

In the Matter of:

**YUKON ENERGY CORPORATION (“YEC”) AND YUKON ELECTRICAL
COMPANY LIMITED (“YECL”)**

2009 PHASE II RATE APPLICATION

**ARGUMENT OF
THE CITY OF WHITEHORSE (“CW” OR THE “CITY”)**

OCTOBER 22, 2010

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Introduction

1. On February 18, 2010, and by way of further filing dated March 1, 2010, Yukon Energy Corporation (“YEC”) and Yukon Electrical Company Ltd. (“YECL”) (collectively, the “Utilities”) filed with the Yukon Utilities Board (the “YUB” or the “Board”) a 2009 Joint Phase II Application (the “Application”), which included an application by YECL for a Diesel Generation Energy Cost Recovery Rider (“Rider D”). In response to a direction from the Board in Decision 2009-8, the Application included the following:
 - An up to date cost of service study (“COSS”);
 - 2 Rate design recommendations (one from each of YEC and YECL); and
 - Updated Terms and Conditions of Service (including updated proposed Maximum Investment Levels).
2. The Utilities indicated in the Application that, while they were able to agree on several aspects of the joint filing, they were unable to arrive at a joint proposal with respect to rate design for Residential and General Service rate classes. As a result, both YEC and YECL filed separate rate proposals and discussions of the same¹.
3. On October 1, 2010 YEC filed a further rate design proposal (“Option C”). An amended version of Option C was filed on October 4, 2010.
4. The City has actively participated in this proceeding by filing Information Requests, cross-examining the three panels put before the YUB by the Utilities to speak to matters arising from the Application and, prior to the filing of the Application, by attending the stakeholder consultation meetings held by the Utilities. In examining the Application the City has pursued a limited number of issues that are of concern to its citizens. However, the absence of argument on any particular issue does not constitute agreement with any party’s position on that issue. In particular, the City has attempted to curtail its argument with respect to Option A given that it is no longer YECL’s preferred option and given that

¹ Exhibit B1, Application 4YEC (“Option A”) and 4YECL (“Option B”), respectively.

no other party to the proceeding has indicated any support for Option A. The City's detailed submissions regarding its areas of concern are set out below.

Rate Design

Maintaining Current Rate Design

5. Notwithstanding the attempted show of solidarity between the two Utilities, YECL and YEC appear to have substantial philosophical differences about the proposed rate design which has resulted in an inability or unwillingness on behalf of the Utilities to submit a joint rate design proposal to the Board. This was further complicated by YEC submitting a third rate design proposal immediately prior to the commencement of the hearing, which the City submits constitutes demonstrable uncertainty on behalf of YEC as to the appropriate rates to be instituted for the test period. The City submits that the inability or unwillingness of the Utilities to come to a joint position on rate design, particularly in light of the Board's direction in Board Order 2008-09, favours maintaining the current rate structure. The City submits that this is especially true in light of the fact that there are now three rate design proposals before the Board (not including an additional rate design proposed by Leading Edge Projects Inc. ("LE")); none of which the Utilities can agree upon.
6. The City submits that now is not the time to institute changes in rate design. Firstly, as a result of OIC 2008-149 (which expires in 2012), the Utilities cannot rebalance rates amongst classes. Most importantly for the purposes of this Application, this necessitates an unwarranted decrease in first block rates when any material increase to the runoff block rate is instituted. For example, under Option C, customers consuming fourteen hundred kilowatt hours per month or less will see a percentage decrease in their monthly bill (as compared to their present monthly bill) in the amount of up to 3.4% (what will amount to a decrease in a customer's monthly bill by up to three dollars and eighty one cents per

month)². The impact under Option A is even more significant where customers consuming fifteen hundred kilowatt hours per month or less will see a percentage decrease in their monthly bill in the amount of up to 11.4% (what will amount to a decrease in a customer's monthly bill by up to twelve dollars and ninety five cents). The City submits that decreasing first block rates, while increasing runoff rates, sends an inappropriate and inconsistent price signal. On this point, YECL appears to agree:

...we look at customers that are in the low consuming range, let's say 700 kilowatt hours, that are seeing a rate reduction. From a price signal point of view, I struggle with that in that we are telling the customers at the high end, you're going to see a significant price signal, but on the low end, we're going to tell customers, by the way, your rates are going down. So I don't see - - the dichotomy in that is somewhat inconsistent in my mind. What price signals are we trying to achieve here across all range of customers, whether the customer's at 700 kilowatt hours or a customer's at 5,000 kilowatt hours³.

7. However, the City notes that YECL's Option B also sends an inconsistent price signal in this regard, albeit in a less noticeable fashion. Under Option B, while customers consuming twelve hundred kilowatt hours or less will see no change compared to their present monthly bills, those consuming between thirteen hundred and twenty five hundred kilowatt hours per month will see a decrease in their bills (in the range of 0.1% and 0.2%).
8. The City submits that the reduction to rates for lower volume customers bears the risk of incenting these customers to consume more energy, in that a lower volume customer can now consume more kilowatt hours per month without an increase in the amount of his or her monthly bill. This conflicts with the Utilities' objective of reducing consumption during peak periods when diesel generation may be brought into service. Furthermore, this selective rate decrease creates the potential that the Utilities may over-recover their revenue requirement. If high volume customers are being charged higher rates and yet are unable to reduce their consumption, and at the same time lower volume customers are

² Exhibit B21, page 2.

³ Transcript, pages 402 – 403, lines 21 - 8

increasing their consumption as a result of reduced rates, the Utilities will end up recovering more revenue from this class of customers than the Utilities have projected.

9. The City submits that there is no evidence of any harm to ratepayers or the Utilities by maintaining the current rate structure until rate design and cost of service considerations are no longer constrained by OIC 2008-149⁴. The current rates already send an appropriate price signal, in that all consumption over and above one thousand kilowatt hours is subject to a runoff rate that is higher than the first block rate. The current rate design accomplishes this without the noted inconsistencies that result from the Utilities creating a third rate block in each of their proposed rate designs.
10. Secondly, the City submits that the appropriate price signal sought to be imposed by the Utilities does not properly reflect the current regulatory climate or the realities of the system. The Utilities submit that the appropriate price signal to send to customers is one where the runoff rate eventually reflects one hundred percent of the incremental cost of diesel⁵. YECL, and YEC to a lesser extent, submit that this shift is required in order to satisfy OIC 1995/90, which states, *inter alia*:

4(3) The Board must fix runoff rates for each non-government retail customer class on the basis of rate design principles to promote economy and efficiency, and separate runoff rates may be allowed in this regard for customers in different communities or rate zones, provided that such runoff rates for customers in each nongovernment retail customer class are fixed for each community or rate zone throughout Yukon in accordance with the same rate design principles.
11. The City notes that in OIC 1995/90 the only requirement is that the runoff rates for the non-government retail customer class be fixed “on the basis of rate design principles to promote economy and efficiency” – it is not a requirement that the runoff rate fully reflect the incremental cost of diesel on the system.

⁴ Transcript, page 307, lines 9-15

⁵ Transcript, page 286, lines 14 – 22; page 296, lines 4 – 11; page 501, lines 7 - 18

12. Furthermore, the City submits that the runoff rates as proposed by the Utilities, and the proposed trend towards runoff rates at one hundred percent of the incremental cost of diesel, are both unjustifiable and unnecessarily discriminatory towards customers in the Hydro Rate Zone. Customers in the City, as well as other areas that rely primarily on hydro-generation for their electricity needs, rarely rely on diesel generation even if their monthly electricity consumption is in the runoff block. Alternatively, customers in the Large Diesel and Small Diesel rate zones rely exclusively on diesel for their electricity generation requirements. All of these customers, however, will be charged based on the same runoff rates based on the incremental cost of diesel generation. Thus, even if the new runoff rates were instituted and Hydro customers responded by decreasing their consumption in the runoff block, the effect on diesel generation on the system would be minimal, at best.
13. Finally, the City is concerned with the Utilities' reliance on the "imminency" of base load diesel generation on the grid being a basis for changes to rate design. The Utilities themselves do not appear to agree as to when base load diesel generation will be required on the system⁶.
14. During cross-examination, YECL made the point that it serves the vast majority of customers who will be affected by the adoption of any of the rate design options put before the Board in this proceeding:
- So YECL -- and I'll use this once and then I'm not going to touch on it again, because it tends to get people upset when I talk about this. But we do serve 90 percent of the customers. It's fact. It's reality. It's on the record. We're going to ultimately be responding to those customers that are in that range.⁷
15. The City sympathizes with this position and asked YEC during cross-examination why the Board or interveners should be persuaded by its proposals in light of the fact that YEC

⁶ Transcript, page 325, line 8-14; Exhibit B4, YUB-YEC/YECL-22(a), lines 33-35

⁷ Transcript, page 505, lines 5-10

does not serve the substantial majority of retail customers. In response, Mr. Osler indicated:

Essentially the rate issues that we're talking about relate to bulk power. They relate to generation and transmission issues in the cost of service, as well as in the rate design implications. When we start talking about incremental runoff rates and rationale for looking at them, it's got nothing to do with distribution and everything to do with bulk power. And Yukon Energy is responsible for roughly 90 percent of the bulk power generation and transmission in the Yukon.

So Yukon Energy has a fundamental longstanding interest in cost of service and rate-design matters with respect to that, and in the interests of the territory, from our perspective, it's important that Yukon Energy plays a role in the rate design as it has throughout the history; and in the future, we think it's equally important that it continues to play a very important role in that regard.⁸

16. The City does not oppose YEC playing a role in the rate design process, but the City disagrees with YEC's characterization that this rate design process has "everything to do with" bulk power issues. The City submits that rate design issues such as revenue stability for the utility, rate shock for customers, proper price signals and revenue cost ratios must be thoroughly examined and considered, and these principles ought not to take a back seat to YEC's considerations regarding bulk power generation.

Revenue Stability

17. The Board has clearly established revenue stability, recovery of cost and sending the appropriate price signal as key rate design objectives. For example, in Order 1996-7, the Board stated:

The Board is cognizant that rate-design objectives may be in conflict, and there must be tradeoffs to achieve a particular outcome. In this case, revenue stability, recovery of cost, and the appropriate price signal are achievable

⁸ Transcript, page 300, line 13 to page 301, line 3

results in the current methodology that have been incorporated in the run-out rates.⁹

18. The City is concerned that two of these criteria, namely, revenue stability and recovery of costs, have been marginalized by YEC's Options A & C and LE's Preferred Option in favour of their interpretation of the appropriate price signal criteria. None of the aforementioned proposals assume any movement in customer consumption levels¹⁰. The City believes that this constitutes a serious defect in these proposals. Customer response will dictate whether or not the Utilities fail to collect their full revenue requirement, or conversely, over-collect this amount. Options A, B, C and LE all lack evidence predicting their outcomes on revenue and, as a result, system operations.
19. Mr. Osler of Yukon Energy described revenue stability as follows:
- So pure stability of revenue doesn't mean keeping it exactly the same as it was in the forecast in the GRA; it means dealing with it in a manner that doesn't frustrate the company's ability to make a reasonable return and doesn't make it -- make an excessive return just because some circumstances change. It is an important objective, but as you say, in terms of balancing, we have to balance that against the need to make some changes, and we've drawn the balance as we have drawn it by the time we filed Option C.¹¹
20. The City agrees, on the one hand, that revenue stability doesn't mean expecting that actual consumption and revenue will perfectly equate to forecast consumption and revenue from a Phase 1 proceeding. However, the City submits that considering the sizeable changes to rates proposed in Options A, C and LE's Preferred Option, insufficient steps have been taken by the parties proposing these options to understand and forecast customers' response in terms of their energy consumption to those price signals. Accordingly, the City submits that none of these cited rate design options strikes a proper balance among the three rate design criteria noted by the Board in the above cited quote from Order 1996-7.

⁹ Exhibit C3-6

¹⁰ Transcript, page 316, line 21 to page 317, line 4; Exhibit B4, CW-YEC/YECL-1-16(c) to (e), lines 24-25

¹¹ Transcript, page 316, lines 12-20

21. YECL appears to share the City's concerns with respect to Options A and C. YECL has expressed the following concern with respect to both Options A and C::

One of the key rate design principles is that revenues collected must be adequate to recover all system costs. Inclining rate design with large step changes in rates that are not linked to changing costs of incremental production in the short term has the potential to vary utility sales and revenues. YECL is uncertain of the level of reduction that may occur under YEC's proposed rate design, notwithstanding any impact that weather may have in overall reduction of energy. This has the potential of increasing the risk of revenues falling below or increasing above approved revenue requirements.

Currently, customer bills are based on meter readings made by YECL on a monthly basis. Average billing periods range between 28 and 32 days. There are months in the year where stat holidays, such as Christmas and Easter, may result in a billing period that is unusually long. The additional billing days may result in a portion of the customer's consumption calculating in the 2nd or 3rd 1 block energy rate. This poses certain practical issues associated with an inclining rate structure and manual meter reading.¹²

22. An additional concern that arises with respect this revenue instability is that any significant under-collection or over-collection of revenue requirement would likely result in YECL filing a subsequent general rate application to recover or refund those costs¹³. The City submits that the costs associated with any further regulatory proceedings are another factor mitigating against adopting Option A, Option C or LE's Preferred Option.
23. In summary, the City submits that, for the reasons cited in this section, Options A, C, and LE's Preferred Option expose the Utilities and customers to the risk of revenue instability and, therefore, the risk of not collecting its approved revenue requirement or over-collecting from customers.

¹² Transcript, page 513, lines 12-21; Exhibit B4, YUB-YEC/YECL-24(a), page 4, line 27 to page 5, line 2

¹³ Transcript, page 513, line 22 – page 514, line 23

Elasticity & Customer Response

24. YEC states that the Residential and General Service customers in the Yukon are very inelastic.¹⁴ Options A, B & C assume that the price elasticity of demand for Residential and General Service customers is zero in the short term.¹⁵ In other words, the Utilities assume that customers will not change their energy consumption in response to decreased first and second block rates or increased third / runoff block rates. However, no specific studies regarding price elasticity of demand for electricity in the Yukon have been undertaken by the Utilities,¹⁶ so there is no evidence supporting these assumptions.
25. In contesting the significance of the lack of an elasticity study, the Utilities made two comments. First, the Utilities state that information from other jurisdictions can be drawn upon for assistance.¹⁷ The City notes that no specific studies from other jurisdictions were placed on the record of this proceeding. Furthermore, the Utilities' themselves noted that "the range of elasticities vary dramatically by market"¹⁸. The City notes that the Utilities have not stated that in any of the jurisdictions referred to the elasticities measured were zero. Rather, the Utilities appear to rely on the purportedly low elasticities demonstrated in other jurisdictions to support their assumption that the elasticity in the Yukon will be zero in the short term. The Utilities have not provided any explanation for the expectation that the elasticity of demand will be lower in the Yukon than in other jurisdictions.
26. The second comment from the Utilities is that undertaking an elasticity study is either not practical¹⁹ for the Yukon or is too expensive.²⁰ The City submits that this position does not constitute a reasonable rationale for moving forward with substantial rate design changes. The City submits that any lack of practicality or excessive expense that prevents

¹⁴ Transcript, page 319, lines 17-18

¹⁵ Transcript, page 316, line 21 to page 317, lines 4, Exhibit B4, CW-YEC/YECL-1-16(c) to (e), lines 24-25

¹⁶ Exhibit B4, CW-YEC/YECL-1-16 (c) to (e), page 3 of 6, lines 4-5

¹⁷ YECL: Transcript, page 502, line 25 to page 503, line 2; YEC: Transcript, page 317, lines 20 to page 318, line 1

¹⁸ Exhibit B4, CW-YEC/YECL-1-16(c) to (e)

¹⁹ YECL: Transcript, page 503, lines 7-10

²⁰ Exhibit B4, CW-YEC/YECL-1-18 (a), page 2, lines 32-35

the Utilities from performing such a study constitutes a compelling reason to refrain from proceeding with substantial rate design changes. The City submits that the lack of information available on customer response to price decreases and increases is sufficient cause to proceed slowly with any rate changes.

27. As noted above, the billing determinants forecast for Options A, B, C and LE's Preferred Option remain the same as current billing determinants. The City interprets this as being consistent with the Utilities' position that customers will not change their consumption behaviour in the short term. However, the City does not see how a price signal that does not effect change in energy consumption can be the right price signal. Of what use is a price signal if customers are not expected to respond?

Rate Shock

Option C

28. The City notes YECL's position regarding rate shock is that when an increase in customer's bills exceeds 10%, rate shock occurs.²¹ With regard to Residential non-government customers in Option C, YECL states:

... we are looking at customers in Option C above 3,000 kilowatt hours that will see in excess of 10 percent, and in fact, if we look at a customer of 3,000 kilowatt hours, they're looking at rate impacts of 12.5 percent; and customers at 5,000 kilowatt hours are looking at rate impacts of 30 percent. Now, I agree there aren't very many customers in that category, but it is excessive.²²

29. The City notes that in the Hydro Zone, over fifty percent of customers consume over one thousand kilowatt hours in the month of January, with six percent of these customers consuming over twenty five hundred kilowatt hours in the same month²³. With Option C,

²¹ Transcript, page 574, lines 3-5 and Transcript, page 575, lines 20-22

²² Transcript page 504, line 22 to page 505, line 4

²³ Based on 2007 actuals, Exhibit B21, page 2

this latter group of customers will see bill increases between 3.2% to 30.4% or anywhere from an additional \$10.07 to \$196.45 per month.²⁴

30. The City is very concerned with Option C as it is unfair to higher volume non-government Residential electric heating customers. Option C will force these customers to pay more without any expectation that they can or will respond by decreasing their consumption. The City considers that this is particularly inequitable given past initiatives when there was a significant hydro surplus on the grid to encourage Residential customers to install electric heating for their homes. As noted by YECL;

Some of these customers, I agree, maybe not all of them, by no fault of their own, have electric heating as a means to heat their homes. Through programs that were done back in the '70s, I understand that incented customers to install electric heating. So for us to be sending these excessive price signals at this point in time without telling the customer: Mr. Customer -- Mr. or Mrs. Customer, we are going to see high costs of electricity on this system at some point in time. Now, is it fair to be doing that at this juncture? And I don't the think so.²⁵

LE's Preferred Option

31. Of the three preferred rate design options before the Board, LE's Preferred Option results in the most significant rate shock for customers. For example, LE's Preferred Option results in bill increases of 45.4% for Residential non-government consumption volumes of 5000 kilowatt hours per month, 38.0% for 3000 kilowatt hours per month, 34.2% for 2500 kilowatt hours per month and 28.3% for 2000 kilowatt hours per month²⁶. This would mean customers who consume at these levels would see increases in their monthly bills of anywhere from \$69.85 to \$293.50. LE readily acknowledges the contentiousness of its proposal and states that the approval of a rate design following the example of LE Preferred would result in "displeasure" being expressed by customers²⁷.

²⁴ Exhibit B21, page 1

²⁵ Transcript, page 505, lines 11-20

²⁶ Exhibit B14, Table 2 (assuming that the IER is terminated).

²⁷ Exhibit B4, YECL-LE-1-2(d)

Option A

32. The adoption of Option A would result in bill increases of 58.1% for Residential non-government consumption volumes of 5000 kilowatt hours per month, 46.4% for 3000 kilowatt hours per month, 40.5% for 2500 kilowatt hours per month and 31.2% for 2000 kilowatt hours per month²⁸. This would mean that customers whose consumption reaches these levels would see increases in their monthly bills of anywhere from \$77.04 to \$375.62. The City submits that this magnitude of rate shock is entirely inappropriate and that Option A should be rejected on this basis.

Summary of City's Position on Rate Design

33. Given the concerns and uncertainty outlined above regarding Options A, C and LE's Preferred Option, the City submits that the Board should not adopt any of those options. The City believes that Option B is slightly superior to the other proposed options in that Option B limits revenue instability, rate shock and poor price signals. However, the City believes the Board's best option is not to adopt Option B, but rather to approve the current rate design with Riders R and J incorporated into base rates.
34. YEC disagrees with the idea of keeping the current rate design until 2012 and raises two points to support changing rate design in these proceedings. First, YEC argues that there is no guarantee that the expiry of OIC 2008/149 will actually occur as scheduled.²⁹ Secondly, YEC states that waiting until 2012 is akin to giving up control:

...it puts you out of control again compared to seizing control now that the opportunity has been put in front of people.³⁰

35. The City finds neither of these points convincing. Firstly, there is no evidence before the Board that the territorial government will extend the expiry date of OIC 2008/149.

²⁸ Exhibit B14, Table 2 (assuming that the IER is terminated).

²⁹ Transcript, page 364, lines 18-24

³⁰ Transcript, page 365, lines 4-6

Secondly, the City is concerned that YEC's need to "seize control" after an extended period without any regulatory proceeding to deal with rate design matters is insufficient reason for undertaking changes to rate design for which the evidence that these changes will have the desired result (i.e. decreasing diesel on the system) is lacking. This will unnecessarily expose both the Utilities and customers to risk and potentially undesired results.

36. Further on this matter, Mr. Desjarlais on behalf of YECL stated:

As you can see, it's been 12 years since we both jointly got in here to discuss this. So for us to, you know, be like an ostrich and your head in the sand and refuse to address some of these issues now and put structures in place and have ideas how costs can relate to the rate design and -- you know, it would be very tough to do it again because we could be in here in two years from now, five years, eight years. Things could change in that time, but at least we have an understanding of how things are set up. We have more -- I guess more tools in the rate design box to help deal with some of these challenges or unforeseen challenges that may come in the future."³¹

37. The City respectfully disagrees. It is not the utility's responsibility to put forth rate design proposals based on speculation that the next rate design hearing might not occur for many years. This is why the utility ratemaking principles include a test year. The test year for this Phase 2 proceeding is 2009. The City submits that forecasting methods that consider years too far in future of the test year are misguided, especially considering that OIC 2008/149 is due to expire at the end of 2012. The City submits that it would be more productive to consider defects of the current rate design, such as the imbalance in revenue to cost ratios among rate classes, in an environment where there are fewer restrictions on rebalancing rates.

³¹ Transcript, page 522, lines 11-22

Cost of Service Study

38. The City did not specifically address the Cost of Service Study during the hearing because OIC 2008/149 effectively prevents the Board from accepting a rate design proposal whereby rate classes more adequately reflect the costs associated with servicing them until December 31, 2012. The City expects that another Cost of Service Study will be performed by the Utilities at or around the time of the expiry of the OIC, which will allow for a more precise allocation of costs to rate classes in the cost environment of that time, and assist the utilities in creating a rate design with more reasonable revenue to cost ratios.
39. The City notes that there have been no Yukon-specific load studies performed in support of the Application. The Utilities appear to have imported load studies from ATCO Electric's Alberta system.³² The City is concerned that there may be a fundamental difference between load data from ATCO Electric and the Yukon system. For example, the City understands that electric heating is much more uncommon in Alberta than it is in the Yukon. Accordingly, the City requests that the Board direct the Utilities to verify the suitability of the ATCO Electric Load information for use in the Yukon by the time of the next general rate application.

Maximum Investment Level

40. Maximum Investment Levels (MILs) are the maximum amount that a utility will invest in a new service for a customer. Where the project exceeds the Maximum Investment Level, the remaining cost of the installation is the responsibility of the customer, which is accounted for in revenue requirement as contributed capital. Customer contributions are useful since they can provide a degree of equalization of the cost of serving customers where costs vary over a region.

³² Exhibit B1, page 3-13, lines 10-16

41. YECL proposed, beginning in 2011, moving in five yearly steps to a Maximum Investment Level of 100% of the average cost of an installation.³³

**Table 5.3: Summary of Maximum Company Investment Levels for Yukon
As Proposed in YECL's Maximum Investment Level Study**

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	\$ 1,740	\$ 870	\$ 5,500	\$ 280	\$ 1,240
2013	\$ 2,420	\$ 1,210	\$ 5,650	\$ 290	\$ 1,660
2014	\$ 3,360	\$ 1,680	\$ 5,800	\$ 295	\$ 2,220
2015	\$ 4,700	\$ 2,350	\$ 5,955	\$ 305	\$ 2,975

42. YEC disagreed with YECL's plan for increases over five years and proposed that the Board approve only the 2011 increases in Maximum Investment Level. YEC provided, in part, the following reason:

The proposals with respect to subsequent years after 2011 noted in YECL's study are premised on a material departure from past Yukon methodology, from the MIL levels approved in other jurisdictions, and from the percentage contribution that the MIL is targeted to make towards the costs of new extensions.³⁴

43. By letter dated September 30, 2010, the Utilities stated that they had agreed on a two step increase in Maximum Investment Levels for 2011 and 2012 as follows:³⁵

³³ Exhibit B1, Application page 5.3, line 3 – page 5.4, line 9

³⁴ Exhibit B1, CW-YEC/YECL-1-26 (e) YEC Response

³⁵ Exhibit B9, page 7

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

44. The City considers that a review of the Maximum Investment Level for all rate classes is appropriate. The City notes that the currently approved Maximum Investment Levels for new Residential and street lighting installations are at least 20 years out of date. While the General Service Maximum Investment Level may be only 5 years out of date, the evidence in these proceedings is that increases in construction costs during that period require that the General Service Maximum Investment Level should be reviewed as well. The City notes that Leading Edge also supports an increase in the Maximum Investment Levels.³⁶
45. The City does not agree with YECL's original proposal to move to a Maximum Investment Level that is 100% of cost recovery, as this would result in virtual elimination of customer contributions and consequently, a greater degree of cross-subsidization within a customer class. The City agrees with the principle set out by YEC in CW-YEC/YECL-1-26(e)³⁷ that Maximum Investment Levels should have regard for past regulatory practice in the Yukon, which the City considers will result in a degree of rate stability. To the extent that YECL has not abandoned its proposal to move Maximum Investment Levels to one hundred percent of average cost, the City disagrees.³⁸

³⁶ Exhibit B1, Appendix 7.1, page 7.1D-13, Issue 15

³⁷ Exhibit B4, CW-YEC/YECL-1-26(e)

³⁸ Transcript, page 30, lines 7 - 11

46. The City also does not agree with the revised proposal to phase in increases in Maximum Investment Levels over two years. The City considers that a single increase in 2011 is preferable in order to create some certainty for new customers and for the construction industry in general. The Utilities have not provided compelling reasons for two increases other than as a means of reaching agreement amongst themselves. In any event, it does not appear as if the Utilities object to a one-time increase in Maximum Investment Levels.³⁹ The City considers that customers should see the benefits of reduced contributions as soon as possible.
47. The City accepts a Residential Maximum Investment Level of \$1,500 to be implemented on January 1, 2011. The City agrees that this Maximum Investment Level is in line with the historical proportions of the Utilities and customer share of construction costs as well as in line with the investment levels of other comparable utilities.⁴⁰
48. The City does not accept the revised proposal of a fixed plus variable Maximum Investment Level of \$5,500 plus \$280 per kilowatt hour of demand for the General Service class. The evidence in these proceedings is that "...the current rate class that we have in place to serve General Service customers encompasses customers that are small in load size, and we have customers that are very large in load size."⁴¹ Small General Service customers could experience an elimination of contributions, while large General Service customers will be faced with an increase in the level of contribution required. Mr. Bowman's evidence is that the current Maximum Investment Level encourages customers to overstate their demand⁴². The City considers that no customer contribution would constitute a further incentive for the smaller customer to overstate their demand. Furthermore, an increase to over 90% of construction costs is out of line with other utilities and the historical practice in the Yukon.

³⁹ Transcript, page 30, line 21, page 32, line 14

⁴⁰ Transcript, page 32, line 15 – page 34, line 6

⁴¹ Transcript, page 217, lines 6 - 9

⁴² Transcript, page 37, line 18 to page 38, line 5

49. The City proposes that the Maximum Investment Level continue to be based on a variable Maximum Investment Level increasing with demand. The current \$400 per kW utility share only recovers 39% of current construction costs.⁴³ An increase in General Service Maximum Investment Level to \$690 per kW will restore the 2005 utility construction cost share of 67% ($\$400 \times 67 \div 39 = \687) while ensuring that both small and large customers share construction costs through a contribution. The City considers that the presence of a reasonable contribution serves as a sufficient disincentive for overstating demand.
50. The City accepts the Utilities' proposal to increase the Maximum Investment Level for streetlight fixtures to \$1,240 per fixture. The City notes the Utilities' evidence that streetlight construction costs have increased due to improvements such as buried distribution plant and a change from wood to steel davits.⁴⁴ The \$1,240 will recover approximately 45% of estimated 2011 construction costs, which, while below the 93% utility share of costs set in 1989, appears to be comparable to the current share of other utilities.⁴⁵
51. The Utilities and municipalities are currently experimenting with energy-efficient street lighting for which the costs may differ from current lighting technologies.⁴⁶ When this trial is completed, the \$1,240 MIL per fixture may prove to be inadequate or overly generous. Consequently, the City proposes that the Terms and Conditions for street lighting add a provision that the Utilities will share 50% of the cost of installing energy-efficient streetlights with the municipality.

⁴³ Exhibit B1, page 5.4-6, Table 5

⁴⁴ Transcript, page 44, lines 8 - 19

⁴⁵ Exhibit B4, CW-YEC/YECL-1-27 (a)

⁴⁶ Transcript, page 45, line 20 – page 46, line 10

52. The Utilities provided a calculation of the revenue requirement increases of the proposed 5-year increases in Maximum Investment Levels.⁴⁷ During examination, the Utilities undertook to revise this table in light of the agreement reached on Maximum Investment Levels.⁴⁸ If this undertaking is incorporated into the table of revenue requirement increases originally proposed by the Utilities, the following comparisons can be made:

Rate Class	2011	2012
Residential	0.03%	0.06%
General Service	0.03%	0.08%
Street Lighting	0.07%	0.22%

53. As the City has proposed that the level of Maximum Investment Level for General Service be decreased by approximately 25%, this should bring the revenue requirement increase for General Service customers in line with those of Residential customers.
54. The City notes that the increase in revenue requirement for the street lighting class of customer will be higher than the increases for other classes. While this may be the result of not revising the Maximum Investment Level to account for cost increases, the City submits that this also supports an investment for this rate class. An investment option would allow a municipality to invest more than the required contribution as a means of lowering the operating costs of the streetlights. The City notes that the Utilities were unable to indicate any other utility in Canada that does not offer an investment option.⁴⁹
55. In summary, the City recommends the Board approve the following Maximum Investment Levels:

⁴⁷ Exhibit B1, page 5.4-12, Table 13

⁴⁸ Exhibit B18

⁴⁹ Exhibit B4, CW-YEC/YECL-1-22 (d)

Year	Residential Single Family Dwelling (per site)	Residential Multi-Dwelling Unit (per site)	General Service (per kW)	Street Lighting (per light)
2011	\$1,500	\$725	\$690	1,240 ^{1,2}

Note 1: The Utility will invest up to 50% of the cost of energy-efficient streetlight fixtures and/or decorative light fixtures.

Note 2: The Utility will offer an investment option for the Street Lighting customer.

Secondary Sales

56. The City submits that the Secondary Sales rate (Rate 32) should be based on a fixed percentage of the first energy block of the General Service rate, not on volatile, retail commodity prices. The City understands that current low water conditions have forced the Utilities to terminate Secondary Sales indefinitely as of September 1, 2010,⁵⁰ but notes that no evidence was introduced in the hearing that Secondary Sales have ceased permanently, nor was any evidence introduced that the return to normal water levels should not bring the return of Secondary Sales. In fact, the economics of the Mayo B project, as presented in that Application, depend upon a 2 GWh increase in Secondary Sales.⁵¹
57. As the Secondary Sales rate is not cost-based, YEC uses the “value of service” method of setting the Secondary Sales rate, using as a benchmark “what would be the alternative available to the customer to get the same BTUs out of heating oil.”⁵² The City has several concerns with the “value of service” method of setting rates. First, not all Secondary Sales customers use space heating.⁵³ A rate based on the retail cost of heating oil may not

⁵⁰ Transcript, page 398, lines 2 - 3

⁵¹ e.g. YEC Mayo B Application YUB-YEC-1-44

⁵² Transcript, page 25, line 14 to page 26, line 8

⁵³ Transcript, page 49, line 19 to page 50, line 1

- represent the true value to all customers who could employ Secondary Sales in other than space heating applications. The City considers that assuming the true value of Secondary Sales is related to retail heating oil leads to sub-optimal uses of surplus energy.
58. Second, the “value of service” criterion is not recognized among Bonbright’s ten attributes of a sound rate structure.⁵⁴
59. Third, basing the Secondary Sales rate on a retail commodity that fluctuates in price causes rate instability. The City, as a Secondary Sales customer, struggles with substantial fluctuations in its monthly bills as a result of this instability.
60. The City understands that customers have the choice as to whether or not they use Secondary Sales service, but the issue of whether or not a customer is captive under a monopoly is different from treating the customer as if he/she were purchasing a commodity from the open market. The Secondary Sales rate, assumed in the Application to be 7.2¢/kWh,⁵⁵ is actually based on the retail price of fuel oil, which is unregulated. The variations in volatile commodity markets results in wide swings in fuel oil costs in the Yukon and, thus, Secondary Sales. This volatility creates what Utilities and their customers would otherwise consider as being rate instability. The City submits that YEC and YECL are price-regulated industries and, therefore, should not be charging rates that are based on retail unregulated commodity prices.
61. As a final consideration related to rate stability, Secondary Sales are a revenue credit, which effectively serves to decrease the rates of all customers. It would reduce the risks of both the Utilities and of customers if one element of uncertainty, i.e. fuel oil commodity prices, could be taken out of the forecasting of a utility’s revenue requirement.

⁵⁴ Exhibit B4, CW-YEC/YEC-1-14 Preamble, pages 2-3

⁵⁵ Exhibit B1, page 4.1A-1

62. Considering the above, the City submits that the Secondary Sales rate should be based on fixed percentage of the first energy block of the General Service rate, not based on volatile commodity prices. The assumed Secondary Sales energy cost in the Application is 7.2¢/kWh, which is approximately 87% of both the current and proposed first block for General Service. The City considers that this would be a fair rate considering that there are no demand charges associated with secondary service, there are essentially no costs associated with secondary service,⁵⁶ and that Secondary Sales can be interrupted at any time. The City therefore proposes that the Secondary Sales rate be set at 7.2¢/kWh.

Seasonal Rates / Time of Use Rates

63. From the beginning of this proceeding, the City has advocated for a “(d)iscussion of seasonal rates as one form of time-of-use rates that fit into current Residential metering capabilities.”⁵⁷ During the “collaborative process” in December, 2009, the City attempted to initiate a dialogue on the merits of seasonal rates. The Utilities stated in reply:

The Companies have not proposed seasonal or time of use rates in this Application. The implementation of seasonal rates would only be considered in light of appropriate studies to indicate some form of sustained cost-based rationale that provided benefits in excess of the costs and administrative issues of implementing a more intricate or complex rate structure.⁵⁸

64. The City is puzzled by this response from the Utilities as discussion of seasonal rates is quite a different proposition as suggesting that seasonal rates be established in these proceedings. The City’s position is that rates not be restructured in any manner until the relevant OICs expire. The City strongly advocates that any form of rate restructuring should be accompanied by evidence that the restructuring will have the intended result on consumer behavior and system operations.

⁵⁶ Exhibit B4, CW-YEC/YECL-1-7

⁵⁷ Exhibit B1, Appendix 7, page 7-5, Issue 5

⁵⁸ Exhibit B1, Appendix 7, page 7-5, Issue 5

65. The Utilities confirmed that, as with their proposed Options A, B and C, no studies had been performed on the merits or disadvantages of seasonal rates.⁵⁹ The City assumes that this lack of information extends to both the effects on consumer behavior and the effects on system operations. Consequently, the City considers that the limitations of both seasonal and TOU rates raised by the Utilities in Information Responses are without merit.⁶⁰

66. The Utilities' position with respect to seasonal rates appeared to change by the time of the hearing. Instead of being unworkable, as implied in information responses, seasonal rates were within the realm of possibility, although a low priority for the Utilities:

Both companies also recognized that a possible option to address the present need for transition was to consider seasonal rates, however, after a review of the logistical issues that arise, the companies agreed this was not the preferred approach.⁶¹

67. It is noteworthy that the purported review of the logistical issues surrounding seasonal rates took place solely between YEC and YECL and without the benefit of collaboration with the proponents of seasonal rates, as confirmed during cross-examination.⁶² The City considers that seasonal rates are a viable alternative manner of reflecting how the marginal and blended cost of energy varies on the Yukon system. As the proponents of seasonal rates, intervenors should have been consulted on this matter. The Board, in Decision 2009-08, expected the Utilities to incorporate stakeholder input in its Application.⁶³ The City submits that the lack of collaboration on seasonal rates and other issues has been problematic and does not represent what the Board had in mind when it directed that the Utilities incorporate stakeholder input.

⁵⁹ Exhibit B4, LE-YEC/YECL-1-10 (a, b & c)

⁶⁰ Exhibit B4, CW-YEC/YECL-1-25 (c)

⁶¹ Transcript, page 248, lines 9 - 13

⁶² Transcript, page 523, lines 10-17

⁶³ Decision 2009-08, paragraph 143, Direction 13

68. Although the City considers the Utilities' objections to seasonal rates without merit, YEC continued to raise the matter of difficulties of altering rates biannually,⁶⁴ whether seasonal rates are economically efficient⁶⁵ and the effects of seasonal rates on the hydro system as it now exists.⁶⁶ Since these objections surfaced after YEC's admission in its opening statement that seasonal rates were a "possible option" and YECL apparently agrees,⁶⁷ the City will refute these objections.
69. The City notes that the billing system difficulties seem to refer to annual changes in rates rather than biannual rates set as a result of a Board order. The City considers that this is one of the matters that should be investigated with billing system experts as to the feasibility and cost of billing rates on a seasonal basis. The City notes that other utilities have little difficulty billing on an hourly basis⁶⁸ which requires far more rate changes than seasonal rates.
70. With respect to the economic efficiency of seasonal rates relative to Options A, B or C, the City notes that there is a lack of economic evidence in these proceedings with respect to the efficiency of any of the proposed rates. Rather than proceeding without the proper evidence, the City suggests that the economic efficiency of seasonal rate signals should be investigated prior to implementation.
71. Finally, the discussion of the effect of seasonal rates on the hydro system during the hearing appears to focus on the system that now exists. The City suggests that seasonal rates be developed for the system that will exist when the CSTP and Mayo B projects are completed. Both these projects will alter both the amount of hydro power that is available and how hydro could be utilized. These projects should be completed when the relevant OICs expire in 2012.

⁶⁴ Transcript, page 343, lines 9 - 15

⁶⁵ Transcript, page 343, line 18 – page 344, line 7

⁶⁶ Transcript, page 345, line 6 – 347, line 7

⁶⁷ Transcript, page 523, lines 10 - 17

⁶⁸ Transcript, page 400, lines 9 - 11

72. The City considers that seasonal rates are a superior alternative rate design to appropriately reflect the marginal cost of generation on the Yukon electrical system. When the City considers seasonal rates to be superior alternative, the City means that seasonal rates are superior to the Utilities' Options A, B or C, or the Leading Edge rate proposal for Residential customers.
73. The City's long term view is that the Utilities should be moving towards system operation based on smart meters in order to gather information to facilitate future Time of Use ("TOU") rates. The City believes that TOU rates will accomplish what the proposed rate design options cannot – namely to provide customers with the appropriate incentive to optimize their consumptions patterns and decrease usage at times when diesel may be on the margin.
74. Consistent with its position that the existing rate design should be kept in place until the relevant OICs expire, the City does not consider that seasonal rates should be implemented as a result of these proceedings. The City seeks a direction from the Board that the Utilities prepare a seasonal rate design for 2012 based on the system capacities that exist at that time in a year of normal water flow as well as the current marginal cost of diesel generation. The City also submits that the Utilities should study the possibility of installing the infrastructure necessary to eventually implement TOU rates. The City requests that the Board direct the Utilities to file a study, or studies, examining the possibility of implementing seasonal and/or TOU rates in their next general rate application.

Terms and Conditions – Customer Contributions

75. As noted in the previous section, customer contributions are the customer's share of the costs of installing new services while the MIL is the Utility's share. During the hearing,

Leading Edge outlined a concern with respect to customer contributions and the Braeburn Lake Christian Camp.⁶⁹

76. The City considers that this example constitutes both unfairness to this particular customer and a violation of the postage stamp principle set out in the Rate Policy Directive OIC 1995/90(4)(b), which states:

rates for each class of non-governmental retail customer must be the same throughout the Yukon without variation between Yukon Energy Corporation and The Yukon Electrical Company Limited customers;⁷⁰

77. Clearly two different customers adjacent to each other have received new service at rates that are not the same. If the Utilities had updated the levels of MIL prior to 2001 to keep pace with construction costs, this would have reduced the initial contribution required of the initial customer. At the current levels of MIL, it appears that the utilities received well over \$2.8 million in customer contributions in the year 2009 with similar amounts received in 2007 and 2008.⁷¹ The City considers this to be a considerable amount of money, much of which will never be returned to customers because of the Utilities' five year rule.
78. While an increase in MIL (a decrease in contributions) as proposed in the Application would mitigate the problem raised by LE to a degree, it would not completely solve it. The City considers that the Utilities' five year rule results in unfair treatment of customers and supports the proposal of LE to extend the period over which contributions can be refunded.
79. The City considers that as long as unamortized contributions towards plant extensions remain, the original customers deserve a refund of their contribution from new customers

⁶⁹ Exhibit B1, Appendix 7.1, pages 7.1D-7 to 7.1D-8

⁷⁰ Exhibit B1, Tab 8, page 8-13

⁷¹ Exhibit B4, LE-YEC/YECL-1-31, Tables 1 and Volume 1B, Undertaking No. 4 dated October 12, 2010, obtained by multiplying the threshold amount by the number of contributions over the threshold

added to an extension that they have paid for. The Terms and Conditions should be amended to state that the period over which contributions are refundable to customers corresponds to the period over which the contribution is amortized. In the case of the Braeburn Lake Christian Camp, it appears that the appropriate amortization rate is 15 years.

Demand Side Management (DSM)

80. In Decision 2009-8, the Board directed as follows:

Furthermore, the Board finds DSM to be a critical issue for all electric rate payers in Yukon. The Board directs YEC in conjunction with YECL, to consult with stakeholders and develop a policy paper with respect to DSM initiatives. YEC and YECL are to jointly lead this process and submit a policy paper (Plan) in their next GRA. Further the utilities are to be cognizant of and work with ESC where necessary so as not to duplicate efforts.

The Plan should include initiatives developed through negotiations with intervenor groups and communities in the Yukon. The Plan should provide a wide range of energy efficiency and conservation measures that will assist ratepayers in dealing with the high cost of energy in the Yukon and also provide support for local initiatives identified through community energy planning initiatives.”⁷²

81. The City is concerned with the Utilities’ poor track record in developing Demand Side Management (DSM) initiatives, particularly in light of their rate re-design proposals. A DSM program was originally proposed as part of a joint YEC/YECL filing in 1992, yet the development of DSM initiatives has not significantly moved forward in the eighteen years since that time. During the process in December, 2009, intervenors specifically requested that DSM be discussed in these proceedings. Despite promising the development of a “suite of Yukon-specific DSM initiatives as of the fall of 2010”⁷³, the Utilities did not provide this information and indicated under cross-examination that the process has been

⁷² Decision 2009-8, page 9, paragraphs 40-41

⁷³ Exhibit B4, CW-YEC/YECL-1-29(b), lines 28-29

delayed.⁷⁴ YEC provided an undertaking to update its plans with respect to DSM initiatives⁷⁵, which provided very few specifics and no deadlines.

82. The City is concerned that the DSM issue is being treated lightly or completely ignored by the Utilities. The City is further concerned that scarce resources that could have been employed studying and developing innovative, workable DSM programs were instead diverted towards developing rate designs that are not expected to produce the same effect. Accordingly, the City requests that the Board set a series of deadlines for the Utilities to provide update reports on progress with DSM initiatives or otherwise institute a process that will ensure that the Utilities comply with Board Order 2009-8.
83. The City notes that the Board ordered that the DSM plan include “a wide range of energy efficiency and conservation measures” to be developed “through negotiations with intervenor groups and communities in the Yukon.” The City submits that the Utilities should undertake to negotiate in good faith with interested parties, not only by providing a presentation as to the Utilities’ opinion on DSM matters, but also earnestly discussing, testing and assessing ideas with stakeholders with the goal of developing innovative DSM solutions that work in the Yukon context. The City considers that the Board’s order should not be limited to the requested discussions but include direction regarding follow-up communication, further discussions to finalize the range of energy efficiency and conservation measures, and a study into DSM initiatives adopted by other utilities. The City submits meaningful consultation with customers will result in DSM programs that benefit both customers and the Utilities.
84. In conclusion, the City requests that the Board direct the Utilities to provide exact plans and timelines in their Compliance Filings for both consulting with stakeholders in the development of the policy paper regarding DSM initiatives and negotiating with intervenor

⁷⁴ Transcript, page 143, lines 8-9

⁷⁵ Transcript, page 235, line 16 to Transcript, page 237, line 14

groups, environmental organizations, government environmental professionals, and communities on the range of energy efficiency and conservation measures to be adopted.

Conclusion

85. The City respectfully requests that the Board direct the Utilities as follows:

- The Utilities shall maintain the current 2 tiered rate design for Residential and General Service customers with Riders R and J incorporated into base rates;
- The Utilities shall conduct and file an updated COSS for their next general rate application;
- The Utilities shall institute the following Maximum Investment Levels:

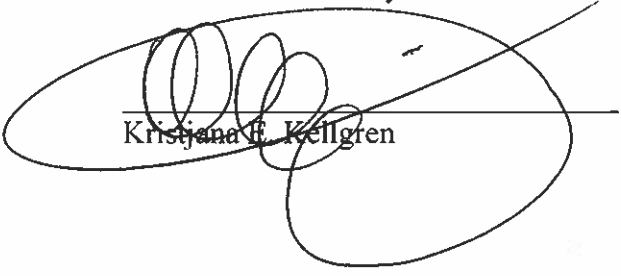
Year	Residential Single Family Dwelling (per site)	Residential Multi-Dwelling Unit (per site)	General Service (per kW)	Street Lighting (per light)
2011	\$1,500	\$725	\$690	1,240

- The Utilities shall amend the Secondary Sales rate (Rate 32) to be 7.2¢ per kilowatt hour;
- The Utilities shall conduct and file a study regarding seasonal rates / TOU rates in their next general rate application and propose a seasonal rate design option based on this study;
- The Customer Terms and Conditions shall be amended to provide for a longer period of time over which customer contributions can be refunded;
- The Utilities shall comply with a further process, as set by the Board, to ensure full compliance with the Board's earlier directions regarding DSM measures as set out in Decision 2009-8.

86. All of which is respectfully submitted this 22nd day of October, 2010.

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