UTILITIES CONSUMERS' GROUP
(UCG)

REFERENCE: February 19, 2010 Application, page 1

PREAMBLE:

According to the Applicants, permitting the utilities “to fully collect their 2009 revenue requirements at test year forecast loads” translates into a Phase II Rate Application that excludes any “net change to the overall level of rates in Yukon”.

QUESTION:

a) Please explain further the rationale behind this statement when existing rates are based on a different revenue requirement and load forecast.

ANSWER:

(a)

“Existing rates” includes all riders arising out of the YECL YEC GRAs for the 2009 test year. In each case the revenue requirement adjustments to collect the approved revenue requirements are already in place (the only limited exception is a reconciling item discussed at page 2-2 of the application (footnote 5)).

The Phase II application only proposes changes the way rates are recovered from within a class, not any rebalancing between the classes.

REFERENCE: **February 19, 2010 Application, page 4**

• "First energy block for use up to 1,000 kWh per month (about 70% of residential non-government class annual bills do not exceed this level), with an adjusted base energy rate…"

QUESTION:

a) Please provide detailed and summary billing data used to make the 70% determination.

b) Please provide the above data for 2005 through 2009.

ANSWER:

(a) and **(b)**

Please refer to the following Table 1 for summary data.

Table 1

Year	Residential Non-Gov't Customers	Total Non-Gov't Customers	Percentage
2005	112,079	156,377	72%
2006	110,826	159,565	69%
2007	114,411	162,911	70%
2008*	98,767	138,663	71%
2009**	98,535	150,481	65%

* 10 months of data
** 11 months of data

REFERENCE: **February 19, 2010 Application, pages 1-3, 1-6**

PREAMBLE:

"Board Order 1996-7 approved the revised rates and ordered the utilities to target all classes to 90-110% R/C within 10 years."

"There has been no opportunity to advance the rate rebalancing directives outlined by the Board in Order 1996-7, or (prior to this Application) to prepare an updated COS based on updated and approved revenue requirements for both Companies."

QUESTION:

(a) Please explain why there has been "no opportunity" for the Applicants to come forward with a rate rebalancing proposal to allow for a gradual adjustment over the last decade.

ANSWER:

(a)

Yukon Energy Response

In short, there has been no opportunity as the only rate changes that have occurred since 1996/97 have been through "across the board" riders. The last approved revenue requirement for YEC was for 2005, and before that was for 1996/97; for YECL the last approved revenue requirement was 1996/97.

Yukon Electrical Response

Current approved rates reflect rates that were designed as part of the 1996/1997 GRA. The Companies believe that in order to have considered a rate rebalancing proposal an approved revenue requirement for each of the two utilities would have been required on a consistent basis. This would have allowed rates to be designed on new billing determinants and load characteristics by customer class. This Application is the first joint application since the 1996/1997 GRA that is based on the approved 2009 revenue requirements for YECL and YEC.

REFERENCE: **Yukon Utilities Board Report on Yukon Energy Corporation 20-Year Resource Plan, January 15, 2007, page 51**

PREAMBLE:

"Now is an appropriate time for YEC and YECL to have a complete review of all GRA Phase I and Phase II matters. The Board recommends that YEC and YECL file a full GRA application before October 31, 2007. The application should include a full cost of service, rate design and an update of the Electric Service Regulations. The Board also suggests that YEC and YECL consider a performance-based regulation mechanism. As well, the Board recommends that evidence be provided as to what other utilities provide for Maximum Company Investment and model theirs accordingly".

QUESTION:

a) Please identify where in the current Application the Applicants have addressed a performance-based regulation mechanism or set out a plan for its discussion and development.

ANSWER:

(a)

Yukon Energy Response

The item noted (performance based regulation) is fundamentally a matter for revenue requirement reviews, and not a Phase II application.

It is also noted that this form of regulation may not be feasible in Yukon outside of specific legislative changes or directions related to rate policy and rate regulation. A multi-year performance-based regulatory framework is not currently in place in Yukon. Implementing this form of regulation would likely significant changes to the regulatory framework in the Yukon that have not been assessed.

Yukon Electrical Response

The Companies have not considered or addressed a performance-based regulation mechanism in this Application. As noted in response to UCG-YEC/YECL-1-3, the last joint application was the 1996/1997 GRA. In essence, existing base rates have been sufficient to recover base revenue up until the requirement for the 2009 GRA. At this time, the Companies do not believe a performance-based regulation mechanism is required.

REFERENCE: **February 19, 2010 Application, page 1-6**

PREAMBLE:

"Whereas rate relief subsidies impeded rate rebalancing in the 1996/97 GRA…"

QUESTION:

a) Please explain what rate relief subsidies are being referenced and how they impeded rate rebalancing within a Phase II-type proceeding.

ANSWER:

(a)

During the 1996/97 GRA, Yukon Energy and Yukon Electrical argued against any material adjustments to rates for residential non-government customers (despite an R/C ratio below 90%) based on the fact that any movement towards the 90-110% target would only increase the amount of bill relief paid by the government. The residential customer would not see any change in their bills. The Board in not moving to initiate a rate shift program at that time acknowledged the constraints related to the then existing rate relief. In joint correspondence to the Board in 2005 (provided as YUB-YEC-1-23(a) Attachment 1 in the 2008/2009 GRA), the Companies noted that the situation regarding rate relief constraints had not material changed at that time, with recent government announcement that the Rate Stabilization Fund would continue until March 31, 2007. The Companies noted that this mechanism prevented most residential non-government customers from seeing any related rate shifts to their bills.

REFERENCE: February 19, 2010 Application, page 1-6

PREAMBLE:

"An Interim Energy Rebate ("IER") was implemented in 2009, as an interim measure, and it is currently understood that it may terminate in 2010 (subsequent to the Phase II proceeding)."

QUESTION:

a) Please provide an update on the Applicants' understanding of the current life of the Interim Energy Rebate.

b) Please provide a calculation of a residential bill at current rates with the Interim Energy Rebate and without the Interim Energy Rebate for a customer using 500 kWh, 1000 kWh and 1200 kWh in February 2010 and June 2010.

ANSWER:

(a)

Please see response to YUB-YEC/YECL-1-20(b).

(b)

No changes to the existing rates were made between February and June 2010. Therefore a customer bill will be the same for equivalent energy consumption during this period. Please see the attached Tables 1-4 for the requested information.

Table 1a. Hydro Zone Residential Bill with IER

Residential NG	**Hydro**														
Consumption	**500** kW.h					**1000** kW.h					**1200** kW.h				
Customer charge	$11.90				$11.90	$11.90				$11.90	$11.90				$11.90
Block 1 energy charge	500	kwh @	$0.0986		$49.30	1000	kwh @	$0.0986		$98.60	1000	kwh @	$0.0986		$98.60
Block 2 energy charge	0	kwh @	$0.1045		$0.00	0	kwh @	$0.1045		$0.00	200	kwh @	$0.1045		$20.90
Base billing					$61.20					$110.50					$131.40
Rider J	$61.20	x	12.460%	=	$7.63	$110.50	x	12.460%	=	$13.77	$131.40	x	12.460%	=	$16.37
Rider R	$61.20	x	10.526%	=	$6.44	$110.50	x	10.526%	=	$11.63	$131.40	x	10.526%	=	$13.83
Yukon rebate of Fed/Ter Income Tax	$61.20	x	-0.500%	=	($0.31)	$110.50	x	-0.500%	=	($0.55)	$131.40	x	-0.500%	=	($0.66)
Yukon Interim ElectricalRebate	500	x	-$0.02660	=	($13.30)	1000	x	-$0.02660	=	($26.60)	1000	x	-$0.02660	=	($26.60)
Rider F	500	x	-$0.00354	=	($1.77)	1000	x	-$0.00354	=	($3.54)	1200	x	-$0.00354	=	($4.25)
Subtotal					$59.89					$105.21					$130.10
GST	$59.89	x	5.000%	=	$2.99	$105.21	x	5.000%	=	$5.26	$130.10	x	5.000%	=	$6.50
Total					**$62.89**					**$110.47**					**$136.60**

Table 1b. Hydro Zone Residential Bill without IER

Residential NG	**Hydro**														
Consumption	**500** kW.h					**1000** kW.h					**1200** kW.h				
Customer charge	$11.90				$11.90	$11.90				$11.90	$11.90				$11.90
Block 1 energy charge	500	kwh @	$0.0986		$49.30	1000	kwh @	$0.0986		$98.60	1000	kwh @	$0.0986		$98.60
Block 2 energy charge	0	kwh @	$0.1045		$0.00	0	kwh @	$0.1045		$0.00	200	kwh @	$0.1045		$20.90
Base billing					$61.20					$110.50					$131.40
Rider J	$61.20	x	12.460%	=	$7.63	$110.50	x	12.460%	=	$13.77	$131.40	x	12.460%	=	$16.37
Rider R	$61.20	x	10.526%	=	$6.44	$110.50	x	10.526%	=	$11.63	$131.40	x	10.526%	=	$13.83
Yukon rebate of Fed/Ter Income Tax	$61.20	x	-0.500%	=	($0.31)	$110.50	x	-0.500%	=	($0.55)	$131.40	x	-0.500%	=	($0.66)
Yukon Interim ElectricalRebate	500	x		=	$0.00	1000	x		=	$0.00	1000	x		=	$0.00
Rider F	500	x	-$0.00354	=	($1.77)	1000	x	-$0.00354	=	($3.54)	1200	x	-$0.00354	=	($4.25)
Subtotal					$73.19					$131.81					$156.70
GST	$73.19	x	5.000%	=	$3.66	$131.81	x	5.000%	=	$6.59	$156.70	x	5.000%	=	$7.83
Total					**$76.85**					**$138.40**					**$164.53**

Table 2a. Large Diesel Zone Residential Bill with IER

Residential NG	**Lg Diesel**														
Consumption	**500** kW.h					**1000** kW.h					**1200** kW.h				
Customer charge	$11.90				$11.90	$11.90				$11.90	$11.90				$11.90
Block 1 energy charge	500	kwh @	$0.0986		$49.30	1000	kwh @	$0.0986		$98.60	1000	kwh @	$0.0986		$98.60
Block 2 energy charge	0	kwh @	$0.1045		$0.00	0	kwh @	$0.1045		$0.00	200	kwh @	$0.1045		$20.90
Base billing					$61.20					$110.50					$131.40
Rider J	$61.20	x	12.460%	=	$7.63	$110.50	x	12.460%	=	$13.77	$131.40	x	12.460%	=	$16.37
Rider R	$61.20	x	10.526%	=	$6.44	$110.50	x	10.526%	=	$11.63	$131.40	x	10.526%	=	$13.83
Yukon rebate of Fed/Ter Income Tax	$61.20	x	-0.500%	=	($0.31)	$110.50	x	-0.500%	=	($0.55)	$131.40	x	-0.500%	=	($0.66)
Yukon Interim ElectricalRebate	500	x	-$0.02660	=	($13.30)	1000	x	-$0.02660	=	($26.60)	1000	x	-$0.02660	=	($26.60)
Rider F	500	x	-$0.00354	=	($1.77)	1000	x	-$0.00354	=	($3.54)	1200	x	-$0.00354	=	($4.25)
Subtotal					$59.89					$105.21					$130.10
GST	$59.89	x	5.000%	=	$2.99	$105.21	x	5.000%	=	$5.26	$130.10	x	5.000%	=	$6.50
Total					**$62.89**					**$110.47**					**$136.60**

Table 2b. Large Diesel Zone Residential Bill without IER

Residential NG	**Lg Diesel**														
Consumption	**500** kW.h					**1000** kW.h					**1200** kW.h				
Customer charge	$11.90				$11.90	$11.90				$11.90	$11.90				$11.90
Block 1 energy charge	500	kwh @	$0.0986		$49.30	1000	kwh @	$0.0986		$98.60	1000	kwh @	$0.0986		$98.60
Block 2 energy charge	0	kwh @	$0.1045		$0.00	0	kwh @	$0.1045		$0.00	200	kwh @	$0.1045		$20.90
Base billing					$61.20					$110.50					$131.40
Rider J	$61.20	x	12.460%	=	$7.63	$110.50	x	12.460%	=	$13.77	$131.40	x	12.460%	=	$16.37
Rider R	$61.20	x	10.526%	=	$6.44	$110.50	x	10.526%	=	$11.63	$131.40	x	10.526%	=	$13.83
Yukon rebate of Fed/Ter Income Tax	$61.20	x	-0.500%	=	($0.31)	$110.50	x	-0.500%	=	($0.55)	$131.40	x	-0.500%	=	($0.66)
Yukon Interim ElectricalRrebate	500	x		=	$0.00	1000	x		=	$0.00	1000	x		=	$0.00
Rider F	500	x	-$0.00354	=	($1.77)	1000	x	-$0.00354	=	($3.54)	1200	x	-$0.00354	=	($4.25)
Subtotal					$73.19					$131.81					$156.70
GST	$73.19	x	5.000%	=	$3.66	$131.81	x	5.000%	=	$6.59	$156.70	x	5.000%	=	$7.83
Total					**$76.85**					**$138.40**					**$164.53**

Table 3a. Small Diesel Zone Residential Bill with IER

Residential NG	**Sm Diesel**														
Consumption	**500** kW.h					**1000** kW.h					**1200** kW.h				
Customer charge	$11.90				$11.90	$11.90				$11.90	$11.90				$11.90
Block 1 energy charge	500	kwh @	$0.0986		$49.30	1000	kwh @	$0.0986		$98.60	1000	kwh @	$0.0986		$98.60
Block 2 energy charge	0	kwh @	$0.1236		$0.00	0	kwh @	$0.1236		$0.00	200	kwh @	$0.1236		$24.72
Base billing					$61.20					$110.50					$135.22
Rider J	$61.20	x	12.460%	=	$7.63	$110.50	x	12.460%	=	$13.77	$135.22	x	12.460%	=	$16.85
Rider R	$61.20	x	10.526%	=	$6.44	$110.50	x	10.526%	=	$11.63	$135.22	x	10.526%	=	$14.23
Yukon rebate of Fed/Ter Income Tax	$61.20	x	-0.500%	=	($0.31)	$110.50	x	-0.500%	=	($0.55)	$135.22	x	-0.500%	=	($0.68)
Yukon Interim ElectricalRrebate	500	x	-$0.02660	=	($13.30)	1000	x	-$0.02660	=	($26.60)	1000	x	-$0.02660	=	($26.60)
Rider F	500	x	-$0.00354	=	($1.77)	1000	x	-$0.00354	=	($3.54)	1200	x	-$0.00354	=	($4.25)
Subtotal					$59.89					$105.21					$134.78
GST	$59.89	x	5.000%	=	$2.99	$105.21	x	5.000%	=	$5.26	$134.78	x	5.000%	=	$6.74
Total					**$62.89**					**$110.47**					**$141.52**

Table 3b. Small Diesel Zone Residential Bill without IER

Residential NG	**Sm Diesel**														
Consumption	**500** kW.h					**1000** kW.h					**1200** kW.h				
Customer charge	$11.90				$11.90	$11.90				$11.90	$11.90				$11.90
Block 1 energy charge	500	kwh @	$0.0986		$49.30	1000	kwh @	$0.0986		$98.60	1000	kwh @	$0.0986		$98.60
Block 2 energy charge	0	kwh @	$0.1236		$0.00	0	kwh @	$0.1236		$0.00	200	kwh @	$0.1236		$24.72
Base billing					$61.20					$110.50					$135.22
Rider J	$61.20	x	12.460%	=	$7.63	$110.50	x	12.460%	=	$13.77	$135.22	x	12.460%	=	$16.85
Rider R	$61.20	x	10.526%	=	$6.44	$110.50	x	10.526%	=	$11.63	$135.22	x	10.526%	=	$14.23
Yukon rebate of Fed/Ter Income Tax	$61.20	x	-0.500%	=	($0.31)	$110.50	x	-0.500%	=	($0.55)	$135.22	x	-0.500%	=	($0.68)
Yukon Interim ElectricalRrebate	500	x		=	$0.00	1000	x		=	$0.00	1000	x		=	$0.00
Rider F	500	x	-$0.00354	=	($1.77)	1000	x	-$0.00354	=	($3.54)	1200	x	-$0.00354	=	($4.25)
Subtotal					$73.19					$131.81					$161.38
GST	$73.19	x	5.000%	=	$3.66	$131.81	x	5.000%	=	$6.59	$161.38	x	5.000%	=	$8.07
Total					**$76.85**					**$138.40**					**$169.45**

Table 4a. Old Crow Zone Residential Bill with IER

Residential NG	**Old Crow**														
Consumption	**500** kW.h					**1000** kW.h					**1200** kW.h				
Customer charge	$11.90				$11.90	$11.90				$11.90	$11.90				$11.90
Block 1 energy charge	500	kwh @	$0.0986		$49.30	1000	kwh @	$0.0986		$98.60	1000	kwh @	$0.0986		$98.60
Block 2 energy charge	0	kwh @	$0.2577		$0.00	0	kwh @	$0.2577		$0.00	200	kwh @	$0.2577		$51.54
Base billing					$61.20					$110.50					$162.04
Rider J	$61.20	x	12.460%	=	$7.63	$110.50	x	12.460%	=	$13.77	$162.04	x	12.460%	=	$20.19
Rider R	$61.20	x	10.526%	=	$6.44	$110.50	x	10.526%	=	$11.63	$162.04	x	10.526%	=	$17.06
Yukon rebate of Fed/Ter Income Tax	$61.20	x	-0.500%	=	($0.31)	$110.50	x	-0.500%	=	($0.55)	$162.04	x	-0.500%	=	($0.81)
Yukon Interim ElectricalRrebate	500	x	-$0.02660	=	($13.30)	1000	x	-$0.02660	=	($26.60)	1000	x	-$0.02660	=	($26.60)
Rider F	500	x	-$0.00354	=	($1.77)	1000	x	-$0.00354	=	($3.54)	1200	x	-$0.00354	=	($4.25)
Subtotal					$59.89					$105.21					$167.63
GST	$59.89	x	5.000%	=	$2.99	$105.21	x	5.000%	=	$5.26	$167.63	x	5.000%	=	$8.38
Total					**$62.89**					**$110.47**					**$176.01**

Table 4b. Old Crow Zone Residential Bill without IER

Residential NG	**Old Crow**														
Consumption	**500** kW.h					**1000** kW.h					**1200** kW.h				
Customer charge	$11.90				$11.90	$11.90				$11.90	$11.90				$11.90
Block 1 energy charge	500	kwh @	$0.0986		$49.30	1000	kwh @	$0.0986		$98.60	1000	kwh @	$0.0986		$98.60
Block 2 energy charge	0	kwh @	$0.2577		$0.00	0	kwh @	$0.2577		$0.00	200	kwh @	$0.2577		$51.54
Base billing					$61.20					$110.50					$162.04
Rider J	$61.20	x	12.460%	=	$7.63	$110.50	x	12.460%	=	$13.77	$162.04	x	12.460%	=	$20.19
Rider R	$61.20	x	10.526%	=	$6.44	$110.50	x	10.526%	=	$11.63	$162.04	x	10.526%	=	$17.06
Yukon rebate of Fed/Ter Income Tax	$61.20	x	-0.500%	=	($0.31)	$110.50	x	-0.500%	=	($0.55)	$162.04	x	-0.500%	=	($0.81)
Yukon Interim ElectricalRrebate	500	x		=	$0.00	1000	x		=	$0.00	1000	x		=	$0.00
Rider F	500	x	-$0.00354	=	($1.77)	1000	x	-$0.00354	=	($3.54)	1200	x	-$0.00354	=	($4.25)
Subtotal					$73.19					$131.81					$194.23
GST	$73.19	x	5.000%	=	$3.66	$131.81	x	5.000%	=	$6.59	$194.23	x	5.000%	=	$9.71
Total					**$76.85**					**$138.40**					**$203.94**

REFERENCE: **February 19, 2010 Application, page 1-11**

PREAMBLE:

"While inter-class rate rebalancing (among the customer classes) cannot be undertaken at present due to OIC 2008/149, retail runoff block adjustments do not need to be deferred and can be undertaken now to ensure that consumers begin to receive appropriate efficiency price signals."

REFERENCE: ***Order-in-Council 2008/149*, October 3, 2008**

PREAMBLE:

Retail Rate Adjustments

2.1(1) The Board must ensure that rate adjustments for retail customers apply equally, when measured as percentages, to all classes of retail customers.

REFERENCE: ***Order-in-Council 1995/090*, May 29, 1995 (as amended)**

PREAMBLE:

Public Utilities Act - Rate Policy Directive (1995) Interpretation

- "Retail customer" means a customer of Yukon Energy Corporation or of The Yukon Electrical Company Limited, other than a major industrial customer, an isolated industrial customer, or a wholesale customer.

- "Wholesale customer" means the Yukon Electrical Company Limited when it purchases electricity from Yukon Energy Corporation.

QUESTION:

a) Please confirm the Applicants' understanding that OIC 2008/149 only limits rate adjustments for "retail customer classes" and that this excludes major industrial customers and Yukon Electrical Company as a wholesale customer of Yukon Energy Corporation.

b) Please confirm the Applicants' understanding that, from an analytical point of view, it is possible to undertake a full cost allocation analysis that excludes the rate design limiting OICs that have been issued over the last few years.

ANSWER:

(a)

Confirmed.

However, OIC 2007/94 also requires that the Board must ensure that the rates charged to Major Industrial Customers from January 1, 2008 until December 31, 2012 conforms to Rate Schedule 39, Industrial Primary, (attached to OIC 2007/94 as Schedule A). The combined OIC's serve to prevent rate rebalancing between retail and industrial customer classes until after December 31, 2012.

(b)

Confirmed. A full cost of service study is provided in Tab 3 of the Application. This cost of service study is not limited in any way by OIC 2007/94 or OIC 2008/149.

However, the results of this cost of service cannot be used for rate rebalancing at this time due to the limitations that arise from OICs 2008/149 and 2007/94 (which do not expire until after December 31, 2012).

REFERENCE: **February 19, 2010 Application, page 1-11**

PREAMBLE:

"OIC's in place since 1988, including the current OIC 1995/90, have provided key directions in this regard:

- To allocate throughout Yukon the benefits of lower cost heritage grid generation and transmission assets which the Board last implemented through first block rates approved in the 1996/97 General Rate Application; combined with

- Runoff rates to recover incremental costs of higher cost non-renewable generation.

The Board has sought to implement this balance in conjunction with a long-term goal of moving each class closer to paying a reasonable share of the overall allocated cost of the system."

QUESTION:

a) Please provide references to the Board's efforts since the 1996/97 GRA to "implement this balance in conjunction with a long-term goal of moving each class closer to paying a reasonable share of the overall allocated cost of the system".

ANSWER:

(a)

Since the 1996/97 GRA, there has been no redesign of rates to permit this balancing to be addressed.

In Order 1996-7 following the 1996/97 GRA, the Board noted (at page 8) that "run-out rates were designed consistent with rate design principles and specific direction established in OIC 1995/90." Further, the Board noted that it "is cognizant that rate design objectives may be in conflict and there must be trade-offs to achieve a particular outcome. In this case, revenue stability, recovery of cost and the appropriate price signal are achievable results in the current methodology that have been incorporated in the run-out rates. The Board agrees that it is necessary to provide the correct price signals to consumers which accurately reflects costs of providing service so that rational energy choices can be made."

With regard to the need to move each class closer to paying a reasonable share of the overall allocated cost of the system the Board noted in that Order (at page 9) that, "the Companies are to design a rate shift program that would target revenue/cost ratios in the range of 90% to 110%over a ten year period."

As noted in response to UCG-YEC/YECL-1-3, since the Companies were not jointly before the Board for a review of their revenue requirements in the same test period (until 2008/09) the Board has not had an opportunity to review cost of service, cost allocations or material rate redesign issues as part of a full General Rate Application. However, the Board did in Order 2005-1 confirm that it would review the YECL annual filing (along with Yukon Energy's 2005 Required Revenues and Related Matters Application) to determine whether it would require both Companies to appear before the Board to set out a joint YEC/YECL cost-of-service, as follows:

> The Board requires the Companies to jointly file a report by Thursday September 1, 2005, that provides information on the revenue to cost ratios by customer class for both Companies utilizing the most recent cost of service allocation study. If the report indicates that the revenue to cost ratios by customer class are outside the range of 90 percent to 110 percent, then the Companies are to provide their views on whether an updated cost of service allocation study should be undertaken or if a rate shift proposal can be made based on the most recent cost of service allocation study.

The Companies filed this information with the Board (in correspondence dated August 24, 2005) noting that while a cost of service study was not required to begin a rate shift program, a number of matters mitigated against initiating such a program in the near term, including that need for a revenue requirement and billing determinants for both companies to be established for the same time period, and constraints related to the existing rate relief program which would result in any movement towards the 90% to 110% target being paid by the government with residential customers seeing no change in their bills. The Board did not Order the Companies to file a Cost of Service following receipt of this correspondence.

The YUB made an initial recommendation that the Companies provide a joint Cost of Service Study as part of its Recommendations to the Minister of Justice following the review of the Yukon Energy 20-Year Resource Plan, and a subsequent direction in this regard was provided in Order 2007-5 related to the review of the Yukon Energy PPA with Minto Mine (reviewed at pages 6-5 and 6-6 of the Phase II Rate Application).

REFERENCE: February 19, 2010 Application, page 1-12

PREAMBLE:

“It is important to design rates with regard to firm loads that send the appropriate price signal based on the current costing environmental.”

QUESTION:

a) Please provide further explanation of what this sentence means.

b) Please provide all studies undertaken by or for the Applicants which identify what could be regarded as “the appropriate price signal” for Yukon electricity ratepayers.

c) Please provide the elasticity study used to demonstrate that by "designing rates with regard to firm loads that send the appropriate price signal based on the current costing environment" will achieve the goals proposed. Please explain what time lag is shown by this study for this to actually take effect.

ANSWER:

(a)

There is a typographical error in this sentence – it should read “costing environment” not “costing environmental”.

Yukon Energy Response

The discussion at page 1-12 of the Application notes that factors affecting the current rate setting environment include ongoing load growth and diminished available surplus hydro generation, resulting in a system that is once again returning to a state of diesel being on the margin. The costing environment that the system is moving towards in the near term is one where costs will be steadily increasing due to greater requirements for diesel generation to meet baseload needs (instead of only peaking diesel requirements as has been the case since the closure of the Faro mine). The rate structures must necessarily reflect this change in system costs by beginning to provide appropriate price signals regarding consumption on the margin.

Yukon Electrical Response

The meaning of this sentence is to suggest that while runoff rates are designed to reflect the short-run incremental costs, rates should ultimately reflect cost causality. Overpricing distorts the signal for economic efficiency and is considered inequitable. Ideally, inclining-block rate design is done to send a price signal to customers that higher amounts of electric consumption require higher amounts of incremental production. In the Yukon, the incremental production relates to the incremental production of diesel. The effectiveness of increasing block-rates as a conservation tool is lost if the incremental costs are not forecasted to occur.

(b)

The studies that provide the most relevant direction on the appropriate price signal for Yukon are summarized in the Board's Report on Cost of Service and Rate Design issued in 1992. This study was distributed to all participants in the public consultation session and is provided in Appendix 7.1.

No specific studies have been undertaken for this Application that tests the appropriate price signal.

(c)

The goals of designing rates to provide an appropriate price signal are to ensure that customers (particularly larger customers) see rates at the margin that reflect incremental costs on the system. There are no elasticity studies or effect needed to achieve this goal.

With respect to elasticity studies in particular, no Yukon-specific study has been undertaken. To the Companies' knowledge even most larger jurisdictions do not do system specific studies, but rather rely on comparative studies to other jurisdictions (e.g., Manitoba Hydro completed a comparative elasticity review, rather than doing their own direct study). Undertaking a Yukon-specific study is not considered reasonable or cost effective, given the size of this jurisdiction.

In Yukon, "the appropriate price signal" for Yukon electricity ratepayers has been based largely on the requirement to comply with current rate policy direction provided by OIC 1995/90 and past Board Orders and precedents related to the interpretation of this provision. This includes the 1992 Board Report on Cost of Service and Rate Design and prior Board Orders 1993-8 and 1996-7 which accepted and confirmed established principles regarding economy and efficiency and the basis for setting efficient runout rates based on the shortrun incremental cost in each rate zone.

See discussion at page 4YEC-21 and 4YEC-22 of the Phase II Rate Application for further discussion related to the policy for setting runout rates to reflect incremental costs to promote economy and efficiency.

REFERENCE: February 19, 2010 Application, page 2-2, Note 5

PREAMBLE:

"In preparing the Yukon Energy Compliance Filing, Yukon Energy was directed to use Yukon Electrical's sales forecast for the purposes of forecasting wholesale sales. This was incorporated into Yukon Energy's Compliance Filing for wholesale (Rate Schedule 42) sales, but was inadvertently not incorporated for wholesale Rider J collections. In forecasting Rider J collections, Yukon Energy used a wholesale rider recovery estimate that slightly overstated the recovery that should be forecast based on YECL's approved load forecast. Consequently, Yukon Energy's approved Rider J adjustment at forecast sales levels (to 12.46%) fails to collect $0.054 million of YEC's approved revenue requirement. The rates proposed in this filing (Tab 4) address this adjustment on a go forward basis (implies correct Rider J of 12.597%). No approvals are sought to adjust Rider J for this factor during the periods it was applicable."

QUESTION:

a) Please explain why the Applicants believe that no approvals are required to change the conditions of a Board Order.

b) Please provide all studies undertaken by or for the Applicants which identify what could be regarded as "the appropriate price signal" for Yukon electricity ratepayers.

ANSWER:

(a)

To be clear, footnote 5 at page 2-2 of the Application does not in any way infer that the Companies are acting in contravention of a Board Order. The footnote explains Yukon Energy's approved Rider J adjustment (of 12.46%) failed to collect $0.054 million of Yukon Energy's revenue requirement approved by Order 2009-10 (the Application notes the correct Rider J over this period should have been 12.597%). The error has been adjusted on a go-forward basis and is to be reviewed and must be approved by the

Board in the current filing – footnote 5 states that no approvals are being sought to retroactively collect amounts during periods when the under-collection occurred.

(b)

Please see response to UCG-YEC/YECL-1-9(b) and (c).

REFERENCE: **February 19, 2010 Application, page 3-5**

PREAMBLE:

"Aishihik Plant (existing, excluding Aishihik 3rd Turbine) – Classified 100% to Energy - Under the new capacity planning criteria recently adopted in Yukon Energy's 20-Year Resource Plan: 2006-2025 (driven by N-1 methods), Aishihik generation is considered to not contribute to the WAF system's ability to serve peak loads at critical times due to transmission constraints."

REFERENCE: **Yukon Utilities Board Report on Yukon Energy Corporation 20-Year Resource Plan, January 15, 2007, Page 30**

PREAMBLE:

"It should be noted, however, that the addition of the third turbine under YEC's plan is not a capacity requirement determined by the planning criteria, but rather a requirement driven strictly by economic reasons, namely to offset future diesel generation that is expected to increase under the base-case load forecast. However, should the actual loads turn out higher or lower that the loads under the base-case forecast, the optimal timing of the third turbine would move earlier or later than 2013. Therefore, to minimize the uncertainty around timing of the third turbine, the final decision to proceed with this project should be made closer to the date when economic reasons indicate that the turbine is needed. Therefore, the Board recommends that this project not proceed until that time unless YEC can justify an earlier in-service date."

QUESTION:

a) Please explain the Applicants' reasoning of "transmission constraints" versus the Board's determination that the third turbine was driven by the need to offset diesel use.

ANSWER:

(a)

The two points are not related.

Page 3-5 of the Application notes the proposed allocation for Aishihik Plant in the cost of service study, due to the fact that Aishihik is connected to the WAF grid by a single non-redundant transmission interconnection, which means that the plant is not included in planning to meet reliability criteria with respect to Coincident Peak loads.

The above quoted passage from the YUB Report on Yukon Energy's 20-Year Resource Plan specifically addresses the justification to proceed with Aishihik 3rd Turbine as a near term opportunity to displace diesel, due to better ability to use the available water at Aishihik.

REFERENCE: **February 19, 2010 Application, page 3-6**

PREAMBLE:

"Mayo Hydro – Classified 100% to Energy – The Companies in this Application propose to change the classification of hydro plant at Mayo (from that proposed by the Companies and recommended by the Board in 1992 and subsequently approved in Order 1993-8 and 1996-7) due to material changes in circumstances on the system since the 1996/97 GRA."

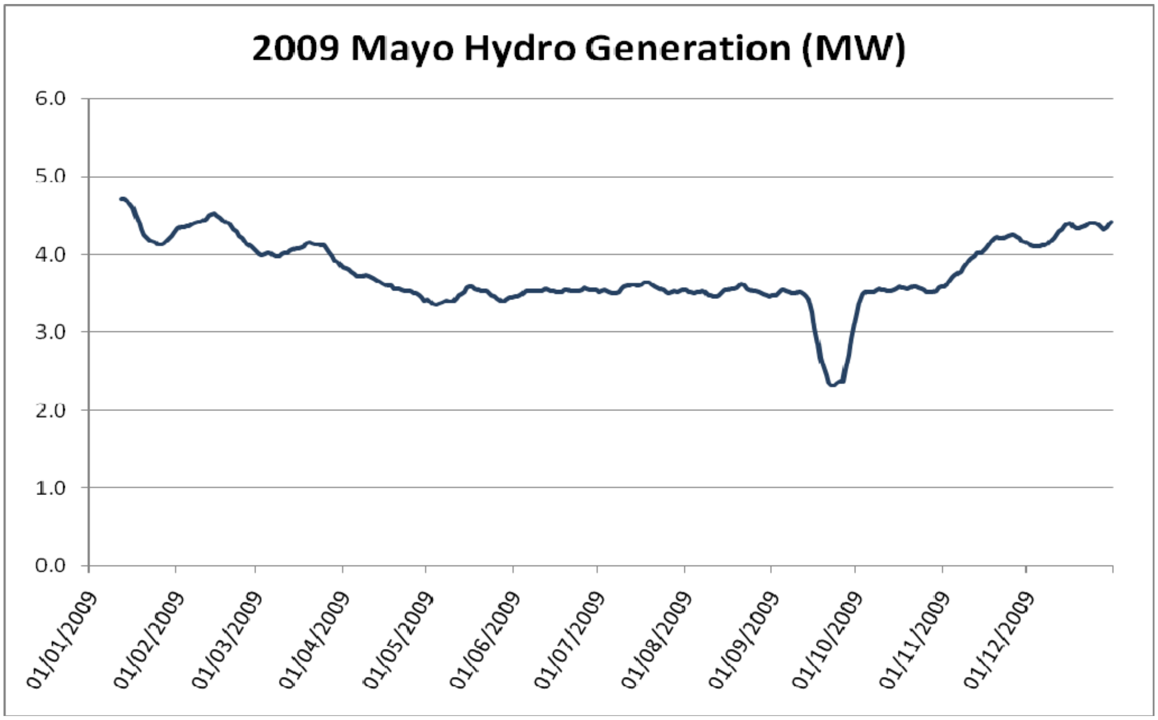
QUESTION:

a) Please provide details of the loads met by the hydro plant in Mayo during 2009.

ANSWER:

(a)

The graph below provides the daily average generation for the Mayo hydro plant in 2009. The evident dip (01/10/2009) coincides with annual preventative maintenance activities. The loads are largely residential and general service. Further details on the loads were provided in Yukon Energy's 2008/09 General Rate Application, in Tab 2 of that filing, Table 2.3.

1 
2009 Mayo Hydro Generation (MW)
6.0
5.0
4.0
3.0
2.0
1.0
0.0
01/01/2009
01/02/2009
01/03/2009
01/04/2009
01/05/2009
01/06/2009
01/07/2009
01/08/2009
01/09/2009
01/10/2009
01/11/2009
01/12/2009

REFERENCE: **February 19, 2010 Application, Pages 3-10, 3-11, 3.2A-6**

•"The Companies have reviewed and updated the customer/demand classification factors for Distribution plant using Yukon specific data and the same methodologies that were approved in ATCO Electric's 2010 Distribution Tariff Application as well as Northland Utilities (NUY) and Northland Utilities (NWT) 2008-2010 Phase II General Rate Applications."

• "The Companies view the above classifications to be consistent with the goals of identifying cost causation. These classifications are also supported by the National Association of Regulatory Utility Commissioners' (NARUC) Electric Utility Cost Allocation Manual and are consistent with the practices of other Canadian utilities."

• "YECL studied the results of the zero-intercept and minimum plant studies and consider an average of the two methodologies to be the most appropriate and accurate. The zero-intercept method can produce results that allocate more costs to demand rate classes (large consumer) and the minimum plant method can produce results that allocate more costs to the customer (residential) rate classes. An average of the two methods helps mitigate these biases. This approach is consistent with the approved methodology of ATCO Electric Ltd. (Decision 2009-231) as well as Northland Utilities (NUY) (Decision 1-2009) and Northland Utilities (NWT) (Decision 2-2009)."

QUESTION:

a) Please provide regulator decision details of the customer / demand classification factors that were most recently approved for ATCO Electric and Northland Utilities.

b) Please provide any additional evidence indicating that any other utility blends the results of the zero-intercept and minimum plant classification methods to determine its classification factors.

c) Please provide details on the total costs that have been shifted from one rate class to another by moving to the proposed classification split.

d) Please provide an analysis of the impact of going with just the zero-intercept or the minimum plant methods.

e) Please provide documentation showing support from NARUC and other Canadian utilities for this proposed classification method.

ANSWER:

(a)

Recent regulator decisions approving Distribution Classification Factors are Northland Utilities Yellowknife 1-2009; Northland Utilities Hay River 2-2009 and ATCO Electric 2009-231. Please refer to YUB-YEC/YECL-1-7(d) for a list of the Distribution Classification factors.

(b)

YECL has not completed a detailed review of the practices of other utilities. YECL is not aware of any other utility in Alberta or the NWT that averages the results of the two classification methods.

(c)

Please refer to YUB-YEC/YECL-1-7(b).

(d)

Please refer to the Table 1 below.

Table 1

Rate Class	Zero Intercept Method	Minimum Plant Method	Average of Methods
Residential Government	$392	$411	$401
Residential Non Gov't	$24,187	$25,031	$24,592
General Service Gov't	$6,587	$6,287	$6,442
General Service Non Gov't	$15,134	$14,663	$14,909
Industrial	$2,965	$2,923	$2,946
Street Light	$1,453	$1,411	$1,432
Sentinel Light	$116	$108	$112

(e)

An internet search of other jurisdictions did not provide any information on the Distribution classification methods that other Canadian utilities use.

YECL has confirmed with NARUC that this material is protected by copyright and may not be reproduced. A copy of the manual may be obtained through the NARUC website www.naruc.org or by calling (202) 898-2200. Reference to the Classification of Distribution Plant via minimum plant and zero intercept methodologies, are detailed on pages 86 through 96 of the manual. The statement refers to the fact that the minimum plant and zero intercept studies are the only two methodologies contained in the NARUC manual. Combined with the significant amount of minimum plant and zero intercept methodology content detailed in the NARUC manual, YECL would expect that the use of those two studies are supported and recommended by NARUC.

REFERENCE: February 19, 2010 Application, page 3-12, Table 3.1

QUESTION:

a) Please provide details on the total costs that have been shifted from one rate class to another by moving to the proposed demand load allocators.

ANSWER:

(a)

Please refer to YUB-YEC/YECL-1-8(e).

REFERENCE: **February 19, 2010 Application, Page 3-12, Note 5**

- "NCP demands are used for allocating distribution system related costs, such as distribution poles and wires. These assets are largely not relevant to industrial customers."

QUESTION:

a) Please confirm that the industrial class has been allocated its fair share of distribution system related costs. Please identify the amount in relation to the total.

ANSWER:

(a)

YECL Response

Confirmed. The Industrial rate class was appropriately allocated $154,000 in Distribution classified costs which amounts to 1.07% of the total Distribution classified costs of $14,335,000.

YEC Response

Yukon Energy has reviewed the issue of Industrial Customer allocation of distribution related costs and has identified a new concern with respect to the 2009 Cost of Service study. In the 1997 Cost of Service study, the industrial class was allocated a small degree of distribution assets, as one of the customers classified industrial at that time (the former United Keno Mine site on the Mayo system) was connected via distribution assets. This is not the case in 2009. In 2009 the only customer classified as industrial is the Minto mine, who is solely connected to the system by assets functionalized at the transmission level (referred to as "sub-transmission"). As a result, there is no basis to allocate distribution assets to the industrial class today, as there was in 1997. This is correctly reflected in the 2009 Cost of Service study, and as a result there is no "Return and Income Tax" costs charged to industrial customers for distribution assets.

The problem with the 2009 cost of service study is that is incorrectly assigns certain distribution O&M costs and credits against the industrial customer that is not properly assigned to this customer, as it has no underlying assets. In particular this relates to the following costs:

- Distribution costs: The industrial customer class is allocated approximately $10,000 in distribution brushing costs. This is not correct, as the customer is not served by the distribution lines in question, only transmission. Similar allocations of other cost items are also incorrect for the same reason: distribution-related insurance costs ($7,000), distribution O&M costs ($54,000), the distribution system share of municipal taxes ($3,000) and all allocated amounts of Administration and General costs that are allocated on the basis of the above amounts.

- Distribution “revenue offsets”: The industrial class is allocated approximately $7,000 in credits (such as pole rental revenues) that are designed to offset the costs of distribution assets. These are not properly assigned against the class, as the class is not paying for (not using) distribution assets.

The net effect on the industrial customer class allocated costs is a reduction of approximately $80,000 to $85,000, or a change to the R/C ratio of approximately 3%, from 109% to approximately 112%.

REFERENCE: February 19, 2010 Application, page 3-13, Table 3.2

QUESTION:

a) Please explain the significant shifts in the revenue-to-cost ratios of the street lights and sentinel lights classes.

b) Please explain why the Residential Non-Government class revenue-to-cost ratio has not been adjusted toward the Board prescribed range?

c) Please provide details of the plan the Applicants have developed to move all revenue-to-cost ratios toward the Board prescribed range and outline the public consultation that will be undertaken.

ANSWER:

(a)

Streetlight costs have outgrown revenues by 167% vs 67%. Forecast energy for streetlights was 2,787 MW.h in 1997 and 3,800 MW.h in 2009.

Sentinel Lights costs have declined 26% while revenue has remained the same. Forecast energy for sentinel lights was 786 MW.h in 1997 and 646 MW.h in 2009.

Please refer to UCG-YEC/YECL-1-16(a) Table 1 to review costs and revenues from 1997 and 2009.

	UCG-YEC/YECL 16a Table 1		
	1997	2009	
	($000)	($000)	Increase
Streetlights Revenue	591.0	985.0	67%
Streetlights Cost	537.3	1432.0	167%
Streetlights R/C	110%	69%	-37%
Sentinel Revenue	165.5	166.0	0%
Sentinel Cost	150.4	112.0	-26%
Sentinel R/C	110%	148%	35%

(b)

Order-In-Council 2008/149 requires that all retail customer adjustments apply equally. As seen in Schedule YECL B4.2, each retail customer class is adjusted by 23.1% thus causing the Residential Non-Government class revenue-to-cost ratio to fall outside of the Board's prescribed range.

(c)

There is no ability at this time to move customer class revenue-to-cost ratios towards the Board prescribed range, due to prohibitions against rebalancing set out in OIC 2008/149. These limits expire at December 31, 2012. Starting in 2013, the rate changes that would need to be implemented to bring all customer classes to 100% R/C are set out in response to UCG-YEC/YECL-1-19(c). As noted in that response, in many cases the adjustments for the class overall are substantial (for example, 27% increases overall to the Residential Non-Government class, or 31% decreases to the General Service Government class). It is not possible today to set out how this might best be accomplished. In the event such rebalancing is permitted and desirable at that time, any rate changes driven by this effect would need to be considered in conjunction with other rate changes occurring at the same time (e.g., such as any new GRA-driven rate changes for either utility).

REFERENCE: **February 19, 2010 Application, page 3-14, Table 3.3**

• "Cost per customer: Customer related costs for a distribution level customer (residential or general service) vary from approximately $453/year to $475/year."

• "Embedded costs of energy: The energy related costs for distribution level customers (residential or general service, as well as lighting classes) is 8.5 cents/kWh at the customer meter, and for transmission level customers (industrial) the cost is 7.8 cents/kWh."

QUESTION:

a) Please explain the variance for different types of distribution customer.

b) Please provide the customer level cost per customer and explain whether any weighting factor was used to determine the average customer-related cost levels (i.e., did a residential customer carry the same weight as an industrial customer).

c) Please explain the difference between the energy-related costs by customer class.

ANSWER:

(a)

The costs allocated to the Residential or General Service Customer Classes on Schedules 4-T-27 through 4-T-30 are derived from various cost allocators that prorate the costs to Customer, Demand or Energy based on the Rate Classes portion of the total allocator. The costs in Schedule 4-T-27 to 4-T-30 come from the schedules listed below:

- Production, Schedule 4-T-17;

- Transmission Line, Schedule 4-T-18;

- Transmission Line Other, Schedule 4-T-19;

- Distribution Return & Income Tax, Schedule 4-T-20;
- Distribution Carrying Costs, Schedule 4-T-21;
- Distribution Operating & Maintenance Costs, Schedule 4-T-22;
- Distribution Customer Accounting & Public Information, Schedule 4-T-23;
- Distribution Insurance, Schedule 4-T-24;
- Distribution Revenue Offsets, Schedule 4-T-25;
- Distribution Administrative & General, Schedule 4-T-27; and
- Distribution Amortization of Contributions, Schedule 4-T-17.

Allocators include Distribution Plant by Rate Class Schedule 4-T-1, 2, 17, Customer counts Schedule 4-T-34, Demand CP Schedule 4-T-18, 19, Energy sent out Schedule 4-T-18, 19, Energy Sales 4-T-23, Sum of all Service Costs excluding A&G Schedule 4-T-25, Sum of all Service Costs excluding A&G including Revenue Offsets Schedule 4-T-26. The relative amount of PP&E, number of customers, demand or energy in use by each rate class is the reason that the costs assigned to each rate class differs.

(b)

Weighting factors are only applied to distribution meter and transformer assets for the residential and commercial customer to attach more costs to the commercial class as the equipment is larger and more expensive. The cost per customer (total Rate Class cost divided by number of customers) is:

- Residential Government $1,591.27 per customer; 252 total customers;
- Residential Non Government $1,740.66 per customer; 14,128 total customers;
- General Service Government $11,776.97 per customer; 547 total customers;

- General Service Non Government $5,872.41 per customer; 2,539 total customers; and

- Industrial $2,946,000 per customer; 1 total customer.

(c)

Please refer to part (a) above.

REFERENCE: February 19, 2010 Application, Terms and Conditions of Service

• Page 5-2 – "Changes to Schedule B, Maximum Company Investment - The Companies propose changes to the Maximum Company Investment levels for Residential, General Service and Street Lighting customer classes as well as for non-standard customers for 2011. YECL seeks further approval of incremental increases over the period 2012-2015 based on an "average cost" standard, as set out in the YECL Maximum Investment Level (MIL) study provided in Attachment 5.4, which YEC does not support. Schedule B also addresses Maximum Company Investment approach for Industrial customers."

• Page 5-3 – "The proposed changes, as contained in the Terms and Conditions of Service document in Appendix 5.2, reflect agreement between the Companies with one exception. The Terms and Conditions of service are proposed by YECL to be updated to eliminate what is presently section 4.18(d) in respect of "reconnection" (the terms related to reconnection are revised to now be section 4.15)."

• Page 5-6 – "Agreement exists between the Companies in respect of the present Application, for one-time increases to the Maximum Company Investment to take effect as part of this Application, for connections starting January 2011. There is no agreement between the Companies in respect of the "cost based approach", or any multi-year implementation of the Maximum Company Investment levels summarized in Table 5.3."

REFERENCE: Yukon Utilities Board Report on Yukon Energy Corporation 20-Year Resource Plan, January 15, 2007, Page 51

• "Now is an appropriate time for YEC and YECL to have a complete review of all GRA Phase I and Phase II matters. The Board recommends that YEC and YECL file a full GRA application before October 31, 2007. The application should include a full cost of service, rate design and an update of the Electric Service Regulations. The Board also suggests that YEC and YECL consider a performance-

> based regulation mechanism. As well, the Board recommends that evidence be provided as to what other utilities provide for Maximum Company Investment and model theirs accordingly."

QUESTION*:*

a) Please explain how the Board and intervenors should be able to address the issue of Maximum Company Investment when the two utilities that have been asked to work together and present a united proposal in Phase II of the GRA are unable to come to an agreement on a fundamental component of this issue.

b) Please explain why this issue should not be removed from further discussion until the two utilities come forward with a unified proposal.

ANSWER:

(a)

As set out in the Application, YECL and YEC worked diligently in an effort to present a uniform and consistent approach whenever possible to concepts relating to cost of service, rate design and Terms and Conditions that also includes proposed Maximum Investment Levels. However, this goal was not always met as each Company has its own views regarding how best to address certain matters. YECL has taken the lead regarding this aspect of the application and believes its study should stand on its own merit and be tested in front of the Board.

(b)

YECL does not believe this issue should be removed from further discussion. This study will still have to be tested in front of the Board. In addition, the study undertaken in the Application is consistent with a similar study for utilities in Alberta.

REFERENCE: **February 19, 2010 Application, Rate Design**

PREAMBLE:

Page 4 YEC-1 - “While the Companies jointly filed two rate design options on February 19, 2010 for review by the Board (Option A and Option B), the Companies were not able to arrive at common descriptions of the options, the relative merits or drawbacks of each of the options, or the underlying system conditions driving the need to re-establish efficiency-based price signals to customers.”

QUESTION:

a) Please explain how the Board and intervenors should be able to address the issue of Rate Design when the two utilities that have been asked to work together and present a united proposal in Phase II of the GRA and are unable to come to an agreement on fundamental components of this issue.

b) Please explain why this issue should not be removed for further discussion until the two utilities come forward with a unified proposal.

c) Please provide an illustrative set of rates where each rate class has a revenue-to-cost ration of 1 and an analysis of the bill impacts of these illustrative rates.

ANSWER:

(a) and **(b)**

Yukon Energy Response

Please see response to CW-YEC/YECL-1-19(a), (c) and (d).

After 12 years when diesel prices have more than tripled without any rate redesign occurring in Yukon it is imperative that rate design issues noted in the Application begin to be addressed in the present proceeding. To remove rate design from this proceeding at this time would also prove to be a poor outcome given the cost and effort required for rate proceedings, i.e. absent any changes to rate design there is limited if any practical utility to the present proceeding, which is otherwise contained to relatively limited changes to the Terms and Conditions of Service, and producing a Cost of Service study that does not today have any practical application in interclass rebalancing.

Yukon Electrical Response

Please refer to UCG-YEC/YECL-18(a) & (b) and YUB-YEC/YECL-1-24. YECL does not believe this issue should be removed from further discussion. YECL believes that its proposed Option B presents a uniform and balanced approach for the interests of all customers.

(c)

Assuming that achieving a revenue-to-cost ratio of 1.0 for each rate class was an objective for the present rate design, then the existing rates for each rate class would have to be changed as follows:

Rate Class	**Change to Existing Rates**
Residential Non Government	27%
Residential Government	(-5%)
General Service Non Government	(-14%)
General Service Government	(-31%)
Industrial	(-8%)
Street Lights	46%
Sentinel Lights	(-33%)

REFERENCE: February 19, 2010 Application, Rate Design, page 4YEC-10

PREAMBLE:

"In addition to complying with rate policy OIC direction (provided by OIC 1995/90) and past Yukon practice, it is relevant to reflect rate design principles and practice currently being implemented in other jurisdictions throughout Canada, particularly the increasing emphasis on ensuring incremental usage by larger customers (from larger residential customers through to industrial) reflect incremental supply costs on the system."

QUESTION:

a) Please provide details on the practices "currently being implemented in other jurisdictions throughout Canada" used to develop the rate design proposals identified by the Applicants.

b) If practices in Quebec were not originally included in the Applicants' analysis, please comment on how Quebec deals with the impact of large customers on the availability of the pool of "cheap" energy by requiring those customers to deal with an extra regulatory scheme based on that customer's impact on society at large, as opposed to simply their impact on energy charges (i.e., from the utilities' perspective, the large customer is treated like all other customers, and pays a "normal" rate set by "normal" cost allocation principles). Outside the regulated rate, however, the customer may have to pay extra or receive a discount through the government based on other factors.

ANSWER:

(a)

The statement in the question that Quebec *"…deals with the impact of large customers on the availability of the pool of "cheap" energy by requiring those customers to deal with an* ***extra regulatory scheme*** *based on that customer's impact on society at large, as opposed to simply their impact on energy charges"* (emphasis added) is not correct.

(b)

The approach in Quebec is, as a matter of provincial government policy, to provide a practical limit to access to the regulated industrial tariff (tariff "L") to customers of a particular size.

The Quebec Energy Strategy 2006-2015 states:

> The Government will reduce the limit below which Hydro-Quebec is required to serve customers at the "L" rate from 175 MW to 50MW, for new or additional requests for power.
>
> Above the 50MW limit, access to the "L" rate will no longer be guaranteed. The Government undertakes to respond to requests for electricity justified by new industrial development projects or for the renewal of electricity contracts, but only if the projects concerned are likely to create jobs and wealth. The rates offered will be subject to guarantees concerning the economic benefits generated – in particular for outlying regions. The rate set may be equivalent to the "L" rate or higher, depending on the scope of the economic benefits generated by the project.[1]

Essentially, the Quebec Government (not the utility regulator) has determined, as a matter of provincial policy, that the rates for customers beyond a certain size are a provincial policy issue, rather than simply a utility regulation issue. It is important to note that in such cases the provincial government, not the utility regulator, will ultimately decide the rates to be charged to customers of this scale.

With respect to developments in other jurisdictions related to increasing emphasis on ensuring incremental usage is priced to reflect incremental supply costs on the system, YEC reviewed several other recent developments in rate design in Canada including the following:

[1] Page 24. Quebec Energy Strategy 2006-2015.

1. **British Columbia Hydro**: BC Hydro currently maintains a stepped rate for its transmission service customers.[2] The price for the second block is set at a level approximating BC Hydro's long-run cost of energy.

   In October, 2009, BC Hydro filed a Large General Service Rate Application to adjust its existing large general service rate structure in order to encourage energy conservation. The intent of the proposal was that the part 2 energy rate reflect BC Hydro's long-run marginal cost of new energy supply.[3] Since that time, YEC understands that BC Hydro and stakeholders have agreed to a negotiated settlement that would see implementation of new rates for large general service customers effective January 1, 2011 with a phase in period for medium general service customers (depending on each customer's peak demand) between April 2012 and April 2014.[4]

2. **Manitoba Hydro:** In order 91/08, the Manitoba Public Utilities Board (MBPUB) approved the modest introduction of inverted rates for the residential rate class.[5] In its subsequent Order 116/08 setting out further reasons for its decision, the MBPUB encouraged Manitoba Hydro (MH) to develop plans to employ an inverted rate structure for all customer classes, initially designed on a revenue neutral (to MH) basis and to send a "price signal" to promote conservation.

3. **Newfoundland and Labrador Hydro:** Newfoundland and Labrador Hydro (NLH) currently maintains a two-block rate for its utility customer (Newfoundland Power) where the second block is set at a level based on NLH's incremental cost of fuel.[6]

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[2] Rate Schedule 1823.
[3] Page 3-17. BC Hydro Large General Service Rate Application.
[4] Page 5, Appendix B to BCUC Order G-110-10. June 29, 2010.
[5] Page 25. MBPUB Order 91/08.
[6] The 2006 Negotiated Settlement, as stated in Newfoundland Board of Commissioners of Public Utilities Order 8-2007 states the energy charge for the end or 'run out' block rate would be set at a level that reflects the production cost at the Holyrood thermal plant, which production cost shall be determined by the Board in its Decision and Order.

REFERENCE: **February 19, 2010 Application, Rider D Supplemental**

• Page 2 - "Yukon Electrical's proposed Rider D is intended to reflect the nature of Riders used in other similar jurisdictions such as Northland Utilities (NWT) Limited Rider I – Diesel Generation Rider."

QUESTION:

a) Please provide details of the NWT Diesel Generation Rider and details of riders "used in other similar jurisdictions".

b) Please explain why a quarterly application of Rider D would not promote a more stable environment for ratepayers and still provide the relief requested by YECL.

c) Please provide details of the actual credits and debits to the wholesale purchase power deferral account in 2008 and 2009.

ANSWER:

(a)

Yukon Electrical's proposed rider D is intended to reflect the nature of a similar rider, as instituted by Northland Utilities (NWT) Limited ("NWT") called Rider I – diesel generation rider. Since 1999, the Northwest Territories Public Utilities Board ("Board") has allowed NWT to capture the ongoing variances in diesel volumes in excess of or below 4.1% (2.5% prior to 2008) of NWT's total system's electrical needs, to be recovered or refunded to customers by way of Rider I, subject to the Board's approval.

Essentially, NWT's approved revenue requirement allows for 4.1% of Hay River's electrical needs to be generated by way of diesel power, when wholesale purchased power is not available due to annual shutdowns resulting from Northwest Territories Power Corporation ("NTPC"). As the 4.1% threshold is an approved forecast amount, any cost variances greater than or less than the 4.1% threshold are maintained in a deferral account and are refunded to/collected from customers in NWT's annual Rider I application. The deferral account contains the incremental difference between the cost of generating, or not generating, and the cost of purchase power, plus an O&M component to adjust for maintenance requirements.

(b)

This is a new rider in the Yukon and, as a result, there is no experience to suggest whether an annual or quarterly adjustment would be required. Notwithstanding, as outlined in response to part a) above, NWT's Board approved process to apply for annual adjustments to its Rider I – diesel generation rider has been both effective and efficient since implementation.

(c)

There are no actual credits or debits related to the wholesale purchase power deferral account in 2008 and 2009 resulting from diesel generation on the margin.