John F. Maissan – President
219 Falcon Drive Whitehorse Yukon Y1A 0A2
Phone: (867) 668-3535 Fax: (867) 668-3533
Email: john@leprojects.com Website: www.leprojects.com

IN THE MATTER OF THE YUKON ENERGY AND THE YUKON ELECTRICAL COMPANY 2009 PHASE II RATE APPLICATION

Heard before the

YUKON UTILITIES BOARD

October 5-7, 2010

REPLY ARGUMENT OF JOHN MAISSAN
LEADING EDGE PROJECTS

General Comments

Leading Edge has reviewed the Written Arguments of all other parties. Nothing in these arguments has convinced us to change our position on any matter, and thus Leading Edge's written Argument remains valid in all respects.

There are a few matters that have been put forward in Written Argument by other parties that Leading Edge feels merit Reply Argument. These matters are addressed below.

For ease of reference when the transcript is being referenced the page and line numbers will be used whenever possible and this reference will appear in brackets as Tr for transcript, p for page number, and Lxx-yy for line numbers. For example a reference to the transcript at page 428 lines 17 to 19 would appear as (Tr p428 L17-19). The Yukon Utilities Board is referred to as "the Board".

Specific customer related issue

1. Terms and Conditions of Service – Cost Sharing Period

In YECL's argument on YEC-YECL issues (pages 11 and 12) it argues in favour of continuing the 5 year cost sharing period and not extending this period. On page 12 of the argument YECL states:

> "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."

There is simply no validity to these arguments. The Companies now have the systems in place to track every project because in all cases the 5 year cost sharing period already applies. The Braeburn Lake Christian Camp Association's (the Camp) request means simply that for the minority of customers who have made very significant customer contributions the period be extended to 10 or 15 years depending on the amount of their contribution. This will not require any new processes or systems; it will simply mean extending the cost sharing period using the same systems and processes already in place. Furthermore, the Companies already have to do this for any (subsequent new) customer who gets financing assistance through the Yukon government's Rural Electrification Program because Yukon government requires a 15 year cost sharing period for its program participants (regardless of the amounts paid by the originating customers). It is only the (subsequent new) customers who do not get financing through the Rural Electrification Program who can limit their cost sharing obligations to originating customers to 5 years because of the Companies' policy.

Leading Edge notes that the City of Whitehorse is also persuaded that the Camp (and all customers in similar situations) are deserving of a longer cost sharing period (paragraphs 75 to 79 on pages 27 to29 of the City's Argument).

In conclusion the original Written Argument of Leading Edge on behalf of the Camp and request to the Board remains fully applicable.

Cost of Service (COS) Related issues

2. Allocation and Classification of Hydro Plants and Transmission Lines

Leading Edge agrees with the classification of wind plant 100% to energy and diesel plant (capital costs) 100% to demand. However, in Leading Edge's views these are very different from hydro plants and transmission lines.

On page 10 of Yukon Energy's Argument the following statements are made:

> "…the COS classifies bulk power costs primarily based on the rationale for investment in plant and the underlying load characteristics on the system that drive the requirement for investment in a particular asset."
>
> "Classification of bulk power generation and transmission costs to "Demand" to reflect investments made to provide reliable capacity at the time of the system winter peak; and"
>
> "Classification of bulk power generation and transmission costs to "Energy" to reflect investments made to avoid the need for diesel energy (kWh) generation."

Hydro plant assets were built to service both demand and energy requirements. One simply cannot serve one without serving the other – energy requirement over a period of time is demand. The Aishihik and Mayo power plants serve energy requirements throughout the year, not only on winter peak for very short periods of time. Simply because one alternative supply to hydro plants is diesel generation, which has high energy costs, is no reason to classify such assets 100% to energy. More realistically the alternative would be coal fired thermal generation with lower relative energy costs and higher relative capital costs than diesel generation. The thermal generation alternative, which would be a more logical choice for the nature of the loads served by these hydro plants, would lead to the conclusion of lower energy savings and greater demand savings. Simply classifying the hydro asset according to one alternative power source (diesel in this case) is inappropriate.

The Mayo –Dawson City transmission line reduced both diesel plant replacement and upgrade requirements as well as diesel energy. At the time the commitment to build the line was made the cost of diesel fuel was substantially lower than it now is, and the relative portion of capital (demand) related savings were substantially higher than it would be under a similar analysis at present. Should it thus be classified now 100% to

energy the basis that the only power alternative is diesel and the overall savings today would be a higher percentage of energy savings than when the decision was made? What about the first Yukon Energy quote provided above?

Regarding the other transmission line facilities covered in Yukon Energy's argument, if the savings resulting from these facilities are mostly from diesel energy (fuel), and a lower portion from demand (capital) savings, does this mean that the facility serves only energy needs and should be classified 100% to energy? Do these facilities not also supply the demand – particularly when serving mining customers which have a much higher load factor than residential customers? Leading Edge submits that because these facilities serve both energy and demand classifying them 100% to energy is inappropriate.

The "N-1" emergency planning criteria adopted in 2006 should not be used as a cost of service classification methodology for hydro plants. The record shows clearly that the Aishihik and Mayo power plants serve both demand and energy, and the record for the Aishihik transmission line, which is the reason Aishihik "fails" the N-1 criteria, has reliably and dependably been available for at least the last 10 winters. This is not to say that the N-1 planning criteria is inappropriate, on the contrary Leading Edge is of the view that it is very appropriate, however, what one does in planning for emergencies should not drive COS classifications.

Yukon Energy states (Argument page 14, item 3(b)):

> "Given the capacity planning criteria it is reasonable to treat the Aishihik plant similar to other facilities such as wind or IPPs that cannot be relied upon to provide demand under all contingencies…"

Leading Edge finds it astounding that Yukon Energy compares the Aishihik (and Mayo) hydro plants to wind energy. There is simply no comparison with respect to energy availability and dispatchability. Wind energy <u>is</u> intermittent, Aishihik (and Mayo) hydro plants <u>are not</u>.

The issue of how BC Hydro treats its IPPs, as mentioned in the hearing, is not applicable in Yukon as we have no IPPs, and this should be a matter for discussion before the Board at some appropriate time in future.

Leading Edge stands by its Written Argument on the matter of hydro plant and transmission classifications and its recommendations to the Board.

<u>Rate Design Related Issues</u>

3. Cost of Diesel Generation

The UCG submits that the cost of diesel generation to be recovered in the proposed rate designs is minimal or will not actually be incurred. Since all rate proposals put forward for consideration combine the small diesel zone, the large diesel zone, and the hydro zone

into one new rate design zone there are indeed significant diesel generation costs to be recovered.

Under cross examination YECL accepted that about $5.8 million out of a total revenue requirement of $50.833 is for diesel fuel (Tr p555 L3 to p556 L11); this is 11.4% of all costs being recovered through rates. Of this amount only the Old Crow diesel fuel costs are not specifically recovered in rates applicable to the new combined small diesel – large diesel – hydro rate zone. Thus, contrary to the assertions in UCG's Argument, there are significant diesel costs being incurred and recovered through rates.

4. Rate Decrease to a Group of Customers

YECL in its Argument on YEC and YECL issues (joint Argument) on page 3 states:

> "…it is counter-intuitive to establish a Rate Design today, that sends a group of customers within a particular rate class a signal that their rates will decrease, even though the circumstances which are supposedly being addressed are associated with a significant increase in costs, because of the increasing use of diesel generation to meet system requirements,"

This argument would be credible if there was not the IER in place that subsidizes customers for all consumption below 1000 kWh per billing period. With that IER due to expire on March 31, 2011 all customers will see an increase in their bills. The Option A rate design proposed by Yukon Energy and Leading Edge's preferred option which is a modification of Option A, seek to make the bill increases for the lower consumers more manageable. This will make it easier for the Yukon government not to continue with a program that is recognized to undermine conservation efforts.

On page 4 of its joint Argument YECL states:

> "…all customers within a rate class should see an appropriate and consistent price signal that tells them that costs will increase if consumption increases."

The reality is that no rate design can be all things to all people as every party to this GRA has acknowledged. For the past several years all customers in Yukon have been paying a diesel price surcharge despite the fact that Rider F was driven by costs in diesel served communities and by high consumers in the hydro grids (for peaking diesel). Yet even the lower consuming conservation minded customers in the hydro zone had to pay this surcharge. And now the increased diesel costs are being rolled into base rates for all consumers in all blocks along with the other revenue riders. We submit that it is equally valid to argue that there should be a decrease in block 1 residential rates to reflect the fact that these customers (hydro zone block 1 customers) are not the ones to drive the marginal diesel costs.

On page 7 of its joint Argument YECL states:

> "Should customers actually respond to the price signal, and hence reduce consumption, they could move from a higher block to a lower block and

> thereby increase the risk of revenues falling below the approved Revenue Requirement."

Leading Edge contends that the real reason YECL is arguing for a near status quo position (Option B), is because they fear that customers will respond to the price signals, reduce consumption, and cause YECL to under-earn on its approved return on equity. We all know that YECL has over-earned relatively consistently over a number of years. Leading Edge does not consider this to be a valid reason to back away from needed rate design changes.

5. Leading Edge Preferred Option Yields Greatest Rate Shock

The City of Whitehorse (the City) contends in paragraph 31 on page 13 of its Argument that:

> "Of the three preferred rate design options before the Board, LE's Preferred Option results in the most significant rate shock for customers."

Leading Edge would simply point out that its Preferred Option was in fact a moderation of Yukon Energy's Option A, and that Option C, let alone a modified Option C, was not on the table at the time it was prepared. It was only through the submission of Option C the day before the hearing was scheduled to begin that Yukon Energy withdrew its support for Option A. It would be fair to say that had Option C been available as part of the original Phase II Application Leading Edge's Preferred Option would not have been submitted as it was. It is also noted that Yukon Energy has, in Argument, submitted a further modification to Option C.

6. Maintain Present Rate Structure

The City argues in paragraphs 5 to 16 (pages 4 to 8 of their Argument) that the present rate structure should be maintained. This proposal is not without merit as the large diesel, the small diesel, and the Old Crow zones would each have their own runoff rate, and in all three zones an appropriate runoff rate reflecting the incremental cost and use of diesel could, with justification, be implemented.

The disadvantage of retaining the present structure would be that it would be very difficult to send any increasing cost rate signal whatsoever to residential non-government customers in the hydro zone with only the two rate blocks. Without a third block there would be no opportunity to send any significant signals to the very high consumers – at least not without lowering block 1 rates with which the City had some difficulty (paragraph 6 of their Argument). Similar arguments can be made with respect to the General Service Non-Government class. Leading Edge considers these disadvantages to outweigh the advantages of maintaining the present rate structure, and thus does not support this option.

7. Rate Design

In its Argument Yukon Energy has advanced a revised Option C. This revised Option C is very similar to YECL's Option B for residential non-government customers except for the runoff rate which is set at $0.20 instead of $0.1399. The block 1 rate is $0.0075 lower than Option B and the block 2 rate is $0.0018 higher. This Revised Option C will send virtually no signals to any residential customers except the very highest consumers.

Leading Edge is comfortable with the proposed runoff rate. However, Leading Edge feels that there should be a stronger signal to residential non-government consumers who have bills in the block 2 consumption bracket. Leading Edge is of the view that without a stronger signal to more consumers the response to DSM and conservation programming will be less than it could or should be. This will drive the need for a greater amount of diesel generation. In our view having to reduce block 1 rates to enable a stronger signal to be sent to block 2 customers (or even lowering the block 3 rates to $0.19 or $0.18 per kWh for that purpose) would preferable to not sending them a signal. The reality is that all consumption in excess of 1000 kWh per billing period was costing customers about $0.1439 per kWh two years ago (YEC 2008-2009 GRA page 4-12). Why should we have a block 2 rate that is significantly lower now? Why not set this, at least, as the block 2 rate (although Leading Edge favours a higher rate of $0.15 to $0.16).

Leading Edge finds it regrettable that the Board has such a diverse range of rate design options to consider. This appears to be a consequence of not having the Companies before the Board in a Phase II type of proceeding for about 14 years. It may be wise for the Board, through its orders, to ensure that such a time lapse does not occur again in the foreseeable future.

Respectfully submitted,

John Maissan
Leading Edge Projects
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