The Companies state that there is a distinction between "Recommendations" as set out in the 1992 Cost of Service Report and Board Orders as a result of a General Rate Application hearing. In any case the Board reviewed this "Recommendation" in the 1993/94 GRA (Section 5.2). The Companies provided the required information in the Capital Hearing submission (Table 1, page 2.3). The Board reviewed this analysis in the capital hearing and did not agree with New Era that the long-run diesel costs were unreasonable.

With regard to the diesel installation at Good Hope Lake, the Companies point out that it is outside the jurisdiction of the Board. It is a negotiated contract that therefore bears little resemblance to regulated diesel operation and, therefore it provides no basis for comparison with regulated communities in the Yukon.

The Companies submit that the run-out rates have been prepared on a basis that is consistent with OIC 1995/90 and which the Board approved in the 1993/94 GRA. This method was consistent with accepted rate design principles and reflects the incremental costs. The Companies assert that it is only New Era that demands a change in the rate to reflect long-run as opposed to short-run marginal costs (Exhibit 189).

The Board finds that the run-out rates have been designed consistent with rate design principles and specific directions established in OIC 1995/90. The resultant rate in each of the five zones (Hydro-Diesel, Watson System, Dawson System, Small Diesel and Old Crow) reflect short-run variable costs (Exhibit 1, Tables 3.2 and 3.3) which the Companies must meet.

Under item 10 of the Settlement, the Companies are committed to provide a cost assessment of each of the communities in the four rate zones (based on the 1992 methodology revised with current information). The Board 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. The Board believes that the study to be filed by the Companies on July 1, 1996 is an important element of future rate design and conservation programs. This material has been requested by intervenors previously and the Board hopes that distribution and consideration of this costing data will assist in building an ongoing productive consensus between the interests of customers and the Companies.

5.0 REVENUE/COST RATIOS

Subject to rates that are maintained to fund the Rate Stabilization Fund, the Application proposed rate adjustments for non-industrial customers that will bring revenues closer to costs for specific classes (Table 3.1). As previously noted, OIC 1995/90 requires that rates to the industrial class be sufficient to cover its cost of service. Arguments on the appropriate revenue/cost ratios to be achieved in the residential class were submitted by