "equity of Canada" and "retained earnings" accounts on an individual territorial basis.

. ..10

Q10 Uhat is your rationale for such a recommendation?

A10 Essentially, a separate accounting is required to ensure that rates in each operational jurisdiction are commensurate with the costs in that jurisdiction. Account separation would assist in ensuring that each territory was paying its cost of service, not only on a projected annual basis but in fact over the longer term. The existance or buildup of sizeable surpluses or deficits on a territory by territory basis should have an eventual impact on rates. If ratepayers in one territory accumulate a deficit, the message to the regulator is that rates need to be adjusted upwards. If the opposite is true, rates would tend to rise less rapidly.

As an example, N.C.P.C. since 1978 has accumulated a profit from operations of $13.5 million. Its retained earnings account has shifted from a $4.3 million deficit to a $9 million surplus. Of this profit, $12.8 million has been accumulated from the NWT rate zone. Accumulated surpluses and deficits should have an impact on the rates of subsequent periods. Current accounting practices do not allow this to happen easily.

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Provincial practice is perhaps instructive in this case. The tendency of the provinces to establish their own individual utilities, no doubt stems from their recognition of the critical nature of the service, and their desire to deal with the issue on a province-wide basis. Regulation takes place to ensure that the consumers within the jursidiction's own borders pay only the true costs of operation therein. The fact that N.C.P.C. has a mandate to operate in three jurisdictions does not release it from the requirement to consider each area separately, as if it had its own separate utility. I do not believe that any provincial regulator or government, were it faced with the same operational situation, would accept the current accounting practice.

As long as N.C.P.C. continues to serve three separate jurisdictions, it should be required to maintain separate financial accounts for each jurisdiction.

Curriculum Vitae

Stuart C.W. Wood

Address: 600 Williams, Yellowknife, Northwest Territories

Date of Birth: November 9, 1954

Marital Status: Married

Education: Society of Management Accountants (RIA) - fifth level student enrolled with the Alberta Chapter

University of Guelph (1974-76) B.A. Economics

Experience:

Canadian Imperial Bank of Commerce 1977-78

Hired as a manager trainee, Mr. Wood learnt all aspects of branch banking, including security and stock trading, accounts reconciliation, limited money lending and foreign exchange dealings. During his tenure, Mr. Wood worked in three branches and supervised up to eight people.

NWT Housing Corporation 1978-82

Working first in the position of District Accountant, Mr. Wood gained experience in organization planning, budget preparation and implementation, cashflow analysis and internal auditing. As a program officer, Mr. Wood designed teaching modules and developed training techniques. Finally, as Program Coordinator, Mr. Wood was responsible for the training of staff, the administration of home ownership programs, the counseling of clients, the research of housing markets and the analysis of policy.

Energy, Mines and Resources Secretariat 1982 - present

In this current position as Resource Economist, Mr. Wood is responsible for the analysis and evaluation of the economics of resource development and provides advice and counsel to GNWT ministers. Working in this capacity Mr. Wood has designed a resource management and revenue sharing strategy. Mr. Wood also evaluates the economic inpacts of major resource development and energy supply projects.

PREPARED TESTIMONY

PANEL 2 - RATE DESIGN

Peter J. Hart

Q1 **Would you please introduce yourself, describe the responsibilities of your position, and your previous experience with the National Energy Board (Board)?**

A1 My name is Peter J. Hart. I am employed with the Government of the Northwest Territories (GNWT) as an Energy Advisor in the Energy, Mines and Resources Secretariat, Department of the Executive.

I am responsible for the formulation of policy options on energy issues. Further, I provide advice on energy issues to the Executive Council.

I appeared before the Board in the matter of an application by Arctic Pilot Project Inc. In addition, I testified in the previous inquiry into the Northern Canada Power Commission (NCPC) in June, 1983 at Inuvik.

...2

Q2 **What is the purpose of your testimony?**

A2 This testimony is in two parts. The first describes some conceptual concerns with respect to the new rate design. The second part deals with the anticipated effects of the proposed rates and the transition from the current structure to the cost-based rates under consideration.

Conceptual Issues

Q3 What is the position of the Government of the Northwest Territories with respect to the rate design proposed by NCPC?

A3 The Government of the Northwest Territories believes that the development of NWT diesel and hydro zone specific rates for each customer class is an acceptable approach to rate making in the N.W.T. We recognize the direction given by the Board to this effect in their report of August 1983, and concur with the manner in which NCPC has implemented that direction.

...3

However, the GNWT does have some reservations with this system.

The Honorable Richard Nerysoo commented on the Board's report before the Parliamentary Standing Committee on Indian Affairs and Northern Development on February 14, 1984. His words were:

> "We agree that it is desireable in a theoretical sense to establish uniform rates for similar types of customers. In a practical sense, however, for the NUT at this stage of its development, there are reasons why such a scheme is not suitable."

One of the main reasons Mr. Nerysoo had for making this comment was the need for sensitivity on the part of each community to its own generating cost. This sensitivity is necessary for the development of alternatives to diesel generation.

...4

It may be possible to accommodate this concern within the framework recommended by the Board by allowing some flexibility in pricing to encourage communities to benefit from the acceptance of new, more cost-effective production technologies.

Q4 **What rate design principles do you consider appropriate for the NWT?**

A4 Bonbright* has put forward a list of rate design principles which are generally considered to be desirable. Some of these principles can be summarized as follows:

- simplicity
- public acceptability, fairness
- allows full cost recovery
- stability of revenue and rates
- promotes efficient use

I feel another principle must be emphasized, that being:

- **promotes efficient production**

*Decision 2-80, NWT Public Utilities Board, Yellowknife, February 25, 1981

...5

1 make this point in the belief that much can be done
2 in the long term to increase the utilization of the
3 NWT's own energy resource, and in this way to promote
4 reasonable and more stable prices. This is a goal of
5 the GNWT Energy Policy (Attachment 1) and that of the
6 Federal Government.
7
8 **Q5 Why is "efficient production" an important principle**
9 **in the NUT's case?**
10
11 **A5 NCPC is dealing with an unusual electrical system**
12 in this jurisdiction. The system is unique in that it
13 is largely comprised of isolated communities, each of
14 which forms its own small system.
15
16 Development of a long run efficient production source
17 requires a community by community assessment, to
18 determine how local resources might replace diesel.
19
20 The second aspect of this question is the way in which
21 people in these communities perceive the land and the
22 resources on it. It is our suggestion that
23 alternative energy projects will not be permitted by
24 communities under the equalized zone pricing method.
25
26 ...6
27
28

Therefore, the assumption that communities are connected for rate making purposes, will in our view, hamper the long run development of more efficient production means in the NWT.

Q6 How **can this difficulty be overcome?**

A6 The GNWT considers that communities willing to undertake alternative energy projects should receive special consideration with respect to the recovery of cost .

In addition, the GNWT considers that the Board should establish the ground rules for the pricing of electricity before new capital developments occur. These ground rules would allow NCPC, the Territorial and Federal governments, and communities to continue to assess the diesel replacement projects, forearmed with a clear understanding of the ultimate affect on rates.

We know that this is the Board's first year of regulation, and that this issue is a planning and futures oriented item. However, we must re-emphasize that it is an issue of daily concern to those attempting to achieve federal and territorial energy goals. Clear N.E.B. direction would be a substantial contribution to their efforts.

...7

Q7 Can you give examples of the kind of capital development you are referring to?

A7 Three types of development are worthy of mention in this regard.

1. Diesel communities may have viable small scale hydro options open to them.

Coppermine is an example currently under study. Whether or not the project is found to be economic on the basis of technical studies is beside the point; it stands as an illustration of what might be done.

The scenarios that have been studied to date have projected capital costs in the order of $30 to $50 million. The inclusion of such in the hydro zone pool would add a minimum of 23% to the revenue requirement.

2. Relatively large hydro projects may be undertaken either as additions to the current systems, or to serve new industrial or municipal loads. A case in point would be the Wolverine Creek project on the Great Bear River to supply

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Norman Wells, Fort Norman and Fort Franklin. I do not believe this project is being actively pursued, but it does serve as an example for the purposes of this argument.

The projected capital cost is in the order of $120 million. The inclusion of such a project in the hydro zone pool would add 90% to the revenue requirement.

Obviously any new hydro project will have a noticeable impact on the rates of the current customers. The extent to which new hydro projects should be included in the zone cost pool depends upon the relative weight assigned to various rate making objectives. We believe a relatively high value should be assigned to the encouragement of production efficiency. Obviously any new hydro project will have a noticeable impact on the rates of current customers.

3. The last example relates to non-hydro alternative energy projects utilizing wind, coal, wood gasification, nuclear or other energy sources. These may be further down the road than hydro alternatives, but it is nevertheless important to know now what rate making practices would apply.

To establish sensitivity to the economic benefits of projects, communities could be allowed the full benefit of lower operating costs through an averaging of these new costs with the diesel zone rate on a weighted basis.

Q8 Do you have any other concerns with the proposed rate design?

A8 There are two other noteable difficulties with the equalized rate plan.

1. Affect on Conservation Decision

In practice, community electrical rates will be relatively insensitive to community costs, since these costs have already been pooled. Price as a signal is somewhat attenuated. Agencies with buildings in many communities, seeking to conserve their own funds, will tend to base their conservation decisions on factors other than the true economic efficiency of the conservation. There are a number of agencies in this situation including the GNWT, the Government of Canada, the Co-op stores and the Hudson's Bay Company.

...10

To help overcome this problem, it would be useful to have access to documentation that sets out annually the avoidable costs of service in each community. Each of these larger agencies could then assess where conservation dollars should really be spent.

If the correct price signals cannot be provided through rates, then the Commission should provide clear and detailed cost information as a surrogate.

2. Self Generation

It is a simple fact of equalizing rates that communities with relatively high costs will pay less than their cost of service, and those with relatively low costs will pay more. Considering the latter case, the difference between actual community cost and posted rate may be substantial, particularly in larger centers such as Inuvik.

Any large consumer in such a community will base his own decisions with respect to sourcing his energy needs on the posted price. In June 1983, the Board heard testimony from a businessman in Inuvik who said that the then NCPC rate was just below the point at which he would install his own generation.

The Board must recognize that the spread between true cost and posted rate may lead to some migration from NCPC's system, even though such migration may not be economically efficient in a social sense. If this tendency becomes serious, the Board should consider modifying the universality of equalized rates to take into consideration "value of service" and other appropriate rate design criteria.

Practical Applications

Q9 **To this point you have discussed the proposed rate design in relation to rate making principle. Have you assessed the impact of these rates on consumers in the NWT?**

A9 **We assessed in a preliminary way the effect of the** proposed rates on non-government residential and general service customers. Based on a sample of diesel communities, power bills at the new rates **would require an average of 24 to 42% of after tax income of residential customers.**

A sample of general service customers in diesel communities showed that power bills at the new rates could reduce pre-tax profits by 5 to 51%.

Our conclusion is that the new rates would cause unacceptable social and economic dislocation in the NWT.

Q10 **Does the GNWT believe that the diesel zone residential and general service rates proposed can be implemented in a practical sense?**

A10 The GNWT believes that these rates would place an unusual and unacceptable burden on **diesel zone residential and general service** customers. In **the absence of an adequate subsidy program, the GNWT is absolutely opposed to their implementation.**

In its work on rate design, the GNWT has attempted to keep separate the issues of rational rate design, according to principles described by Bonbright, and social considerations such as "ability to pay".

We understand that the N.E.B.'s role as regulator would cause it to focus on issues of cost, and allocation of costs, leaving matters of social policy to be the responsibility of elected representatives of the people.

In our analysis, however, we have come to the conclusion that adoption of a plan based on normally accepted rate making principles, causes rates that are often well beyond the means of many average customers.

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We would suggest that a regulator's ability to stand aloof from social considerations is a matter of degree. **Therefore the Board must recognize what the social impacts would be if these rates are implemented, and must, if they deem them unacceptable, identify to the Minister that action must be taken prior to their installation.**

Q11 **What action does the GNWT believe is necessary?**

All The GNWT concurs with the comments of the Board in this matter, given in their August 1983 report on Page 15:

> "...given the high cost of electricity in the North, it appears that subsidies will continue to be required."

> "...the choice of the appropriate scheme and the amounts involved should rest with the government which is financially responsible for providing the subsidy."

The current Federal Power Support Program (FPSP) and Commercial Power Rate Relief Program (CPRRP) which are due to expire March 31, 1985, essentially establish a predetermined reasonable block of consumption that will be subsidized down to a predetermined reasonable price.

We agree that this methodology appears to be the best way in which to establish and deliver a subsidy. However, we are not aware of the Federal Government's intentions with respect to the continuation of the current subsidies or their replacement with a new program. We consider it important that there be a dialogue between the two governments prior to a Federal decision on subsidy program design.

Continuation of the FPSP and CPRRP at the levels implicit in the 1984-85 Yellowknife rates would not compensate adequately for the proposed rate increases.

Determination and approval of the appropriate subsidy program may not be complete by March 31, 1985.

Q12 Uhat **should happen if an acceptable subsidy system is not worked out by March 31, 1985?**

A12 Failing the development of an adequate subsidy system, the Federal Administered Pricing Guideline should be applied, whereby no customer in the NWT should be asked to pay more than 104% of the 1984/85 rate in 1985/86.

Curriculum Vitae

February 1984

Peter J. Hart

Address:	4911 Matonabbee Street, Yellowknife, Northwest Territories
Date of Birth:	1943, Ottawa, Ontario
Marital Status:	Married
Education:	Bachelor of Commerce (ECON), St. Patricks College, University of Ottawa, 1965
	Master of Business Administration, Queen's University at Kingston, 1979
Experience:	Supervisor, Computer Training Group Bell Canada, Montreal, Quebec, 1965-1967
	Senior Systems Analyst Ontario Hydro, Toronto, Ontario, 1968-1972
	Manager, Systems and Program Development Government of the Northwest Territories Yellowknife, Northwest Territories, 1973-1977
	Special Assistant to the Minister responsible for Energy, Government of the Northwest Territories 1980-1981
	Energy Advisor Energy, Mines and Resources Secretariat Government of the Northwest Territories, 1982

The Government of the Northwest Territories will promote **the** efficient use of energy **in the NWT and increase the utilization of NWT energy resources in a manner consistent with the economic and social well being of its people.**

The Government of the Northwest Territories will act according to the following principles:

1. **Residents will be helped to recognize and avoid waste.**

2. **Consumer financial responsibility for energy purchases will be increased.**

3. **Energy efficiency in buildings will be encouraged.**

4. **Administrative practices within government relating** to energy use will be redesigned to promote conservation.

5. NWT energy use will be monitored to provide the basis for energy planning.

6. New sources of energy will be identified on a community by community basis.

7. Industry shall be encouraged to contribute to the identification of community alternative supply.

8. Projects proposing to supply energy to NWT residents will be evaluated and approved according to their long run ability to deliver a sure and low cost supply that is consistent with the interests of the people affected.

John A. Parker

Commissioner and
Chairman of the Executive Council

83-10-19

Reference

For elaboration of this Policy refer to Directive.