



Northland Utilities
An ATCO and Denendeh Company

**PROPOSAL FOR THE SUPPLY AND DISTRIBUTION OF
ELECTRIC ENERGY FOR THE TOWN OF HAY RIVER**

JULY 24, 2015

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1.0 EXECUTIVE SUMMARY

The Northwest Territories (NWT) presents a unique and challenging operating environment for electricity utilities. To provide service in the NWT, a utility operator must understand the climate, the geography, the economics and the people of the North and bring experience, solid business practices, creative solutions and exceptional customer service to the communities they serve. Northland Utilities (NWT) Limited has been delivering on these principles to the community of Hay River for nearly 65 years.

Northland Utilities is a partnership between ATCO and Denendeh Investments Incorporated (DII). This company represents one of Canada's longest standing First Nations partnerships and we have recently expanded our relationship by signing an MOU to increase DII's ownership of Northland to 50 per cent. This further positions our company as a truly northern partnership with our ownership living and working in the NWT.

Northland Utilities, an investor owned company in Hay River, has had a dramatic impact on the local economy by investing almost \$30 million since 2005. We contribute through tax dollars, franchise fees, contracts to local businesses and community investment dollars from our shareholders. There is also an important economic impact to the Town from our 17 dedicated employees who shop, eat and pay taxes as residents of Hay River.

Northland is making a commitment to the Town of Hay River to be a champion for lower rates and we will do this by bringing innovative solutions to our own operations and by working with the Town to ensure that high rates and costs are not unfairly passed on to Hay River by NTPC and the Government of the Northwest Territories.

- Hay River has been over-charged for electricity for the past seven years by Northwest Territories Power Corporation (NTPC) and the Government of the Northwest Territories. This has resulted in an additional \$600,000 paid annually by Hay River customers or \$4.2 million since 2008.
- Northland Utilities will work in partnership with the Town to find solutions and remedy the inconsistent rate policies between Hay River and Fort Smith and provide equitable rates for all electricity customers of the NWT.
- Northland customers have been forced to pay an over-allocation of costs related to transmission facilities and NTPC head office costs. A change to the allocation of these costs could result in a reduction in rates.
- Northland is also committed to implementing efficiencies within our own company. With a change in the franchise regarding head office operations, savings could be achieved by combining some operations with our Yellowknife office without sacrificing service quality.

By making these changes there could be a cost reduction of **5 cents/kWh** to rates.

As one of the ATCO companies, Northland Utilities has access to resources and buying power that could assist the Town of Hay River in realizing its vision as a community where citizens have access to economic opportunity, services and infrastructure similar to those in larger centres. Through our relationship with ATCO, we can provide access to the resources, knowledge and expertise to assist the Town with community projects such as a new energy efficient Town Hall, a new arena/community centre for the 2018 Arctic Winter Games, and other expanded infrastructure assets to assist the Town in becoming an economic hub of the North.

The company also has access to resources to help local customers reduce bills on their own. We can provide customers the opportunity to invest in renewable electricity generation to offset their on-going electricity costs. With added electricity conservation programming, customers can manage their own consumption and see decreases in their overall bill.

As a long-standing member of the Town of Hay River, we understand the desire for the Town, along with the residents, to call for lower electricity rates, and we couldn't agree more. We are committed to lowering the cost of electricity through the re-negotiation of a franchise agreement with the Town of Hay River. We propose that can be achieved by:

- Providing opportunities for all customers to participate in the energy sector and manage their own consumption and costs
- Providing real, tangible solutions for fair cost allocations and equitable rates for all ratepayers on the Taltson system
- Delivering additional operational efficiencies through partnership opportunities within our own organization and with NTPC and the GNWT
- Bringing to bear ATCO's resources and buying power to assist the Town with its development and sustainability

There is no single magic bullet to solve the electricity cost issue in the NWT, but by drawing together the collective strengths of the Town of Hay River, the Government of the NWT, Northland Utilities and ATCO, real solutions to energy issues of the North can be achieved, along with ongoing economic and financial contributions to the Town that result from being home to a stable private corporation such as Northland Utilities.

We look forward to the opportunity to discuss negotiating a new franchise agreement with the Town and to continuing to demonstrate our commitment to the Town of Hay River as a business, an employer and an active community member.

2.0 NORTHLAND'S PROPOSAL

Our proposal focuses mainly on the benefits of negotiating a new franchise agreement. Northland will not be making a proposal regarding other ownership or management contract alternatives outlined in Section 7.0, Sections 8.0, 8.1 and 8.2, Section 9 and Section 14 of the Information Package. However, we are including comments in Section 7.0 of this submission about the alternatives and considerations outlined about a possible purchase of Northland's assets in Hay River.

2.1 NORTHLAND'S COMMUNITY PARTNERSHIP PROPOSAL

Northland is committed to creating a successful and sustainable community through partnership. We believe that the Town of Hay River would be best served by establishing a long-term mutually beneficial relationship with an electricity provider that can also assist in the growth and development of the community. Northland, by engaging the strengths of the ATCO Group of Companies and Denendeh Investment Incorporated could, through a combined effort, deliver economic expansion, community growth and overall development as well as safe, reliable and affordable electricity services.

The Town of Hay River has a wealth of opportunities to realize its vision for a community where citizens have access to economic opportunity, services and infrastructure similar to those in larger centres. Northland, through its relationship with ATCO, can provide access to the resources, the knowledge and expertise to assist the Town with community projects such as a new Town Office, a new arena/community centre, expanded infrastructure assets and developing an environment to become an economic hub of the North.

Northland Utilities' roots are deeply engrained in Hay River and the NWT. For nearly 65 years, the company has worked hard to deliver safe, reliable and cost-effective electricity services to Hay River and communities throughout the Northwest Territories.

Our headquarters on Woodland Drive is the central hub of our operations where our 17 employees work each day to build, operate and maintain a safe and reliable power system and deliver exceptional service. We also provide year-round standby diesel generation to minimize the impact of outages at the Taltson hydroelectric generation facility.

Our employees are also active members of the community, continually investing and volunteering their time and services to help the community achieve economic growth and development. Many of our employees are originally from the Hay River area, and their knowledge about the community and local power system is second to none - more than half of Northland employees have worked with the company for more than 10 years.

Northland Utilities is part of the ATCO Group of Companies, a publicly traded private enterprise with shareholders throughout the NWT, Canada and the world. Northland is also a partnership between ATCO Ltd. and Denendeh Investment Incorporated (DII) for 30 years. Our partnership with DII, which represents the 27 Dene First Nations of the Northwest Territories, is one of the longest corporate-Indigenous partnerships in North America and is built on trust, transparency and mutual benefit.

Northland Utilities has had a positive, tangible impact on the Hay River economy. In the last 10 years alone, Northland has invested more than \$29.95 Million in the region. This has been achieved without government subsidies while achieving modest earnings.

Table 1: High-level overview of Northland Investment, 2005 – 2014

Dollars paid to aboriginal and non-aboriginal companies in the north to build, operate and maintain the NWT electrical system	\$20.1 Million
Northland earnings reinvested into the NWT electrical system	\$3.3 Million
Northland dividends paid to Dene partners	\$0.35 Million
Northland and ATCO investment in community organizations, charities and community groups in the NWT	\$1.3 Million
Franchise Taxes Paid to Hay River	\$2.3 Million
Taxes (corporate income, personal income, property)	\$2.6 Million
Total	\$29.95 Million

Northland has called the Town of Hay River home since 1951 and is committed to the ongoing economic and social development of the community. The following table outlines the community investment projects Northland commits to exploring and completing together with the Town of Hay River should it be asked to continue serving the Town with electrical services.

Table 2: Investment to Grow the Community and the Associated Benefits to the Town

Community Opportunity	Description	Benefit to Hay River
Development of New Town Office	<p>Northland, collaboratively with the Town of Hay River, will explore the options related to a New Town Office.</p> <p>We will assist with:</p> <ul style="list-style-type: none"> • Jointly exploring ownership models • Opportunities for additional economic income • Investigating additional community space opportunities <p>Northland, along with ATCO, has the corporate capabilities and expertise to develop, project manage and fund a project of this magnitude to ensure it is built on-time and on-budget.</p>	<p><u>New Facility:</u> A new office utilizing energy efficient practices and technologies built in the most cost-effective manner.</p> <p><u>Smaller environmental footprint:</u> Designed and constructed to include the latest energy efficient standards reducing operating costs and environmental footprint.</p> <p><u>Lower construction costs and access to financing:</u> By utilizing the ATCO Group of Companies, Northland can offer procurement services, expertise on project management and construction, thus reducing overall project costs.</p>

Community Opportunity	Description	Benefit to Hay River
<p>New Recreation Centre or Arena</p>	<p>Northland and the Town of Hay River will develop a strategic plan to fulfill the community desire for a new Recreation Centre and/or Arena.</p> <p>We will assist to:</p> <ul style="list-style-type: none"> • Develop an initial strategy and financing model • Collaboratively engage the community regarding organizational needs • Develop a project management plan • Engage ATCO partners and suppliers to establish best available pricing for construction • Execute construction and commissioning of the new facility in partnership with all participants <p>Northland, along with ATCO, has the corporate capabilities and expertise to develop, manage and fund a project of this magnitude on time and on budget.</p>	<p><u>New Recreation Centre/Arena before 2018:</u></p> <p>A new facility will be available for opening and closing ceremonies and athletic endeavors associated with the 2018 Arctic Winter Games.</p> <p>Community and sports organizations will have a new facility to host conferences and tournaments and provide additional economic investment in the community.</p> <p><u>Smaller environmental footprint:</u></p> <p>By using the latest in energy efficient technologies the facility will have a smaller impact on the environment and lower annual operating costs.</p> <p><u>Lower construction costs and access to financing:</u></p> <p>By utilizing the ATCO Group of Companies, Northland can offer procurement services, expertise on project management and construction, thus reducing overall project costs and reduce the need for financing.</p>

Community Opportunity	Description	Benefit to Hay River
<p>Sponsorship of the 2018 Arctic Winter Games (AWG)</p>	<p>Northland, as part of the ATCO Group of Companies, is a Legacy Sponsor of the Arctic Winter Games. ATCO has been supporting the Arctic Winter Games since 2004 providing almost \$1 million in investment in the games.</p> <p>Northland and ATCO believe strongly in supporting the community activities where our employees live and work. We also believe in unique sponsorship partnerships that leave a community legacy such as ATCO’s sponsorship of the Athlete’s Village for the 2007 Canada Winter Games hosted in Whitehorse. ATCO partnered to provide housing for the Games which is now utilized for Yukon College housing and a seniors’ resident.</p>	<p><u>AWG Games success:</u> The Town of Hay River will have the facilities to host a successful Arctic Winter Games to the benefit of the athletes, coaches, parents and delegates.</p> <p>The Town will be able to provide a tourism showcase of the community facilities.</p> <p><u>Access to additional resources:</u> Northland through ATCO and Denendeh companies provides services and materials to fulfill all requirements of hosting the 2018 Arctic Winter Games.</p>
<p>Additional support to Community Emergency Response</p>	<p>Northland, along with the ATCO Group of Companies, will provide full-scale emergency response efforts and materials to the Town of Hay River and surrounding communities.</p> <p>ATCO has supported many of our service communities through large scale disasters including supporting the effort during the 2012 Slave Lake Fires and the 2013 southern Alberta Floods.</p> <p>ATCO also has access to emergency response equipment which may be obtained for full-time use in the community.</p>	<p><u>Peace of Mind:</u> Community members will have security knowing the ATCO Group of Companies will provide added support and resources to the Town of Hay River in times of dire emergency.</p> <p><u>Lower costs:</u> The Town of Hay River will save money by obtaining equipment at a lower or zero cost.</p>

Community Opportunity	Description	Benefit to Hay River
Hay River Apprenticeship Program	A full-time paid position at Northland in Hay River for a local graduate to apprentice becoming a Powerline Technician or a Qualified Maintenance Technician.	<p><u>Local resident:</u> The candidates would receive apprenticeship trade school education and hands-on training.</p> <p><u>Resident retention:</u> The successful candidates contribute to the community and are encouraged to continue to live and work in Hay River after graduation.</p>
Purchasing Power	Northland, part of the ATCO Group of Companies, with world-wide operations and \$18 billion in assets, is able to help the Town leverage significant cost savings when purchasing materials or services.	<p><u>Lower costs:</u> The Town of Hay River will save money when purchasing goods at Northland/ATCO discounted rates.</p>
Telecommunication Space and Inspection	<p>Northland will provide antenna space to the Town of Hay River on Northland-owned communication towers as required, improving telecommunication capabilities throughout the community.</p> <p>Northland will also work with the Town to provide annual inspections on the communication tower at the Fire Hall and other Town-owned communication towers, as requested and required.</p>	<p><u>Reduced Town costs and administration:</u> Inspecting Town-owned telecommunication towers would be at the cost of Northland.</p>
Improved Telecommunication between Town Facilities	Northland, together with the Town can explore the feasibility of installing and operating a wide area municipal Wi-Fi network. This wide area Wi-Fi network can extend the Town's private network capability as well as its internet services to all Town employees at various fixed and mobile municipal assets throughout Hay River, and in most cases, using their existing PC hardware.	<p><u>Reduced Town costs and administration:</u> Town cellular data charges will be reduced as mobile devices, such as tablets and smartphones, can be directed to use the municipal Wi-Fi network rather than the cellular network for data.</p> <p>Town employees have immediate access to data such as e-mail, reports, standards, drawings, etc. in the field and remote offices. This provides improved operational efficiencies for the Town.</p>

Community Opportunity	Description	Benefit to Hay River
<p>New Water and Waste Water Facilities</p>	<p>Study the feasibility of ATCO’s involvement in the Town’s water system. ATCO Group, through its subsidiaries, has the capability to provide complete and reliable water and wastewater services, including:</p> <ul style="list-style-type: none"> • Freshwater production, storage and distribution • Water intake and pump station facilities • Water purification and treatment • Wastewater treatment • Site construction, maintenance and operation • Sample testing and monitoring <p>All of these services will incorporate the latest technology ensuring that service is reliably and efficiently delivered in a manner meeting current environmental standards.</p>	<p><u>Lower Costs</u> By working together and utilizing ATCO Group’s expertise and purchasing power, there may be potential to lower the Town’s costs.</p>

2.2 NORTHLAND'S ENERGY PROJECT PROPOSAL

Northland is proposing a number of short and long term energy projects that will further help to diversify the supply of energy in Hay River and build new markets for excess power in the NWT. These projects would explore the feasibility of a number of different technologies that can lower electricity costs, increase use of renewable energy sources and continue to provide exceptional reliability. The following table provides an overview of Northland's proposed energy projects and each project's benefit to the residents and community of Hay River.

Table 3: Proposed Energy Projects and Associated Benefits to the Town

Energy Project	Description	Benefit to Hay River
Convert Hay River Streetlights to LED	Northland will convert the 700 streetlights in Hay River to LED. Northland will also switch all new LED streetlights from the 'non-invested' rate to the 'fully invested rate'.	<p><u>Lower power bills:</u> LEDs will lead to lower electricity bills for the Town's streetlights and will save energy delaying the need for new generation.</p> <p><u>No upfront costs:</u> Switching the new LED streetlight to a fully invested rate would eliminate upfront capital costs for the Town.</p>
Residential/Business Energy Generation and Storage	<p>Explore solar generation and battery storage technologies for homes and businesses.</p> <p>Northland will assist customers to design solar and battery systems suitable for individual homes and businesses and to explore the option of financing of the fixed up-front costs of the systems.</p> <p>Northland, through ATCO, has a direct tie to two of the largest solar factories in the world and is able to purchase solar panels and other green technologies at a 20-70 per cent reduction from market prices.</p>	<p><u>Lower power bills:</u> Solar energy generated and stored at homes and businesses may be used to offset the amount of electricity consumed by individual customers.</p> <p><u>Access to financing:</u> Customers may have access to financing to offset initial upfront costs to install energy generation and storage technologies. This option will allow a greater number of customers to participate in the renewable energy sector.</p>



Energy Project	Description	Benefit to Hay River
<p>Establish Interruptible Power Rates</p>	<p>Propose to the Public Utilities Board interruptible rates for heating at the water treatment plant, recreation centre, hockey arena and other Town buildings.</p> <p>Propose to the Public Utilities Board, interruptible rates for commercial customers. Electricity would be used by customers in off-peak to utilize the full capacity of the Taltson system.</p>	<p><u>Lower power bills:</u> Interruptible rates, typically 50 per cent lower than regular rates, would lower electricity bills for Town facilities.</p> <p><u>Economic development opportunities:</u> Lower power costs for general service customers would stimulate economic development in the Town.</p>
<p>Free Energy Audits for Town Buildings</p>	<p>Northland will offer, through its affiliate company, ATCO EnergySense, free energy audits on any Town building.</p> <p>A team of energy efficiency experts will help the Town develop business cases to improve and renew facilities.</p>	<p><u>Lower power bills:</u> The Town of Hay River will save money through lower overall operating costs.</p> <p><u>Environmental benefits:</u> Upgrading facilities will have an improved impact on the environment.</p>
<p>Introduce Residential and Commercial Energy Conservation Programs and Rebates</p>	<p>Northland will collaborate with the Town of Hay River and interested community members to develop a Demand Side Management Committee.</p> <p>The committee will educate residents and businesses with ways to reduce energy consumption. With Public Utilities Board approval, the program would include rebates for customers who purchase and install EnergyStar rated products.</p> <p>Northland’s affiliate company, ATCO Electric Yukon, recently launched a residential program with overwhelming uptake by the residents of the Yukon. Northland would work to develop a similar program which has been specifically designed for the North.</p>	<p><u>Lower power bills:</u> Residents and businesses will have lower energy costs as the result of installing EnergyStar products and implementing energy conservation practices.</p> <p>Rebates would have a direct impact on the electricity bill of residential and commercial customers.</p>

Energy Project	Description	Benefit to Hay River
<p>Utility Scale Energy Storage</p>	<p>Northland will explore the feasibility of utilizing flywheel and battery energy storage technologies to potentially eliminate the need for standby diesel generation or to offset diesel fuel expense and improve reliability.</p>	<p><u>Increased reliability:</u> Energy storage would eliminate the type of power outages currently experienced in Hay River when supply of hydroelectric power at the Taltson is lost and before the standby diesel generators can be started and power restored.</p> <p><u>Environmental benefits:</u> If the amount of battery storage energy is sufficient, standby diesel generation in Hay River may be eliminated.</p>
<p>Combined Power/Water Metering and Billing</p>	<p>Northland’s current billing system is a fully integrated utility billing system that includes options to consolidate multiple utility services such as water, sewer, garbage, gas and electricity on a single customer statement. The system can manage metered and flat rated accounts and provides solid financial controls and reconciliation for individual companies. Northland would provide services to integrate the Town water utility.</p> <p>Customer statements can be sent on paper or provided electronically and the system offers preauthorized payment options and budget plans.</p>	<p><u>Reduced Town management and administration costs:</u> Northland personnel would manage the billing systems and assume billing services for all utilities/services.</p> <p><u>More accurate billing:</u> By introducing automated meters the risk of human error is eliminated. Customers have greater confidence that the consumption reading on their statements is accurate.</p> <p>This will also eliminate estimated meter readings.</p> <p><u>Greater customer convenience:</u> Customers receive bills for all utilities on one statement and can pay the bill all at once and at a single location. Northland will manage direct disbursement of payment for services to the appropriate organization.</p>

Energy Project	Description	Benefit to Hay River
<p>Additional Hydroelectric Generation and Transmission Facilities to Hay River</p>	<p>Northland is committed to working with the GNWT and/or Deze Energy to develop additional hydroelectric generation at Taltson and exploring the feasibility of building additional transmission facilities to Hay River. Currently, Deze Energy has environmental and regulatory approvals for a 56 MW expansion at the Taltson site.</p> <p>Northland, along with ATCO, has the corporate capabilities and expertise to develop and fund a project of this magnitude. We have a balance sheet that allows us to finance this project and the project management skills to develop hydro and transmission projects in a cost-effective manner.</p>	<p><u>Increased reliability:</u> Two hydro facilities and two transmission lines provide the security of electricity supply in the event of an unplanned outage and allows for the removal of the standby diesel generation plant in Hay River.</p> <p><u>Environmental Benefits:</u> Expanded hydroelectric and transmission facilities allow homes and businesses to utilize a renewable form of electricity for heat instead of fossil fuels.</p>
<p>Transmission Line from Hay River to High Level</p>	<p>With the Taltson expansion and increased transmission in place, interconnection to Alberta’s grid would allow energy to be sold into the Alberta market. Alberta’s move to increased carbon pricing makes hydroelectric generation an attractive alternative compared to coal or gas-fired generation.</p>	<p><u>Lower electricity costs:</u> Hydro generation from the Taltson may be sold to the Alberta market; profits could be used to reduce electricity costs for customers in the NWT. Power may also be purchased from Alberta when power pool prices are low.</p> <p>A transmission line inside Alberta may be a system cost paid for by Alberta customers, significantly reducing costs incurred by NWT customers.</p>
<p>Transmission Line to Fort Providence, Dory Point and Kakisa to connect to the Taltson Hydroelectric Generation System</p>	<p>Renew efforts to build a Transmission line from Hay River to Kakisa and in turn from Kakisa to Dory Point and Fort Providence to carry surplus hydro from the Taltson hydroelectric generation facility to these communities.</p>	<p><u>Lower electricity costs:</u> Taltson generation and transmission costs can be shared over a larger number of customers, reducing power costs in Hay River.</p> <p><u>Environmental Benefits:</u> Expanded hydroelectric and transmission facilities allow homes and business to utilize a renewable form of electricity and eliminate diesel generation.</p>



Energy Project	Description	Benefit to Hay River
Build a Natural Gas Gateway to Hay River	<p>Northland and the Town of Hay River will explore the feasibility of building a natural gas pipeline from Bistcho Lake or other areas in Alberta to Hay River in order to lower heating costs in the community.</p> <p>Natural gas is a more affordable fuel source than propane, diesel, fuel oil, wood or electricity.</p>	<p><u>Lower energy costs:</u> Customers in Hay River would pay less to heat homes and buildings.</p> <p>Customers who would switch to natural gas water heating would see an approximate 30 per cent reduction in their electric bill.</p>
Combined Heat and Power Facilities	<p>Should the natural gas pipeline connection be developed, Northland, the Town and ATCO Gas will explore the feasibility of installing Combined Heat and Power (CHP) technology in Town buildings. CHP technology uses natural gas as a primary fuel source to generate both heat and electricity simultaneously.</p>	<p><u>Lower energy costs and heating bills:</u> Utilizing natural gas (a lower cost alternative to propane or diesel fuel), may save the Town of Hay River money to provide power and heat to Town-owned buildings.</p>

All energy related initiatives are also subject to approval by the Public Utilities Board.

2.3 NORTHLAND'S RATE IMPACT PROPOSAL

Northland Utilities proposes that the supply and distribution of electric energy for the Town of Hay River is best done by negotiating a new franchise agreement between the Town of Hay River and Northland. Northland believes that with both parties working together along with the Government of Northwest Territories (GNWT), subject to the approval of the Northwest Territories Public Utilities Board, the cost of electricity in Hay River could potentially be reduced with no impact to the town's service standards, power quality and reliability.

Achieving a reduced cost of electricity requires a multi-layered approach which includes:

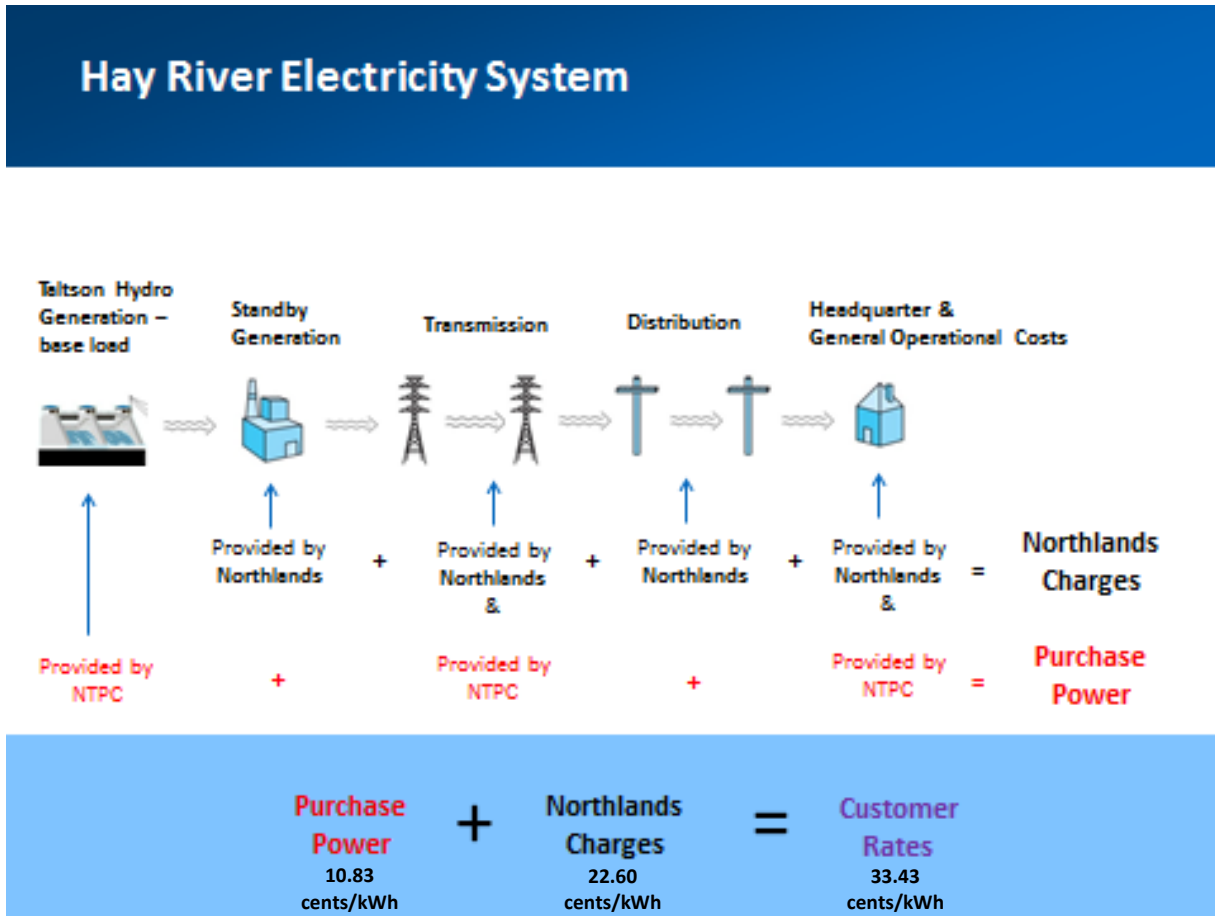
1. creating fair and equitable rates throughout the NWT;
2. increasing efficiencies at Northland; and
3. identifying opportunities for efficiencies between Northland and the Northwest Territories Power Corporation through partnership.

The Truth about Costs

Despite what has been publicly stated, Northland **does not** mark up the price of power it purchases from NTPC and resell it to customers in Hay River. Northland is regulated by the Public Utilities Board and passes on the costs it pays NTPC to customers without any mark-up.

Northland is not the middle man in the NWT electricity industry, costs associated with the delivery of electricity will not disappear should Northland be expropriated. Furthermore, electricity rates in Hay River and the NWT **will not** go down simply by eliminating Northland from the community. All functions and services performed by Northland would continue to be required regardless of the service provider. Figure 1 illustrates the critical electrical services provided in Hay River.

Figure 1: Critical Electrical Services Provided in Hay River and Current Rate Breakdown



In Hay River, Northland provides additional value to the community. This include back-up generation, community investment, franchise fees and local taxes which will be lost if Northland is no longer a part of the community.

It should also be noted that a new service provider would be subject to additional costs to obtain the franchise related to:

(a) Purchase Price of Assets

Northland Utilities’ assets are not for sale. Should the Town of Hay River select another service provider to supply and distribute electricity services to the Town at the end of its current agreement with Northland (November 30, 2016), must purchase Northland’s assets in a “forced sale”.

In a forced sale, precedent suggests that the purchase price is appropriately based on Reconstruction Costs New less Depreciation (RCN-D). This can result in a purchase price that may be one and a half to three times the existing net book value.

Any amount paid in excess of net book value would have to be paid by the Town. According to case law and the Public Utilities Board (see Appendix A), the premium paid for the assets cannot be recovered by future customer electricity rates. The premium would have to be recovered through either tax payer subsidies, shareholders, a reduction in service levels or increased revenue sources. The result may be added pressure on Hay River rate payers. Northland is the only proponent that is not subject to paying a premium to purchase the assets required to provide service to the Town of Hay River, as it already owns these assets.

In addition to the RCN-D costs, courts could direct compensation to the owner for the confiscation of its assets.

(b) Transitional Costs

Should the Town of Hay River select a new service provider, Northland believes that all transition costs incurred would be much higher than the costs incurred to negotiate a new franchise agreement with Northland. These added costs would lead to higher power rates for Hay River residents. Transition costs may include:

- Expensive technical system changes such as point of delivery metering on transmission and distribution lines to isolate Enterprise, the Hay River Reserve and Riverwoods energy purchases. Serving these communities separately from Hay River will require Public Utilities Board approval on Wheeling Tariffs and shared services from the Hay River diesel-fired generating station.
- Unbundling of Hay River operations from Fort Providence, Dory Point/Kakisa, Trout Lake and Wekweeti communities mean additional costs to Hay River residents.
- Relocation expenses for former employees as well as any new employees required to provide service.
- Costs to have a new General Rate Application in 2016 by the new service provider to deal with Public Utilities Board approved rates.
- Costs to have the existing franchise agreement dissolved and the new franchise agreement approved by the Public Utilities Board.
- Arbitration costs to determine a purchase price.
- Data conversion to new financial, metering and technical systems.
- Legal and consulting fees.

(c) Economic and Efficient Use of Resources

While the existing franchise agreement between the Town of Hay River and Northland states that at the end of the agreement the existing electrical infrastructure may be removed to allow the new proponent

to build a new electrical system to be owned by them or the Town, Northland believes it is very unlikely the Public Utilities Board will approve the removal of the existing distribution system and the construction of a replacement system. This scenario does not lead to the economic and efficient use of resources and may, in turn, result in higher rates to customers. The replacement of the system also provides no improvement in service levels, disrupts businesses and homes, poses additional safety risks and would be more costly than having the Town purchase the existing system.

(d) Stranded Assets

Northland believes that the principle of stranding Northland's investment in the Hay River system will also not be viewed favorably by the Public Utilities Board and would, in turn, lead to higher regulatory costs for the Town of Hay River and higher power rates for customers.

According to the existing Franchise Agreement and the NWT *Cities, Towns and Villages Act*, should the Town of Hay River choose to exclude (“pick and choose”) certain existing assets that it does not wish to purchase from Northland, Northland will be required to submit a GRA in 2016 to the Public Utilities Board to recover the costs of salvaging these assets that were prudently incurred to serve Hay River residents. This would result in either an increase to the Northland purchase price or a rate increase for Hay River customers.

Unfair Rates between Hay River and Fort Smith

In meetings with Northland, the Town of Hay River has expressed two main concerns about local electricity costs and rates:

1. The high costs of electricity in Hay River, and
2. The higher cost of electricity in Hay River as compared to Fort Smith.

In response to high cost of electricity, Northland has identified tangible ways to lower electricity costs and rates in Hay River, subject to Public Utilities Board approval in the Solutions section below.

It should be noted that all NWT residential customers throughout the NWT, outside of Yellowknife, benefit from the GNWT’s Territorial Support Program. This program ensures that all residents, including customers in Hay River, receive rate relief by adjusting the energy portion of their bill to equal of the Yellowknife energy rate (currently at 23.73 cents/kWh) for the first 600 kWh in April through August and the first 1,000 kWh in September through March.

In response to the issue of rates in Hay River being much higher than those in either Fort Smith or Fort Resolution, Northland stipulates that NTPC, with support of the GNWT, has been charging Hay River customers 30 per cent more than what it costs NTPC to provide the service in order to help subsidize the rates in Fort Smith and Fort Resolution. This rate imbalance has been in place since at least 2008 resulting in an additional cost to Hay River rate payers of approximately \$600,000 in each of the last 8 years totaling to approximately \$4.8 million over this period.

Electricity rates charged by Northland in Hay River recover the full amount of what it costs Northland to distribute power in the community. However, electricity rates charged by NTPC in Fort Smith and Fort Resolution **do not** recover the full amount (100 per cent) of what it costs NTPC to deliver and distribute power to customers in these communities.

Any claims by NTPC or the GNWT that they are a more efficient organization because they are able to deliver lower electricity rates in Fort Smith and Fort Resolution is false and misleading. The rate disparity is simply a result of GNWT policy and a rate that collects far less than what it costs to provide the service and has nothing to do with NTPC's efficiency as a service provider.

Solutions

In response to Section 12.0 of the Information Package, Northland has identified the following cost-saving initiatives that would result in lower rates for Hay River residents and would eliminate the rate disparity between Hay River and Fort Smith (NTPC Taltson Rate Zone).

Some of the proposed cost-saving initiatives require changes to GNWT policy and subsequent rate adjustments and are subject to approval by the Public Utilities Board. Northland is committed to being an active partner with the Town of Hay River and the GNWT to implement policy changes and to develop an Energy Strategy that will lead to real sustainable savings while continuing to fully participate in all NTPC Rate Application Hearings to ensure the proper allocation of costs to all NWT consumers regardless of which company provides service.

1. Cost-Saving Initiatives to Result in Fair and Equitable Rates

- (a) Ensure the NTPC Wholesale Rate charged to Northland in Hay River and the NTPC rates in the communities they serve recover only 100 per cent of the cost to provide the service (no over or under charging or cross-subsidization).**

This would eliminate the 30 per cent overcharging of power by NTPC to Northland in Hay River as highlighted in the current Public Utilities Board approved NTPC 2008 Cost of Service Study (COSS). The 2008 COSS shows that the wholesale rate that NTPC is charging to Northland for service to the Hay River community is recovering 130 per cent of what it costs NTPC to provide the service. The costs referred to already includes a fair level of profit. The same COSS shows that the rates in Fort Smith are recovering 103 per cent of the cost to serve that community.

More recently, NTPC released its 2014 Cost of Service Study which shows that NTPC is recovering 94 per cent of the wholesale cost of power sold to Northland in Hay River. There are three critical things to note:

1. NTPC's 2014 Cost of Service Study has **not** been tested or approved by the Public Utilities Board. Northland questions the cost allocations and the resulting validity of the percentages and will be questioning NTPC at their Phase II hearing to validate the cost allocations.
2. NTPC's 2014 Cost of Service Study shows that NTPC is only recovering 79 per cent of the cost to serve the community of Fort Smith and only 75 per cent for the non-government residential rate

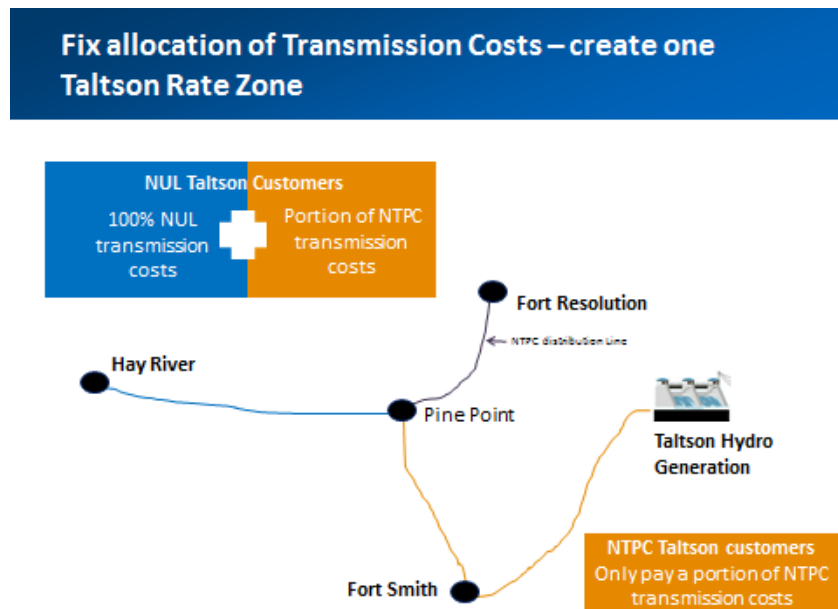
class. This shows that NTPC is still charging far more for power to customers in Hay River than customers in Fort Smith.

3. The difference between the percentages that the rate recovers relative to the cost for the two communities has only been adjusted slightly. Fort Smith still receives a 19 per cent rate discount. Other customers served by NTPC including Northland Yellowknife Limited, are now subsidizing these rates.

(b) Correct the allocation of transmission costs to ensure customers are not penalized by being required to pay a greater portion because they live further away from a generation facility than other customers.

Currently, Northland customers in Hay River pay a higher portion of transmission costs in the Taltson rate zone than customers in Fort Smith simply because they live further away from the Taltson hydroelectric generation facilities than the others.

Figure 2: Proposed Taltson Rate Zone



All customers served by the Taltson hydroelectric generation facility should pay an equal share of all transmission used to deliver hydro power to the communities regardless of the ownership of those transmission facilities or the distance that the customer is located from a generation source. This allocation methodology is common practice throughout North America.

- (c) **Correct the allocation of NTPC Headquarter and General Operational and Northland Administration and General Costs to better reflect the reason costs are incurred.**

Currently, NTPC allocates its Headquarter and General Operational costs that are not related to distribution to all customer classes on the basis of energy consumption. The Headquarter and General Operational costs that are distribution-related are allocated to only NTPC's direct customers and not to Northland. Northland believes that the current determination of distribution-related Headquarter and General Operational costs are too low and need to be re-examined.

Northland has, in its Phase II Rate Filing corrected the methodology that it uses to allocate its Administration and General costs to rate zone and customer class and will defend this practice in our upcoming Public Utilities Board proceeding. Northland believes that the basis for allocation that best reflects the reasons that costs are incurred is to use the sum of all other costs that have been assigned or allocated to that customer class.

- (d) **Review and ensure that the allocations of other NTPC charges appropriately reflect the reason costs are incurred.**

Northland will intervene in NTPC's current Phase II Rate Application to ensure that all NTPC costs are allocated appropriately across communities and rate classes.

The following table reflects an estimate of the impact on residential rates as a result of the initiatives described in A. through D. above, subject to Public Utilities Board approval.

Table 4: Rate adjustments based on the 2008 NTPC Cost of Service Study

	Hay River (cents/kWh)	Fort Smith (cents/kWh)
Existing Residential Rate (including riders)	33.43	22.17
Cost Saving A: Revenue to Cost Adjustment (2008 NTPC COSS)	(2.67)	0
Cost Saving B: Transmission Cost Allocation	(0.90)	+1.25
Cost Saving C: NTPC Headquarter and General Operational Cost Allocation	(1.20)	+1.66
Cost Saving C: Northland Administration and General Cost Allocation	(1.12)	0
Cost Saving D: Other Cost Allocations	(0.59)	+0.82
Possible Residential Rate if approved by Public Utilities Board	26.95	25.89

Table 5: Rate adjustments based on the 2014 NTPC Cost of Service Study

	Hay River (cents/kWh)	Fort Smith (cents/kWh)
Existing Residential Rate (including riders)	33.43	22.17
Cost Saving A: Revenue to Cost Adjustment (2014 NTPC COSS)*	+ 0.70	+ 7.50
Cost Saving B: Transmission Cost Allocation	(0.90)	+1.25
Cost Saving C: NTPC Headquarter and General Operational Cost Allocation	(1.20)	+1.66
Cost Saving C: Northland Administration and General Cost Allocation	(1.12)	0
Cost Saving D: Other Cost Allocations	(0.59)	+0.82
Possible Residential Rate if approved by Public Utilities Board	30.32	33.42

*The 2014 Cost of Service Study has not been approved by the Public Utilities Board

(e) Work with the GNWT to move from the current seven Rate Zones to one (1) Hydro Rate Zone and one (1) Thermal Rate Zone.

Reducing the number of hydro rate zones from the current four zones (NUL Taltson, NTPC Taltson, NUL Snare and NTPC Snare) to one NWT Hydro Zone would ensure that all hydro customers' rates are fair and equitable and would eliminate the need for the Territorial Support Program (TSP) in hydro communities. All customers served by hydro power would pay the same rate regardless of their service provider. This would allow the GNWT to optimize the amount of GNWT tax dollars required to subsidize the electricity sector through the TSP program to just the customers located in the Thermal zone.

It is likely that as the number of customers and corresponding sales volumes are so large in the NUL Snare Zone (Yellowknife), it is most likely that the average rate will be fairly close to the Residential and General Service (business) rates charged in the NUL Snare Zone. This is illustrated in Table 6.

Table 6: Proposed NWT Hydro Residential Rate

Company	Rate (¢/kWh)
Northland (NWT) ^a	33.79
Northland (YK) ^b	27.38
NTPC Taltson ^c	23.53
NTPC Snare ^d	34.38
NWT-Wide Hydro Residential	28.04

a-2014-2015 Phase II Amended Application – S5.5
b-2011-2013 Phase II Application – S5.10
c-2014/2015 NTPC Phase II – Schedule 5.2 – Proposed Revenue
d-2014/2015 NTPC Phase II – Schedule 5.2 – Proposed Revenue

2. Cost-Saving Initiatives through Efficiency Gains at Northlands

(a) Combining both Northland companies, Northland (NWT) and Northland (Yellowknife) into one entity.

In the past, the franchise agreement between the Town of Hay River and Northland required Northland to maintain a Head Office in Hay River. While it is Northland's desire to continue to have an office in Hay River, we believe that efficiencies and cost savings can be realized if the two Northland companies were merged into a single entity. Among other efficiencies, this would result in one set of financial records, rather than two and fewer regulatory filings and costs for Public Utilities Board hearings.

Northland estimates these efficiency gains to be approximately \$600,000 a year, resulting in an additional 1.5 cents/kWh reduction in residential rates, based on the rate example in Table 5: Rate Adjustments based on 2014 NTPC Cost of Service Study.

(b) Leveraging the non-taxable status of Denendeh Investments Inc.

The recent agreement between ATCO and DII will result in DII becoming an equal 50 per cent partner in Northland. This will allow for a potential corporate restructuring that may allow the company to leverage the non-taxable nature of DII's owners to reduce the amount of income taxes paid by Northland, which would be passed on to customers in the form of lower rates.

In its most recent General Rate Application, Northland forecasted income tax expense in 2015 at \$195,000 for the Hydro Zone. If the corporate restructuring efforts were successful, this would result in a savings of approximately \$82,000 per year and a 0.27 cents/kWh reduction in residential rates, if approved by the Public Utilities Board, based on the rate example in Table 5: Rate Adjustments based on 2014 NTPC Cost of Service Study.

3. Cost-Saving Initiatives through a Northland and NTPC Partnership

A Northland/NTPC partnership could take many shapes and forms, including:

- a full merger of the two entities with each organization owning a share of the merged company,
- each organization continuing to own its existing assets, but all staff would be combined and would operate the assets of both,
- a clear segregation by function whereby NTPC would own and operate all generation and transmission assets and Northland would own and operate all distribution assets and perform all customer billing/emergency response duties across the NWT, and
- other models that may be mutually developed.

This partnership would lead to real sustainable efficiency gains, including reductions in:

- operating systems including billing, financial and IT,
- management, administrative, financial staff,
- duplicate on-call/standby efforts,
- office space requirements,
- inventory, and
- regulatory filings.

Although it is difficult to estimate the efficiency gains resulting from a partnership with NTPC, Northland believes these efficiency gains could be at least \$2.5 Million to \$3.5 Million a year, resulting in up to a 3 per cent (1.0 cents/kWh) reduction in residential rates, if approved by the Public Utilities Board, based on the rate example in Table 5: Rate Adjustments based on 2014 NTPC Cost of Service Study.

The following table reflects the estimated further decrease to residential rates as a result of the initiatives described in section 2.

Table 7: Further Rate adjustments based on the 2014 NTPC Cost of Service Study

	Hay River (cents/kWh)
Existing Residential Rate (including riders)	33.43
Cost Saving 1A: Revenue to Cost Adjustment (2014 NTPC COSS)	+ 0.70
Cost Saving 1B: Transmission Cost Allocation	(0.90)
Cost Saving 1C: NTPC Headquarter and General Operational Cost Allocation	(1.20)
Cost Saving 1C: Northland Administration and General Cost Allocation	(1.12)
Cost Saving 1D: Other Cost Allocations	(0.59)
Possible Residential Rate (Cost Savings 1 A-D)	30.32
Cost Saving 2A: One Northland entity	(1.2)
Cost Saving 2B: Leveraging Dene non-tax status	(0.27)
Cost Saving 3: Northland and NTPC partnership	(1.0)
Possible Residential Rate (Cost Savings 1 A-D) if Public Utilities Board approved	27.85

Other Rate Implications

Included in *Section 12* of the Town of Hay River's RFP, the town asks proponents to provide their philosophy on an acceptable return on equity.

Northland Utilities believes that a regulated utility must be allowed to earn a reasonable level of return (profit) for its shareholders regardless if those shareholders are private investors or residents in a community or territory.

Allowing a utility company to earn a profit provides incentive to control costs and seek efficiencies in providing service. These reduced costs and improved efficiencies are ultimately reflected in lower rates charged to customers. The utility's regulator, in this case the Public Utilities Board, ensures that only a certain level of return is allowed and that efficiencies continue to be reflected in future proposed rates. Preventing a utility from earning a profit leads to inattention to costs, inefficiencies and higher rates to customers in the long run.

In keeping with Northland's objective of minimizing regulatory costs associated with General Rate Applications, Northland continues to support linking its Public Utilities Board approved Return on Equity (ROE) and capital structure to:

- (a) the outcome of the Alberta Utilities Commission's (AUC) generic cost of capital proceedings, and
- (b) adjusting these amounts by a risk premium to account for Northland's higher business risk.

Northland notes this approach was supported by the Town of Hay River as part of Northland's 2011-2013 and 2014-2015 General Rate Applications. Based on this approach, Northland's most recent approved ROE is 8.65 per cent and the percentage of rate base financed by its shareowners is 43 per cent. These amounts will go up or down as part of future regulatory proceedings based on external factors and what is approved by the Public Utilities Board.

The amount of rate base not financed by shareowners is financed with long-term debt. Northland's debt is obtained at low interest rates from its "A Bond Rated" parent, Canadian Utilities Inc., which is flowed down to Northland with no markup or premium charged. Northland submits this ROE and capital structure is designed in such a way so as to minimize financing costs paid by customers while at the same time incenting Northland to seek additional earnings for its shareowners via operational efficiencies. While these operational efficiencies benefit Northland's shareowners in the short term, they also benefit customers over the long term as they are incorporated into customer rates.

It is important to note that the ROE component is not a guaranteed profit for any utility company but rather is one of the components included in the setting of rate levels. The actual ROE earned varies depending on sales actually achieved, and the costs incurred in providing the service. The following table outlines Northland's Public Utilities Board approved and actual ROE for the last 10 years.

Table 8: Northland’s Public Utilities Board Approved and Actual ROE

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>10-Year Average</u>
Approved	9.50%	9.50%	N/A	9.10%	9.10%	9.10%	9.30%	9.30%	9.30%	8.65%	9.21%
Actual	6.96%	9.52%	9.98%	8.51%	7.02%	6.16%	7.74%	7.94%	7.76%	9.32%*	8.09%

*Historically, Northland has not often achieved its approved ROE. However, in 2014 Northland earned more than the approved ROE as its operating costs were \$90,000 lower than expected resulting in after tax earnings being \$69,000 higher than forecast.

3.0 NORTHLAND’S HEALTH, SAFETY AND ENVIRONMENT RECORD

Northland believes that in addition to keeping costs low, the level of service must be a priority. We are committed to providing excellent service to our customers. We believe that providing excellent service requires focusing on:

- reliability,
- safety,
- environment,
- service restoration, and
- customer service.

3.1 Reliability

Section 11 of the Information Package requests information on the level and reliability of service. Northland recognizes and uses the Canadian Electrical Association (CEA) indices as appropriate measures of reliability. These are:

- System Average Interruption Frequency Index (SAIFI),
- System Average Interruption Duration Index (SAIDI), and
- Index of Reliability (IOR) for service continuity.

The above indices are consistent with CEA reporting activities so that we can compare our service continuity statistics to the CEA average from 32 contributing utilities across Canada. These indices provide a benchmark for Northland to compare its operations and assist us in making prudent decisions. Our results for the past three years as compared to the CEA are as follows:

Table 9: Northland's and CEA's Reliability Metrics

*Hay River Snowstorm / **Forest Fires

Northland Utilities (NWT) Limited				
SAIFI (in hours)				
	2012*	2013	2014**	3 Year Average
Hay River (Includes Loss of Supply)	16.54	4.67	9.66	10.29
Hay River (Excludes Loss of Supply)	4.45	0.14	0.66	1.75
CEA	2.83	2.94	2.67	2.81

A System Average Interruption Frequency Index (SAIFI) of 1.75 outages indicates that customers experienced, on average, 1.75 outages per year over the past 3 years. The CEA average 2.81 per year demonstrates Hay River customers experienced fewer outages on a yearly basis than the national average.

Northland Utilities (NWT) Limited				
SAIDI (in hours)				
	2012*	2013	2014**	3 Year Average
Hay River (Includes Loss of Supply)	9.59	0.96	5.24	5.26
Hay River (Excludes Loss of Supply)	6.01	0.21	0.57	2.26
CEA	5.61	9.83	7.81	7.75

A System Average Interruption Duration Index (SAIDI) of 2.26 (140 minutes) hours indicates that on average every customer was without electricity for 2.26 hours per year as a result of a distribution system related problem. CEA averages of 7.75 hours per year (465 minutes) result in outages being 3 times longer than that experienced by Hay River customers.

Northland Utilities (NWT) Limited				
IOR (percentage)				
	2012*	2013	2014**	3 Year Average
Hay River (Includes Loss of Supply)	0.9989	0.9999	0.9994	0.9994
Hay River (Excludes Loss of Supply)	0.9993	0.9999	0.9999	0.9997
CEA	0.9994	0.9989	0.9991	0.9991

A reliability of 99.97 percent indicates that over the last three years the distribution system was available 99.97 percent of the time. This performance exceeds the CEA average of 99.91 percent and indicates a high level of reliability on the Hay River system. The standby generation plant in the town of Hay River enhances Northland Utilities IOR statistics.

The Hay River (Includes Loss of Supply) or *Total System* statistics represent outages that occur on the entire system including occurrences due to the distribution, transmission, Taltson hydro and stand-by generation components. Hay River (Excludes Loss of Supply) excludes the outages as result of the loss of generation and transmission components from the outage data resulting in a fair indicator of Northland's performance related to the distribution system.

It is important to note that these indices do not take into account factors such as the northern climate and the fact that the utility systems in the North are not as inter-connected as they are in southern Canada. Based on these statistics, along with the reliable, skilled and well trained staff, Northland Utilities' distribution and standby systems demonstrate a very high level of reliability.

3.2 Safety

Occupational health and safety and environmental protection are integral parts of our business and will be considered in all business decisions. Northland is committed to developing, operating and maintaining products, services and activities that protect the environment and the health and safety of our employees, customers and the environment.

Safety is a key component of our commitment to service – this means safety for consumers, and safety for our own people. **Northland is very proud of the fact that we have not had a lost time incident in *five years*.** Our safety policies, practices and procedures are governed by four principles:

- Safety First – Always: Safety is a consideration in everything we do, part of every decision we make and action we take. If something cannot be done safely, we do not do it.
- Everyone is responsible: We believe every person – at all levels of the company – is responsible for ensuring safety and is accountable for the health and safety practices within his or her control.
- Everyone knows the rules: Policies, practices and procedures must be clear. Training our people on safe practices and procedures is a responsibility that must be accepted at all levels of the company.
- We track our performance: Ongoing review of how we are doing makes us even better. Regular inspections and periodic audits help us identify where we can improve our health and safety practices.

Safety is a vital part of delivering reliable electrical service. Our programs have been shared with other businesses and local contractors as well as Town employees. The Workers Compensation Board recognizes Northland as an industry leader in health and safety. Safety is a major aspect of our utility operation in which Northland and our employees take great pride.

3.3 Environmental

Northland has independent auditors perform comprehensive environmental audits every three years. In addition, employees ensure daily operations are compliant with current legislation and conduct self-audits on an ongoing basis.

We have reduced our environmental risk with respect to our operations by completing the following:

- recycling glycol, oil, oil filters, paper, printer cartridges, and batteries,
- eliminating PCBs,
- introducing new brushing methods that are environmentally safe,
- replacing multiple single-walled tanks with a single, self-contained, double-walled fuel tank,
- reducing fuel volumes stored at the Hay River Plant,
- changing the threaded, underground fuel piping system to an above-ground system to reduce environmental risk,
- removing all gravity based fuel systems and upgrading all to the current legislated standards. Fuel systems are annually inspected, as required by law to ensure protection of the environment,
- converting our Thermal communities to LED street lighting in 2014 to reduce emissions and fuel requirements,
- reducing engine crankcase emissions through recycling, and
- completing soil remediation around the plant site.

Northland is committed to the environment and continues to pursue new environmental initiatives such as environmentally safe wood-pole treatment technology.

3.4 Service Restoration

Northland focuses on providing economic, safe and reliable service that includes timely and effective response to emergencies and system outages. We have line and service staff as well as plant operators located in Hay River to provide immediate service response to customers.

In the event the Taltson hydro-electric generation or the transmission system is unavailable, Northland has a total installed generating capacity of 7.2 MW. This is a standby diesel generation system consisting of six units that can be dispatched within fifteen minutes.

If necessary, we have access to mobile generators through our parent company, at very reasonable rates and have used these in the past to the benefit of Hay River ratepayers, as evidenced in 1998. These units can be transported and connected to the Hay River system within eight hours.

Northland also has access to sufficient resources including a large number of line crews, brushing crews, powerline expertise and distribution equipment that are available to Northland through our parent company. Northland has called on our parent company to provide this support in 2012 during the snowstorm and in July 2015 when forest fires threatened Northland's transmission line from Pine Point. Our ATCO parent company staff, equipment and construction material can be assigned and mobilized for immediate dispatch to the Northwest Territories if required.

In addition, we have a detailed load-shedding procedure that meets the needs of Hay River businesses and residents. We have agreements with the Town and businesses that have their own small standby generators. This arrangement assists us in avoiding extended outages in the community.

Northland's electrical infrastructure is in excellent condition due to continuous inspections, upgrading, maintenance and replacement of aged components. This is required to ensure safety and reliability that customers expect from an electrical service provider.

3.5 Customer Service

Northland's employees have the expertise and experience to meet customers' needs and are always available to discuss electrical issues. Our staff ensures that customers are aware of the various rate options available to them. Bill payment options include equalized monthly billing plan, automatic pre-authorized bank and credit card withdrawals, use of debit cards, and acceptance of internet and telephone payments, payments through the customer's bank as well as the resumption of cash payments at our office. Although Northlands had stopped taking customer payments in our office in early 2014, we recognize that this may have created undue hardship on some of our customers. We are pleased to again provide customers the ability to pay their power bill in person at our office.

We are proud of our commitment to provide information to customers regarding energy efficiency and electrical safety at trade shows, school presentations and when dealing with individual customers.

In addition, our employees have a proud history of volunteering in the community and have contributed to the economic prosperity of Hay River over many years. It is estimated that our Company and its employees contribute in excess of four million dollars annually to the Hay River economy.

4.0 NORTHLAND'S RESPONSE TO OTHER RFP REQUESTS

Included in *Section 6.0* of the Town of Hay River's RFP, the Town asks proponents to provide the following:

(a) The term of the Franchise Agreement.

Northland proposes a 10-year contract term with an additional 5-year option at the Town's discretion. A 10-year franchise agreement means that we can take advantage of a long-term relationship that meets our mutual goals. The utility business is capital intensive so planning is best done with a long-term view rather than a short-term outlook so that reliability and supply meet the needs of the Town and its residents.

Should the Town of Hay River wish to enter into a franchise agreement with a shorter term, Northland would be open to negotiating this.

(b) Proposals for a franchise fee. This could include the continuation of the existing franchise fee or some other alternatives for a different franchisee fee structure.

Northland believes a fair and reasonable fee should be levied on the franchisee for the rights granted by the Town. At the present time, Northland provides the Town of Hay River with an annual income stream or franchise fee of approximately \$300,000. This amounts to more than \$3 Million during the course of the proposed franchise term. Between 2005 and 2014, Northland collected from customers and paid directly to the Town of Hay River more than \$2.3 Million in franchise fees.

Northland will support a franchise fee that meets the needs of the Town and approval of the Public Utilities Board. Northland has experience with a variety of fee structures and will be pleased to discuss these options with the Town – although we recommend keeping the fee structure as simple as possible.

Northland is open to replacing some or the entire current franchise fee with a tax or levy more fully described below. The option presented allows the Town to continue to receive a revenue stream, however, minimizes the impact of the fee to residents by leveraging the GNWT Territorial Support Program to lower electricity bills.

- (c) **Proposals for a fee for the use of public properties, such as roadways and utility right-of-ways, within the Town. This would be separate from any franchise fee paid to the Town. Parties making submissions should comment on the method of calculating such a fee and the frequency of payment.**

A fee for the use of public properties, such as roadways and utility right-of-ways, can be an allowable cost of doing business in a regulated environment.

One option is to replace the existing franchise fee with a levy. The levy would be added to Northland’s cost of doing business and included in customer rates and shielded by the Territorial Support Program. The franchise fee would no longer appear as a separate line item on the customer bill (as it does today).

This levy option would allow the Town to continue to collect their revenue stream without forcing residents to pay the entire cost of it. The Territorial Support Program subsidy which residential customers in Hay River receive (to levelize the Hay River electricity rate to Yellowknife’s rate) would be applied to the bill after the levy is applied to it; not before as it is now. See the example below.

Table 10: Hay River Residential Bill Impact of Existing Franchise Fee vs. Proposed Franchise Levy

	Billing Determinants	2015 on Proposed Rates (Existing Franchise)		2015 on Proposed Rates (Franchise Levy)		
		Rate (\$)	Cost (\$)	Rate (\$)	Cost (\$)	
1	Customer Charge	1 month	18.00	18.00	18.00	18.00
2	Supply Charge	600 kWh	0.1888	113.31	0.2024	121.43
3	Fuel Charge	600 kWh	0.1148	68.90	0.1148	68.90
4	BASE BILL (add lines 1-3)		\$200.16		\$208.32	
5	Franchise Tax (Rider B)	BASE BILL	3.889%	7.78	0.000%	0.00
6	SUBTOTAL		\$208.00		\$208.33	
7	TPSP Reference Rate (\$/kWh)		0.2973		0.2973	
8	\$/kWh Before Territorial Support		0.3036		0.3172	
9	Territorial Support	600 kWh	-0.0064	-3.78	-0.0199	-11.94
10	TOTAL BILL		\$204.16		\$196.38	

Another option for a fee would be to see this levy added in addition to the franchise fee discussed in part (b) above.

Northland must be conscientious of the costs that are passed on to customers. We must be prudent to assure that the sum of all fees levied for receiving franchise rights and/or property rights are reasonable and not causing unwarranted upward pressure on rates.

To this end, Northland will support bringing the levy for use of public property forward for approval by the Public Utilities Board. Such a levy could be calculated using various methods. For example, the levy could be calculated based on property tax assessments. Northland is open to discussing a mutually agreeable method of calculating this cost. We are also open to changing the frequency of payment; however, we propose keeping it the same as the franchise fee payment.

- (d) Proposals for the responsibility for costs associated with Town requests for the relocation of any distribution or transmission facilities owned or operated by the franchisee. Specifically, the Town is considering making the franchisee responsible for all such costs and invites proposals and comments in this regard.**

All capital costs incurred by Northland are included in rate base and eventually passed on to customers through rates approved by the Public Utilities Board. It is important to note that Northland is permitted to earn an approved return on the portion of all capital costs financed by equity and to recover all costs incurred to borrow any capital financed by debt.

Although Northland is not opposed to being responsible for all capital costs associated with Town requests for the relocation of distribution or transmission facilities, doing this may result in higher electricity rates for all customers over the long term as Northland collects both of the above costs from customers.

This scenario would be similar for all proponents of this RFP and the Town of Hay River should assess its borrowing costs compared to the proponents return on capital costs to ensure a proper balance is achieved between taxpayer costs and ratepayer costs.

Should the Town decide that it wants Northland to pay the costs for all relocating all facilities, Northland would support this kind of initiative provided that it is clearly in the public interest and no particular group is disadvantaged.

Northland must act prudently in undertaking only projects that are necessary and acceptable to the Public Utilities Board. Care must also be taken to minimize upward pressure on rates. To this end, we propose taking responsibility for transmission and distribution relocation costs for our facilities on Town owned property subject to the following:

- The project must serve the public interests. For example, relocating a street light on a main street to better illuminate a dark area would be in the public interest versus a residential subdivision that serves the interest of the subdivision residents only. This approach assures the fair and equitable allocation of costs to customers as a result of the relocation project.

- Approval of the project by the Public Utilities Board.
- Sufficient notice is given to allow for efficient resource planning and cost recovery.

e) Proposals for obtaining regulatory or other approvals required to implement any provisions of a new Franchise Agreement.

Consistent with past practices, Northland will be pleased to take a new franchise application to the Public Utilities Board for approval. Northlands is willing to work together with the Town, if desired, to seek inclusion of all costs associated with concluding a new Franchise Agreement into revenue requirement and thus customer rates.

f) New Business, staffing or other value added investment specific to the Town of Hay River and Surrounding areas.

Northland is committed to pursuing opportunities that benefit the Town and its residents. We will continue to provide financial, regulatory and engineering expertise as we have in the past. Please refer to *Section 3.0 Northland's Community Partnership Proposal* and *Section 4.0 Northland's Energy Project Proposal* for more information.

5.0 OTHER ALTERNATIVES AND ISSUES

Section 7.0, Sections 8.0, 8.1 and 8.2, Section 9 and Section 14 of the RFP outlines other alternatives or transition issues for proponents to consider and comment on. Northland has always had a long-term commitment and vision to our northern customers, communities and shareowners.

Northland has no desire to sell its assets located inside the Town of Hay River boundaries or any other of its assets. Northland has grown together with the communities in the North and continues to believe that the North represents a great growth potential that can be realized if all parties work together. We offer the following comments for the Town's consideration.

(a) Direct sale of Northland Assets to a Proponent

Section 9.0 of the RFP requests proponents to comment on the alternative of purchasing the assets directly from Northland. As previously stated, the Franchise Agreement between the Town of Hay River and Northland only provides the Town of Hay River the legal right to purchase the assets at the end of the term of the Agreement. This right only extends to the Town of Hay River and no other entity. This alternative is not possible.

(b) Employment

At present, Northland has 17 employees who in addition to operating and maintaining the electrical system in Hay River, support operations in Trout Lake, Wekweeti, Dory Point/Kakisa and Fort Providence. If the Town chooses not to negotiate a new franchise agreement with Northland, the company will have no

choice but to relocate any staff necessary to serve the remaining Northland communities to our Yellowknife office and/or offer employment to our staff in other areas where we provide service. The relocation costs associated with moving these employees may be treated by the Public Utilities Board as stranded assets and charged back to the Town of Hay River or the new service provider.

(c) Impact to Northern Investors

If Northland is forced to divest of its assets, our northern shareowners, DII, will lose their earnings potential. Loss of income for these shareowners will have negative economic implications in the North.

(d) Fragmentation of Northland's Assets and Areas Served by Extension of the Hay River System

In response to Section 8 and Section 14.0 of the RFP regarding areas served by extensions of Northland's system, we offer the following statements.

Northland's assets are not for sale. The Town of Hay River, at the end of the Franchise Agreement on November 30, 2016, has the legal right to purchase only those assets that are physically located within the Town's boundaries. The Town, or any other proponent, does not have the legal right to purchase any other assets owned by Northland, including the transmission line from Pine Point to Hay River.

Northland also believes the present electric system provides customers in Hay River, Enterprise, K'at'odeeche and Riverwoods with the most efficient and economical system. Northland will continue to serve customers located in Enterprise, the K'at'odeeche First Nation and Riverwoods subdivision regardless of the outcome of the Town of Hay River's RFP process.

Should Northland's existing electrical system be fragmented into smaller segments, a number of new Public Utilities Board approved tariffs will be required:

- Transmission Wheeling Arrangement for the Town's use of the 72 kV line between Pine Point and Hay River.
- 25 kV Distribution Wheeling Arrangement for Northland's use of the portion of the existing 25 kV line inside the Town of Hay River to Enterprise and Northland's use of the standby generation facility in Hay River, both of which are required to serve customers in Enterprise.
- Northland's use of the Hay River distribution system to serve the K'at'odeeche First Nation Reserve, including the standby generation facilities located in Hay River.
- 25 kV Distribution Wheeling Arrangement for Northland's use of the portion of the existing 25 kV line inside the Town of Hay River to Enterprise and Northland's use of the standby generation facility in Hay River, both of which are required to serve customers in the Riverwoods subdivision.

It is almost certain that this fragmented approach will lead to higher costs and power rates for all customers in the area.

(e) Operation and Maintenance of a Town-Owned System

Section 7.0 of the Information Package requests proposals for the contracting of the operation and maintenance of the system.

In the existing system, Northland does not receive a profit related to operations and maintenance (O&M) of the electrical system. Northland only earns a return on the equity portion of the assets that its shareowners have invested in.

Should a contract for O&M only be implemented, the contractor will likely want to earn a profit on the services they provide. As a result, customers in Hay River may be forced to pay for a profit included in the contractor's O&M costs plus a profit that the Town will seek on the equity portion of the assets that it invests in. It is doubtful that this would be approved by the Public Utilities Board unless the total profit collected from the two parties equals a fair return on equity only.

Conversely the O&M contractor may try and earn a profit by reducing O&M costs, which could then lead to decreased standards of customer service and reliability, and increased safety issues. We state this based on our belief that our O&M costs are reasonable and adequate given they are regularly tested and reviewed by intervenors and approved by the Public Utilities Board. Also, given our economies of scale and experience, we believe it will be difficult for a third party to provide a combination of lower costs, service, reliability and safety.

(f) Operational Risk

Should the Town of Hay River choose to enter into a new Franchise Agreement with a new service provider, the Town would be assuming additional risk in that the new franchisee would not have the familiarity Northland has acquired over the past 65 years with Hay River operations. Although the Town contemplates an extended overlap between service providers to allow for the new provider to familiarize themselves with the existing system, there is no legal requirement for that to occur.

(g) Third Party Evaluation of Proponent Responses

Northland strongly urges the Town of Hay River to correct the perception of political interference by utilizing a reputable third party evaluator to review and rank proponent submissions. Northland is of the opinion that the Town has a duty to conduct the RFP in a fair and unbiased manner that does not unfairly favour any potential bidder. In Northland's view, this obligation has been breached and compromised as a result of recent actions taken by the GNWT.

On May 26, 2015, the GNWT issued a press release entitled "*NTPC to participate in request for proposals process for the Hay River electrical franchise*" which included the following two key items:

- that the NTPC had previously approached the GNWT for support in anticipation of the RFP; and

- that the GNWT supports the participation of NTPC in the RFP process, including statements to that effect made by Premier Bob McLeod and Mr. Miltenberger, the Minister of Finance and the Minister Responsible for the NTPC.

As a public body operating with public funds, the Town owed a duty of fairness to all potential bidders, to ensure that the RFP process was conducted on an objective basis and without inappropriate influence from either the Town or the GNWT. In Northland's view, this duty of fairness was breached as a result of the May 26, 2015 Press Release of the GNWT, which, as noted above, included specific statements in support of NTPC made by prominent GNWT Members of the Legislative Assembly. It is clear that the GNWT has interfered in the RFP process to the unfair advantage of the NTPC. This has compromised the fairness and integrity of the RFP itself.

Northland recognizes that, as a Crown corporation, NTPC is administered by the GNWT. However, there is an obvious distinction between the GNWT acting in its capacity as the sole shareholder of NTPC, and seeking to publicly influence its actions and the GNWT acting in its capacity as the parent legislative body to the Town. In Northland's view, the May 26, 2015 Press Release is a clear example of the latter.

The Town is governed by the GNWT's legislative authority under the *Cities, Towns and Villages Act*. Moreover, the Town is heavily reliant on the GNWT for a significant proportion of its annual funding. In addition, the GNWT has historically provided subsidies for utility rates through the Territorial Support Program. All of these roles put the GNWT in a position to influence the actions and decisions of the Town. Accordingly, events such as the May 26 Press Release have the consequence of unduly influencing the Town in its decision making and compromising the fairness of any affected Town processes, including the current RFP process.

As a result, Northland is of the view that the Town needs to appoint a reputable third party to review and rank the proponents bid in order to restore the integrity of the RFP process. To do otherwise leaves the Town open to the consequences of an unfair competitive process.

6.0 QUALIFICATIONS

In section 10 of the RFP, the Town of Hay River requests proponents to detail their experience and qualifications for owning or operating an electric distribution system.

Northland Utilities

Northland Utilities (NWT) has been delivering a full range of electricity services (generation, transmission, distribution, customer billing & emergency response) to the Town of Hay River and communities throughout the Northwest Territories for nearly 65 years.

Northland Utilities (NWT) is one of two Northland Utilities companies, the other—Northland Utilities (Yellowknife). Together, both companies currently own, operate and maintain the electrical system that delivers safe and reliable power to more than 11,000 customers in nine communities across the NWT. Northland's 39 employees live in Hay River, Yellowknife and Fort Providence.

Northland Utilities (NWT) and (Yellowknife) is a joint venture between Denendeh Investments Incorporated which represents the 27 Dene First Nations in the NWT and ATCO Ltd. Active Dene ownership and management in the company demonstrates Northland's commitment to the North, local ownership and mutually-beneficial partnerships. As a member of the ATCO Group of Companies, Northland provides the capabilities and efficiencies of a profitable publically-traded company. In the last 10 years alone, Northland Utilities has invested \$60 Million in the NWT.

ATCO Electric Yukon

Based in Whitehorse, Yukon, ATCO Electric Yukon has been providing a full range of electricity services to customers throughout most of the Yukon since 1901. ATCO Electric Yukon's 64 employees operate over 1,400 kilometers of distribution lines and 12 hydro and diesel generators across the territory to serve its customers.

ATCO Electric Ltd.

ATCO Electric has more than 80 years of experience and expertise in generating, transmitting and distributing electric energy. ATCO Electric provides services to more than 224,000 residential, commercial, industrial and farm customers spread across in 245 communities across Alberta.

In 2014, ATCO Electric invested \$1.2 billion in new transmission facilities and upgrades to existing infrastructure in Alberta. ATCO Electric's successful bid on Alberta's first competitive transmission project, the Fort McMurray West 500 kV Transmission Project, valued at \$1.4 billion, clearly demonstrates the company's competitive advantage over other world-class electrical companies. In 2014, the company also received national profile for an environmentally-innovative power line constructed in Jasper National Park, Alberta.

ATCO Power

ATCO Power leverages its decades of experience and industry-leading expertise developing, building and operating independent power generation facilities to provide customers with custom, cost-effective power solutions including: commercial and industrial power marketing, sales and distributed power generation. ATCO Power has an ownership position in 13 power generation plants in Alberta, British Columbia, Saskatchewan and Ontario with a combined capacity of approximately 3,591 megawatts (MW) and total ownership interest in 2,286 MW.

ATCO Structures & Logistics

ATCO Structures & Logistics offers modular buildings, site and camp services and industrial noise and emissions control solutions worldwide. With manufacturing facilities in North America and Australia, a global supply chain, and operations on five continents, the company has the expertise to rapidly deliver a turnkey solution anywhere it is needed.

ATCO Pipelines

ATCO Pipelines provides reliable and efficient delivery of natural gas and is committed to operational excellence

and superior customer service while ensuring the safety of our employees and the public. With approximately 8,500 kilometers of pipelines and a peak delivery of 3.8 billion cubic feet per day, ATCO Pipelines is headquartered in Calgary with offices in Edmonton and facilities throughout Alberta.

ATCO Sustainable Communities

ATCO Sustainable Communities delivers custom-designed building solutions from concept to completion for Indigenous and other remote communities. Using a combination of off-site and on-site construction technologies, the most remote community facilities can be built faster and of higher quality. Architecturally appealing, affordable, energy efficient and easy to maintain, ATCO Sustainable Communities' projects reflect the culture and values of the community.

ATCO Ltd.

With more than 9,000 employees and assets of approximately \$18 billion, ATCO is a diversified global corporation delivering service excellence and innovative business solutions through leading companies engaged in Structures & Logistics (manufacturing, logistics and noise abatement), Utilities (pipelines, natural gas and electricity transmission and distribution) and Energy (power generation and sales, industrial water infrastructure, natural gas gathering, processing, storage and liquids extraction).

As a whole, the ATCO Group is committed to a philosophy of excellence. The ATCO Group of Companies approach to being competitive is to find strategies that add value to the customer by reducing costs and improving services. As part of the ATCO Group, Northland brings the benefits of a much larger group to its operations programs that would be prohibitively expensive for a small isolated utility. Examples of such benefits include:

- access to engineering resources, technology and information such as computer systems, training and safety;
- access to financial, accounting and regulatory resources;
- a favorable bond rating of AA low (DBRS), resulting in access to financial markets and advantageous financing rates;
- achieving significant economies of scale resulting in low insurance costs – estimated at five times lower those of a small scale isolated utility;
- using ATCO's purchasing power to minimize the cost of materials;
- a management philosophy which focuses on limiting expenditures to items that support operations; and
- access to emergency standby generation at low costs.

7.0 CONCLUSION

It is our strong desire to continue delivering electricity services in Hay River and the surrounding communities. We are committed to the communities where we have operations and where our staff live and work and look forward to fulfilling this commitment through:

- staff committed to their work as well as invested in their community;
- employment and skills development in Hay River;
- financial and in-kind investment in community events, organizations and infrastructure projects, including but not limited to the 2018 Arctic Winter Games;
- the benefits of a large community-based parent company capable of providing significant economies of scale, additional emergency response personnel and resources, when required, and technical, financial, and regulatory expertise;
- opportunities to partner with the ATCO Group of Companies in pursuing energy, infrastructure and technology projects that are beneficial to the community; and
- full participation of the Dene First Nations in the NWT economy.

Should Northland be awarded the franchise agreement for the Town of Hay River it will:

Immediate Actions

- Defend its allocation of Administration and General Costs in the Northland (NWT) Phase II proceeding.
- Participate in NTPC's Phase II to advocate for the proper allocation of costs and appropriate revenue to cost ratios.
- Execution of a new franchise agreement.
- Begin discussions with the Town of Hay River to develop energy related and community investment initiatives that the Town believes worthy of effort.

Near Term Actions

- Merge the two Northland entities into one organization.
- File a new General Rate Application reflecting the new reduced costs structure.
- Work with the Town of Hay River to urge the GNWT to convene an energy forum with interested parties to reduce the number of rate zones from seven to two allowing for fair and equitable rates and discuss the possibility of a partnership between Northland and NTPC.

Northland has outlined in this submission real, tangible and sustainable solutions to lower energy costs in the Town of Hay River and to create fair and equitable rates throughout the NWT. We feel that the best way this can be done is by negotiating a new franchise agreement between the Town of Hay River and Northland Utilities (NWT).

Northland has called the Town of Hay River home since 1951 and is committed to the ongoing economic and social development of the community. We welcome the opportunity provided by the Town to discuss a new franchise agreement and to demonstrate that Hay River residents are well served by Northland. We look forward to meeting with the Town Council, Franchise Committee and administration to discuss our proposal further and to address any concerns you may have.