Bennett Jones LLP

4500 Bankers Hall East, 855 - 2nd Street SW
Calgary, Alberta, Canada T2P 4K7
Tel: 403.298.3100 Fax: 403.265.7219
www.bennettjones.com

Loyola G. Keough
Partner
Direct Line: 403.298.3429
e-mail: keoughl@bennettjones.com
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October 22, 2010

Yukon Utilities Board
Box 31728
Whitehorse, Yukon
Y1A 6L3

Att: Mr. Bruce McLennan
Chair

Dear Mr. McLennan:

Re: Yukon Electrical Company Limited ("YECL") and Yukon Energy Corporation ("YEC") 2009 Phase II Rate Application
YECL Argument on Joint YECL/YEC Phase II Issues

Please find attached the Yukon Electrical Company Limited's Argument filed in accordance with the Board's Schedule.

Yours truly,

Loyola G. Keough

Attachs.

YUKON UTILITIES BOARD

YUKON ELECTRICAL COMPANY LIMITED and

YUKON ENERGY CORPORATION

2009 PHASE II RATE APPLICATION

YECL Argument on Joint YECL/YEC Issues

1. INTRODUCTION

By Application dated February 19, 2010 Yukon Electrical Company Limited ("YECL") and Yukon Energy Corporation ("YEC") (collectively the "Companies") filed a Joint Phase II Rate Application as previously directed by the Yukon Utilities Board ("YUB" or "Board") pursuant to Board Order 2009-8. Prior to the filing of this Application, YECL and YEC worked diligently to arrive at common positions regarding all matters that would be advanced to the Board as part of the Joint Phase II Rate Application. At the time of filing, a number of matters remained outstanding, with the Companies advancing separate positions on a variety of matters, as reflected in the original filing. The fact that the two Companies would take different positions on certain matters should not be surprising, as they bring different perspectives to any particular issue.

As the Board is aware, YECL is primarily a Distribution company that serves approximately 90% of the customers in the Yukon; whereas YEC is primarily a Generation and Transmission company and therefore may view certain matters from a different perspective. Notwithstanding what may be considered to be inherently different points of view, the Companies continued to work together to present a uniform and consistent approach relating to cost of service, rate design and terms and conditions.

As detailed in the September 30, 2010 joint filing by the Companies, the continued efforts to arrive at a common position were largely successful and resulted in successfully closing the gap on most areas prior to the commencement of the proceeding (Ex. B-9). As will be discussed in greater detail below, the Companies were successful in agreeing on common positions except for Tab 4 – Rate Design, which continues to reflect the positions being advanced by each company and which will be addressed as part of a separate Argument filed concurrently by each of YECL and YEC. In this regard, as noted by YEC in its Opening Statement (2T176-189) there are many aspects of rate design where the Companies share a common position, but for ease of presentation separate Panels were presented to speak to the entirety of the rate design submissions presented by each company. Notwithstanding, the Board and Parties should appreciate that there is significant common ground between the Companies regarding this matter.

Concurrent with the filing of the Joint Phase II Rate Application, YECL brought forward a separate Application for approval of a Rider D. This matter will also be addressed by the parties as part of their separate Arguments being presented herein.

In filing this Joint Phase II Application, it is also important for the Board and Parties to appreciate that, while an up to date Cost of Service Study that provides accurate revenue to cost ratios for all rate classes has been provided, the rate design recommendations contained herein are intended to comply, not only with previous Board Directions, but also with the current applicable OICs that impact the ability of the Companies to make certain rate design changes that may have been recommended absent the impact of these governing directives.

As well, the Phase II Application reflected an updating of the former Electric Service Regulations into a new set of Terms and Conditions that govern the relationships between the utilities and customers. Aspects of the proposed Terms and Conditions which attracted attention during the course of this proceeding will be discussed below.

In presenting this Argument on Joint Issues, YECL will generally follow the order of the materials presented in the Application. As with the Application itself, YECL took the lead on certain aspects of the Application for which it had primary responsibility. YECL supports the position advanced by YEC regarding the bulk power classification methods (production and transmission), which it took the lead role. As such, all aspects of this Argument on Joint Issues should be considered as reflective of the common positions of both YECL and YEC. The approach adopted by the Companies in this regard was detailed in the joint cover letter submitted on July 23, 2010 with the Companies' Responses to Information Requests from the Board and Interveners.

As noted in the Overview to the Application attached to the Companies' February 19, 2010 letter, in this Application the Companies are seeking approval of the Cost of Service and Terms and Conditions of service, each as updated in Appendix A to the September 30, 2010 joint filing (Ex. B-9). As will be discussed below, Appendix A to this September 30, 2010 letter made certain modifications to each of the Cost of Service and Terms and Conditions that the Companies are requesting be incorporated into the final approval granted herein.

In this Argument YECL will focus on the points raised by the Board and Parties during the proceeding. Except as noted, the positions being advanced by YECL are as detailed in the Application, Information Request Responses, Supplementary filings and Testimony. A failure to comment on any matter does not connotate agreement with the positions of any other party. In this regard, YECL reserves the right to respond to any matter raised in Argument that was not contemplated herein.

As noted above, the respective positions of YECL regarding rate design matters will be reflected in a separate Argument filed concurrently with the Board.

2. COST OF SERVICE

(i) Cost of Service Study

As indicated above, the Companies included in this Application an up to date Cost of Service study, with electronic models attached, that provides accurate revenue to cost ratios for all rate classes. As can be seen from the Application Overview (p. 2) Table 1, despite the fact that a Cost of Service Study had not been completed since 1997, the revenue to cost ratios for the majority of the customer classes have not changed significantly over this extended time period. While material changes were noted in the streetlights and sentinel lights classes, explanations were provided as to the causes that lead to these changes. The evidence is relatively straight-forward in terms of understanding why these changes have occurred. These matters will be discussed in greater detail below. The fact that the majority of the major customer classes have not seen material changes over the extended period since the last Cost of Service Study does raise a question regarding whether updated Cost of Service Studies are required for each future Phase II application, or whether periodic updates would be sufficient. YECL and YEC anticipate that they would make submissions to the Board in this regard as part of the preparation of future Phase II applications.

As indicated under Application Tab 3.0 Cost of Service, the study included in the current Application allocates approved 2009 Firm Rate Revenue Requirement Consolidated Costs for the Companies to each customer firm rate class and compares these costs for each rate class against the respective approved revenues for 2009 to be received from each rate class. As well, as detailed in the Application (p. 3-1 to 3-2), the Cost of Service Methodology follows the standard approach typically utilized by utilities in Canada and uses a three step process of functionalization, classification and allocation to determine the Cost of Service for each rate class. The Companies do not consider that any party took issue with the overall methodology used in the Cost of Service Study. Specific details of issues raised will be discussed below.

With respect to the Distribution Cost of Service, as detailed in the Application (p. 3-2), the Cost of Service for each customer class in 2009 is determined on a Yukon-wide basis with no differentiation between utilities or between communities. This approach is also consistent with the requirements of Rate Policy OIC 1995/90. As noted, the updated Cost of Service Study is based on the approved Consolidated Revenue Requirements for the Companies for 2009.

In addition, it was noted that the Cost of Service methodology used to prepare the 2009 Distribution Cost of Service Study in Appendix 3.1 largely reflects past principles and methods adopted by the Companies and approved by the Board (Application, p. 3-3). As noted in the Application (p. 3-10), 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 for ATCO Electric and the Northland Utilities Companies in their past General Rate Applications. As stated by the Companies, the classifications set out in the Application are consistent with the goal of identifying cost causation. Additionally, these classifications are supported by the National Association of Regulatory Utility Commissions ("NARUC") and are consistent with the past practices of other Canadian utilities. As such, YECL submits that the approaches reflected in the Application should be approved by the Board, as filed.

In relation to the Bulk Power Classification methods for Production and Transmission, YECL supports the methods and analysis as provided by YEC in this Application.

(ii) Customer and Demand Classification Factors

During the course of the proceeding, certain questions arose with respect to the appropriateness of using the zero intercept and minimum system approaches in order to calculate customer and demand classification factors. As noted in Response YUB-YEC/YECL-1-7, these methodologies are generally accepted for use by regulators and have been recognized by NARUC as such. In addition, while it is acknowledged that each of the methodologies may have certain inherent shortcomings, the bias or impact of such factors has been minimized by conducting an analysis using each methodology and then averaging the results.

In addition, as noted during the proceeding, when the results of the two methodologies are examined, they are not significantly different. Rather, the results of both approaches are quite close (1T99-100). YECL submits that these well established approaches to determining customer and demand classification factors should be accepted by the Board for use in the current Cost of Service Study.

(iii) EDLA

Another issue which arose during the course of the proceedings related to the updated Energy Demand and Loss Analysis ("EDLA") which was provided in Appendix 3.3 of the Application. As noted in the Application (p. 3-12) the EDLA analysis was used to determine a reasonable representation of load characteristics for each class for purposes of estimating class aggregate demands. As the Board is aware, this matter was initially the subject of some disagreement between YECL and YEC, but was addressed in the September 30, 2010 filing, Attachment A which reflected the joint agreement of the Companies on a number of outstanding matters. As noted on page 4 of that filing:

> "The Companies have reviewed the issue and agreed that the RRC 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."

As such, in the end result, the Companies are recommending the acceptance of the EDLA study, as filed for purposes of this Application. As noted, this issue will be revisited by the Companies prior to any future Phase II proceeding.

Based on the discussion which occurred during the proceeding, as well as related Information Requests, a number of matters related to the EDLA analysis warrant further comment.

As noted in the Application (p. 3-13) only three classes indicate a substantial (greater than 10%) change since the 1996/97 GRA in their load characteristics in the updated EDLA (industrial, and both government and non-government general service). The Application then explains the basis upon which these load characteristics may have changed over the course of the intervening period.

Questions also were raised with respect to the use of ATCO Electric's Alberta based data. As was acknowledged, it is simply not practical to incur the costs that would be required to obtain equivalent data for Yukon customers. As such, it is sensible and logical to adopt a proxy that provides useful information for use in the subject Cost of Service Study. As noted during questioning, the extensive data from ATCO Electric that was used for the EDLA study was from customers that share similar characteristics and cover a period of 20 years. As such, the data is not considered "bad data"; it is just different data that was used as an input into the EDLA study. As noted, the approach used and methodology explained in the current EDLA study is the same as used in the last study in 1996/97 (2T140).

As noted, ATCO Electric's data was scaled for Yukon based on established formulas from the demand tables contained in REA Bulletin 45-2 from the U.S. Department of Agriculture (2T140; Application (p. 3.3A-3)). As well, as noted in YUB-YEC-YECL-1-8(a) the validity of the U.S. Department of Agriculture's Bulletin has not diminished due to the electricity market changes. This study is based on actual load data and it is independent of any electricity market scheme. There is typically no direct link between the way small customers are billed (monthly energy and demand) and the hourly price in the deregulated Alberta electricity market.

In sum, the Companies submit that the Board should accept the EDLA study for purposes of this proceeding, as filed.

(iv) Street Lights/Sentinel Lights

As noted above, there has been a large decrease in the revenue to cost ratio for streetlights from the 1997 final approved level of 110% to a 2009 level of 69%. As noted during questioning, the costs associated with streetlights have increased considerably, which has led to the change in the streetlight revenue to cost ratio. This is based on a combination of several factors, including the change in the davit itself as well as the lighting fixtures. Other changes in construction methods and standards were noted which have put upward pressure on the average cost of streetlights (1T44-45). The Companies recognize the causes for the changes in the revenue to cost ratio, but acknowledge the impact of the relevant OICs and the utility's ability to address this matter at this time. The Companies submit that no action is required from the Board as a result of the above-referenced changes to revenue to cost ratio for the streetlight class. There has also been a large increase in the revenue to cost ratio for sentinel lights from the 1997 final approved level of 100% to a 2009 level of 148%. The key reason for this change is the small growth in sentinel lights over the last 12 years.

(v) Allocation to Industrial Class

Another issue which arose during the course of the proceedings relating to the distribution cost of service concerned the allocation of distribution related costs to the industrial class. As noted in the Companies' September 30, 2010 joint filing (Ex. B-9) this matter was also the subject of a joint agreement on what had been a point of differentiation at the time of the original filing. As noted in the September 30, 2010 filing (p. 3-4) 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 (eg., poles and wires). The joint agreement of the Companies then goes on to reflect the details of the proposed changes to the distribution cost of service. The Companies propose that the Board accept the agreed upon resolution to this matter and note that the above changes in the Cost of Service would be reflected in the compliance filing following the Board's Decision.

3. TERMS AND CONDITIONS OF SERVICE

In the joint Phase II filing, Tab 5, updated Terms and Conditions of service, which govern the relationship between YECL/YEC and customers were provided to the Board for approval. These Terms and Conditions set out the responsibilities of both the Companies and customers. As per Board Order 2009-08, Directive No. 13, the Companies undertook a comprehensive review of the then existing Electric Service Regulations and are proposing herewith updated and comprehensive Terms and Conditions for approval. As noted in the Application, the proposed Terms and Conditions are consistent with and based upon the Terms and Conditions approved in other jurisdictions, such as for ATCO Electric and the Northland Utilities.

As noted in the Application, the proposed amendments are intended to enhance the clarity, transparency and ease of understanding of the provisions under which electricity is provided and to reflect the Companies practices and policies as well as applicable legislation and regulations.

As part of the updated Terms and Conditions YECL also proposed changes to the maximum investment levels ("MILs") to change the Companies' maximum investment in providing service to customers.

As will be detailed below, a number of the specific provisions of the proposed Terms and Conditions were discussed during the proceeding and the Information Request process. Additionally, as noted in the joint submission of the parties on September 30, 2010 (Ex. B-9) two aspects of the Terms and Conditions were the subject of joint agreement by the parties prior to the commencement of the proceeding. The first related to a rewording of Section 4.15 of the Terms and Conditions to recognize the unique circumstances faced by each of YECL and YEC with regard to the issue of "reconnection". Based on the agreement reached by the Companies revised wording as set out on page 6 of the letter is now being put forward to the Board for approval as part of the Terms and Conditions. The Companies are not aware of any objection to this revised wording and request that the Commission approve this updated wording, as filed. This revised wording will be reflected in the Compliance Filing regarding this application.

In addition, with respect to the issue of maximum investment levels – Schedule B the September 30, 2010 letter (p. 6-7) provides a modification to the MILs being requested for approval herein. As noted, YECL is now only requesting approval of specific levels for 2011 and 2012 as detailed in Table 1 of the above-referenced filing. As well, as detailed during the course of these proceedings, YECL put forward a series of principles which it considered should govern the establishment of MILs in Yukon. These are detailed in the Application and need not be repeated here. However, of importance is the fact that both YECL and YEC concur that these principles should form the basis upon which MILs are determined in Yukon and should provide a guide for future changes to such MIL levels. The Companies request that the Board specifically endorse the adoption of these principles, which did not appear to attract Intervener opposition during the course of this proceeding.

With respect to the proposed changes to MILs, the City of Whitehorse posed questions regarding whether the Companies would be amenable to adopting a "one-step" process and moving to 2012 proposed levels effective January 1, 2011. The Companies confirm that they would be agreeable to such a position (IT30). During the course of the customer consultation conducted prior to filing the Phase II Application and also during the proceeding (1T145-148) an issue was raised with respect to the development of a Customer Bill of Rights. As noted, the Companies met with the UCG representatives to discuss this matter and provided details of the manner in which the concerns raised were already addressed in the proposed Terms and Conditions. Details of this meeting are set out in response to CW-YEC/YECL-1-28(c), Attachment 1. In the end result, the Companies do not believe that developing a separate Customer Bill of Rights is needed. The proposed Terms and Conditions are sufficiently comprehensive and set out both the Companies and customers' rights and obligations with respect to the provision of electric service.

In addition, as noted during the proceeding, the Companies communicate extensively with customers on a regular basis and in particular at the time of the provision of service to such customers. As part of these discussions customers are advised of their ability to have recourse to the YUB at any point if they are not satisfied with the quality of service provided by the Companies or the manner in which their rights are impacted. The Companies are not aware of any issues being raised by customers regarding this matter. As well, the Companies are not aware of any other jurisdictions that have implemented such customer bill of rights as distinct from the approved Terms and Conditions of service.

During the course of questioning from Board Counsel, an issue was raised with respect to Section 9.4 of the proposed Terms and Conditions regarding Company Liability (2T165-166). This matter was further addressed in response to an Undertaking (Ex. B-26) filed on October 12, 2010. In sum, the Companies examined the proposed wording of this provision and, on the advice of Counsel, determined that it should not be changed. While this provision may appear to be legalistic in its wording, this is by design and is one of the most important provisions of the Terms and Conditions that would only likely be enacted in the context of a legal debate. As such, the Companies are of the view that it is critical that this provision remain concise and clear from a legal point of view. The Companies are not aware of any customer complaints regarding this wording. As such, the Companies submit that no change to the proposed wording is required.

During the course of the proceeding questioning also occurred with respect to Section 4.8(b) of the Terms and Conditions with respect to the proposed Cost Sharing Policy. As noted, the Companies currently administer cost sharing for a five year period for new customers connecting to an extension. As set out in Table 7-2, p. 7-4 of the Application, when discussing this issue the Companies state:

> "The existing Cost Sharing Policy provides a reasonable balance between customer rights and obligations, and the amount of administration required by YEC and YECL to track cost sharing applications. YEC and YECL have no role in

determining the time periods applied by the cited government programs."

As noted, this matter was pursued by Mr. Maissan during cross-examination. Information on the number of new extensions were provided in response to Undertaking No. 4 (Ex. B-26). The Companies note that the nature of a new extension may vary between size of customer, length of line and location of tap from the existing extension that is being used to determine cost sharing. The Companies submit that whether a new customer is tapping off an extension, with a portion of a new line, or simply tapping off an existing transformer, cost sharing may apply. As a result, the Companies would be required to track each individual new extension project to estimate and determine whether cost sharing applies. As noted during the proceeding, the Companies would need to put in systems and processes in order to track these cost sharing extensions in all cases. As such it becomes a significant administrative process and burden to track new extensions and provide refunds associated with doing the cost sharing calculations and making appropriate payments. The Companies submit that the cost sharing process is manually intensive and that the current five year timeframe achieves a reasonable balance between fairness to customers and a relief from the associated administrative burden.

The Companies also note that a five year period is typical in other jurisdictions and submit that it is reasonable in the context of Yukon and should be accepted as such. The Companies do not believe it is prudent to extend the cost sharing process beyond five years and submit that the Terms and Conditions in this regard should be approved, as filed.

4. **ADDITIONAL MATTERS**

During the course of the proceeding questions were also posed with respect to demand side management ("DSM") initiatives. As noted, the Companies are aware of the Board's past Directives in this regard and are working jointly with other bodies and Interested Parties in an effort to develop a responsible Demand Side Management Program for Yukon (1T142-143; CW-YEC/YECL-29(b)). The Companies submit that this matter is progressing as anticipated and does not require any action from the Board in the context of this Phase II proceeding. Additional information regarding DSM was provided in response to Undertakings 1 and 2 (Ex. B-26).

ALL OF WHICH IS RESPECTIVELY SUBMITTED, this 22nd day of October, 2010.

Loyola Keough
Counsel for Yukon Electrical Company Limited