



# BRIEFING ON PUBLIC UTILITIES BOARD RELATED MATTERS

STANDING COMMITTEE ON ECONOMY AND THE ENVIRONMENT

June 5<sup>th</sup>, 2017

# Why We Are Here

To Provide an Overview of:

- Principles of Rate Design
- Nature of the Public Utilities Board (PUB)
- Previous Policy Direction to the PUB
- Latest Policy Direction to the PUB
- Phase I General Rate Application (GRA)
- Phase II GRA: Specific Rates, Rate Rebalancing, Rate Stability and Rate Shock
- Clarification to PUB - Government Rates

# Principles of Rate Design

- Rate revenues should cover costs of services in each zone
- All NWT communities should have comparable access to affordable power
- Electricity rates should be stable and increase gradually only as may be necessary to recover costs
- Increases to cost of living should be mitigated
- Governments should pay more for electricity rates to reduce rates for other customers
- Rates should be established through a transparent and accountable public process

# Nature of the Public Utilities Board

- The Public Utilities Board is established under the *NWT Public Utilities Act*
- The *Act* and Board regulate public utilities in the NWT, including rates
- The Board is quasi-judicial, meaning it has powers similar to a court
- The GNWT has the authority to give policy directives under Section 14(1) of the *Act*

# Nature of the Public Utilities Board

- The Minister appoints members to the Board
- The PUB currently has a Chair, Vice-Chair and two board members
- The PUB rate setting is a fair, transparent, consistent, arms-length, and public process
- No structural changes are contemplated to the PUB
- The PUB will ultimately decide on rates, considering proposals of utilities and interveners through the GRA process.

# Previous Policy Direction to the PUB

- GNWT provided direction to the PUB in 2015:
  - Limiting yearly rate rebalancing
  - Deferring combining community based government rates
  - Setting comparable customer charges between the three utilities
  - Setting Net Metering guidelines

# Latest Policy Direction to the PUB

- The 2017 policy direction addressed specific issues of rate design that affect the NWT:
  - How far rates can deviate from the actual cost of power before they are rebalanced
  - How fast rates should be rebalanced to avoid rate shock
  - That governments continue to pay higher rates so that residents and businesses have lower rates
  - Maintaining the \$18 fixed customer charge

# Phase I GRA: Revenue Required

- Phase I GRA determines the revenue from rates that a utility needs to cover operating costs
- NTPC requires 4% increases in 2017-18 and 2018-19 to cover costs
- Without these increases NTPC would operate at a loss
- Utilities must remain solvent and sustainable

## Phase II GRA: Determining Specific Rates

- Phase II of a GRA, rates for different customers are set based on the cost to provide service
- The 4% overall increases will not be applied equally to all rate zones or customer classes
- Some customers will see less than 4% and some more so that rates will cover the cost of producing power in each zone

# Phase II GRA: Rate Rebalancing

- In principle, customers in a particular zone should pay rates that cover actual costs
- But there are constant cost changes for utilities for repairs, upgrades and fuel, etc.
- Some rate rebalancing is usually necessary
- The questions are:
  - How close to 100% should rates be set, and
  - how fast should rates be rebalanced?

## Phase II GRA: Rate Rebalancing & Stability

- Making rates cover exactly 100% of the cost of producing power is not practical or necessary
- Frequent rate rebalancing would be required to ensure that rates covered exactly 100% of costs
- But fluctuating rates are undesirable
- Having a range buffers the need for frequent rate rebalancing
- A generally accepted range—such as Yukon’s 90% to 110%—is considered reasonable

# How Fast?: Rate Shock

- Previous policy direction allowed up to 3% per year rate rebalancing
- This could have led to rate increases of as much as 7% for some customers
- The GNWT provided clarification to limit rate rebalancing to non-government customers to 1%
- Most customers will not need rate rebalancing as they currently fall within the new range
- Those customers will see only the 4% increase and some will see less

# Clarification: What Governments Should Pay

- The PUB required clarification on keeping government rates higher than other customers.
- Governments currently pay about 125% of the cost of electricity in order to reduce rates for other NWT customers. This is a long standing practice.
- The GNWT directed the PUB to set government rates between 100% and 130%.
- This will ensure that electricity costs remain low for other rate payers.
- The GNWT clarified that government rates can be rebalanced by up to 3%.

# Other Clarifications

- The GNWT also directed that:
  - Fixed customer charges should remain at \$18 a month to protect lower income households.
  - Government rates in the thermal zone should not be equalized in all communities until community government funding is adjusted.

# Summary of PUB Direction

1. 90% to 110% revenue to cost ratio by zone
2. 80% to 110% revenue to cost ratio for non-government customer classes
3. 100% to 130% revenue to cost ratio for government customers
4. 1% rate rebalancing for non-government customers
5. 3% rate rebalancing for government customers
6. Defer equalizing community-based government rates
7. NTPC monthly fixed customer charges and demand charges to remain the same