



YUKON ELECTRICAL
An **ATCO** Company

**YUKON
ENERGY**



September 30, 2010

Mr. Bruce McLennan, Chair
Yukon Utilities Board
Box 31728
Whitehorse, YT Y1A 6L3

Dear Mr. McLennan:

Re: Yukon Energy and Yukon Electrical 2009 Phase II Rate Application

In the Yukon Electrical Company Limited (“YECL”) and Yukon Energy Corporation (“YEC”) (jointly the “Companies”) 2009 Phase II Rate Application (“Application”), the Companies worked diligently in an effort to present a uniform and consistent approach relating to cost of service, rate design and Terms and Conditions. However, this goal was not always met as each Company has its own views regarding how best to address certain matters. The different views were identified and expressed in the Application including the Companies’ letter to the Board dated March 1, 2010, and as part of a number of the Interrogatories that were filed on July 23, 2010.

In an effort to arrive at a common position on the outstanding differences, the Companies have continued to work on these matters. While the Companies were not able to achieve an agreement on all of the outstanding differences, the Companies are pleased to advise the Board that a mutually acceptable position on most of the remaining Phase II matters that can now be advanced on a joint basis. These are described in Appendix A attached herein.

Joint and Separate Hearing Panels

In response CW-YEC/YECL-1-32 the Companies were asked whether or not they would be sitting jointly or on separate panels (for the issues on which there was disagreement). Based the discussions that have taken place between the Companies the current status is as noted below.

The Companies have agreed upon a proposed process for review of the material included in the 2009 Phase II Rate Application that includes:

- a) one joint panel for matters jointly proposed and supported by the Companies; and
- b) separate panels on matters where the Companies have not been able to arrive at a mutual agreement.

The Companies to date have been unable to arrive at a mutual agreeable proposal to the Board on the rate design differences as reflected in the separate Tab 4 filings (as noted in Tab 4YEC and Tab 4YECL and related IR responses filed July 23, 2010).

Based on the status as outlined above, the joint Panel will speak to all matters in the Phase II Application other than rate design.

Separate Rider D Application

The Yukon Electrical Application for approval of Rider D continues to be a separate Application, distinct from the Companies' Joint 2009 Phase II Rate Application. This Rider D Application will be addressed by Yukon Electrical consecutive with its separate panel on rate design matters.

Panel Members

Witnesses on the joint panel for both Companies are as follows (resumes attached):

- **Yukon Energy:** Ed Mollard, Cam Osler, Patrick Bowman
- **Yukon Electrical:** Nick Palladino, Brian Desjarlais, Scott Duncan

If you have any questions or concerns, please contact either of the two undersigned.

Yours truly,

YUKON ELECTRICAL COMPANY

YUKON ENERGY CORPORATION



Nick Palladino
Manager Pricing

Ed Mollard
Chief Financial Officer



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Appendix A Joint Agreement on Outstanding Matters

(1) Tab 3 - Cost of Service

In Tab 3 of the Application, the Companies provided a single joint cost of service (COS) study, including description of the proposed changes to the COS methods. However, there were two items on which the Companies were not in agreement. These relate to the allocation of distribution-related costs to the industrial class, and to the load characteristics calculated for the General Service classes (Government and Non-Government). Each of these matters will be described separately below.

(a) Distribution Cost of Service – Distribution Related Costs to Industrial

In response to information request UCG-YEC/YECL-1-15, YEC noted that in 2009 the only customer classified as industrial is the Minto mine, who is connected to the electric system by assets functionalized at the transmission level. YEC noted that the cost of service study filed in Tab 3 allocated certain distribution-related costs to the industrial class which relate to assets not used by this class.

YECL has further reviewed the industrial class distribution cost allocation.

The Companies agree that costs functionalized as distribution that relate to activities that are in fact beneficial to the overall system and all customers should be allocated in part to the industrial class (e.g., Public Information, Customer Accounting, General Plant, and Administration and General) but not costs that relate to assets functionalized as distribution (e.g., poles and wires). As a result, the Companies agree that

- The “distribution O&M costs” which is a category of costs purely related to the distribution system would not be charged to the industrial, since it is related to assets. The amounts for Public Information, Customer Accounting, General Plant, Administration and General would continue to be allocated to the industrial customer.
- Where related to distribution assets (such as brushing and pole rental offsets), distribution costs shall be excluded from the industrial customer allocation.
- The distribution asset related insurance that is allocated to poles, lines, fixtures, transformers, etc. on the distribution system would be excluded from the industrial customer allocation.



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The Companies propose to reflect the above noted change in the cost of service in the compliance filing.

(b) Load Characteristics of the General Service classes

As noted in Tab 3, the calculated load factors for General Service customers in this GRA, arising from load studies, indicate a major increase in load factor (11 to 16 percentage point) since the 1996/97 GRA. Tab 4 also notes: "It is important to note that no Yukon specific load studies have been conducted, and consequently the new load factors are derived from recent load studies on ATCO Electric customers in Alberta (the 1996/97 load factors were based on earlier analysis of ATCO Electric customers in Alberta as well)."

YEC noted concern with the calculated load factor ratios for General Service customers in YUB-YEC/YECL-8(f). Yukon Energy recommended that in light of these concerns, the values from 1996/97 be retained in the current COS.

The Companies have reviewed the issue and agree that the RCC ratios reported for General Service Government and Non-Government are based on the same methods and approaches used in the 1997 approved COS study, including reliance in each case on then-current load data from ATCO Electric in Alberta. A material change in the General Service Load Factors since the 1997 COS was identified as a result of the application of these methods. There is no Yukon-specific data to support any such change in load characteristics.

The Companies recommend the Board accept the COS ratios as reported in the GRA filing for this proceeding (arising from the use of the ATCO Electric Alberta data), as being based on the most readily available data and in recognition that the COS will not determine rate changes at this time. In their next COS study, as with any Phase II Application, the Companies will re-evaluate this issue to ensure the results are consistent with the load characteristics in Yukon.

(2) Tab 5 - Terms and Conditions

In Tab 5 of the Application, the Companies provided a single joint description of the proposed changes to the Terms and Conditions of Service including amendments to the Maximum Investment Levels. However, as noted in Tab 5, there are two items on which the Companies were not in agreement. These relate to the requirements for collecting



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the “minimum bill” before reconnecting large customers (Section 4.15), and the level of Maximum Company Investment after 2011, including the approach to be used to determine these values (Schedule B). Each of these matters will be described separately below.

(a) Section 4.15 – Reconnection (previously set out as Section 4.18)

As noted on Page 5-3 of the Application, YECL proposed to update Section 4.15 in respect of “reconnection”.

4.15 (previously set out as 4.18)

Before reconnecting or restoring service, the customer shall pay:

(d) The minimum monthly bill for each month of disconnection, if service is reconnected within 12 months of disconnection for all rate schedules and service except seasonal service.

YECL’s proposed edits as noted in the Application is to increase the degree of discretion provided to the Companies in applying the provision, as follows:

If Service is reconnected within 12 months of disconnection, with the exception of seasonal Service, the Company may request that the Customer pay the minimum monthly bill for each month of disconnection.

YEC stated on Page 5-3 of the Application:

The term in question was inserted into the existing ESRs by a specific Board Order in 1998 (Order 1998-1, pursuant to a joint application of the Companies “to address concerns related to gaming noted in Order 1997-6”). The specific concerns at that time related to the Faro mine in particular, which had disconnected from the system and consequently sought to avoid paying minimum monthly bills related to fixed charges and demand ratchets that would otherwise be payable regardless as to energy consumption in any given month. The provision was critical for two reasons: first, to ensure all other continuing ratepayers were protected from the actions of customers that effectively “game” the rate design, particularly costs arising from ratchets; and, second, to ensure customers are fully apprised that such gaming will not be permitted. YEC’s view



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is that, at least for Major Industrial and large General Service customers (such as with peak demands greater than 1 MW), where minimum monthly bills include material minimum demand charges (based on the annual demand ratchet), this term is still required.

YECL has reviewed the concern identified by YEC.

The Companies agree to revise the proposed Section 4.15 to include the following text:

“If Service is reconnected within 12 months of disconnection, with the exception of seasonal Service:

- a) For Major Industrial and General Service customers with peak demands greater than 500 kW the Customer shall pay the minimum monthly bill for each month of disconnection.
- b) For all other customers, the Company may request that the Customer pay the minimum monthly bill for each month of disconnection.”

(b) Maximum Investment Levels (MILs) – Schedule B

In Appendix 5.4 of the Application, YECL proposed to establish its MILs based on Guiding Principles that were developed in response to the Alberta Utilities Commission (AUC) Decision 2008-011 regarding Fortis Alberta’s (FAI) 2008/2009 Negotiated Settlement Agreement (NSA), which states:

Commencing in the first half of 2008, FAI will initiate discussions with other utilities and stakeholders to attempt to arrive at a common approach to MIL between Alberta utilities ...”

YECL proposed MILs for each of the years between 2011 to 2015. YEC noted its concern with the MILs after 2011, including the approach to be used to determine these values.

YEC has further reviewed YECL proposed MIL study.



The Companies agree to adopt the Guiding Principles as set out at page 5.4-3 and 5.4-4 of Appendix 5.4 of the Phase II Rate Application, where such principles are to be interpreted based on appropriate Yukon precedents, current rate policy and principles of rate regulation adopted in Yukon¹. The Companies also agree to proposed MILs for 2011 and 2012 at the following values:

Table 1: Summary of Proposed Changes to YECL/YEC Maximum Investment Levels

Year	Residential Single Family Dwelling (Per Site)	Residential Multi Dwelling Unit (Per Site)	General Service		Street Lighting (Per Light)
			Fixed (Per Site)	Variable (Per kW)	
Current	\$ 900	\$ 450	\$ -	\$ 400	\$ 700
2011	\$ 1,250	\$ 625	\$ 5,355	\$ 275	\$ 930
2012	\$ 1,500	\$ 725	\$ 5,500	\$ 280	\$ 1,240

The adoption of an average cost standard as opposed to a revenue standard also leads to consequent changes in the proposed text for the Industrial Maximum Company Investment, in Schedule B, section 3, as follows:

“The maximum cost which the Corporation will incur to extend Service to a Point of Delivery shall be determined for Industrial Service, in the manner specified in an agreement with the Industrial Customer and subject to approval by the Board.”

¹ The adoption of the 10-principles for MILs that are derived from Alberta practice does not mean the Companies are proposing wholesale adoption of the ongoing decisions of the Alberta regulator or utilities as to implementation of the principles. These principles are proposed to be interpreted in Yukon by the YUB based on the application of its jurisdiction in the Yukon context, and looking at utility practice as relevant throughout Canada. The Companies agree to adopt an average cost standard for determining MILs, as opposed to the current revenue-based standard. This agreement goes to the reference point used to assess MILs and not to the adoption of any specific MIL level relevant to this reference point. Agreement to adopt the average cost standard does not mean, for example, using 100% of cost as a long term “standard” for MILs that the Companies should be moving towards.