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February 25, 2011

Yukon Utilities Board
Box 31728
Whitehorse, Yukon
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Attention: Deana Lemke, Executive Secretary

**Re: Yukon Energy Corporation Application for Approval of Escalation of Rate Schedule 39 Demand and Energy Charges per OIC 2007/94
UCG Notice of Motion - Inadequate Responses to Information Requests**

Dear Ms. Lemke:

The Utilities Consumers' Group is in receipt of Yukon Energy Corporation's February 24, 2011 response to UCG's Notice of Motion regarding inadequate responses to information requests.

YEC states that "*Order 2011-2 confirmed that it is inappropriate for Intervenors to use this narrowly focused requested approval to open the door to an examination of larger rate issues*".

UCG submits that considering the revenue impacts of requested rate adjustments does not constitute a "larger rate issue". YEC is currently operating under rates and revenue requirement approved by the Board in its Orders 2009-8, 2009-10, 2010-13 pending the review of an upcoming compliance filing. If rates are set by the Board to recover the allowed revenue requirement from customer classes, UCG submits that any adjustment (i.e., increase revenues recovered from the industrial class) to the cost recovery equilibrium established by the Board must be fully explained with balancing adjustments made to non-industrial rates to ensure that YEC does not operate under rates that are designed to recover more than the allowed revenue requirement.

According to O.I.C. 1995/090, section 4.(1)(a), "*the rates for non-government retail customers must be sufficient to recover costs that are not to be recovered from government customers or from major industrial customers*".

The Board has the legislated jurisdiction to increase or reduce the rates charged by YEC to rates that the Board considers fair and reasonable. UCG submits that its information requests were submitted in an effort to have enough background information available to ensure that industrial rates as well as rates charged to non-industrial ratepayers are designed to recover a fair and reasonable revenue requirement.

YEC states that "*There is no relevance or need to provide actual revenues for past years, nor any relevance or need to provide revenues separately related to demand and energy charges (i.e., the same escalation percentage will apply to both charges)*".

In UCG-YEC-1-8, UCG requested YEC to provide (a) a breakdown of revenue recovered under Rate Schedule 39 based on the consolidated customer, demand and energy forecast approved by the Board and (b) details of the actual revenues for 2009 and 2010 recovered from the industrial class broken down between demand and energy charges. UCG submits that this information would provide the Board and other parties with a better understanding of the revenue base from which the rate escalation is to be applied. As per the Board's previous decisions, rates set to recover YEC's allowed revenue requirement have been based upon a set load forecast which UCG outlined in its preamble to UCG-YEC-1-8. The impact of the proposed rate increase must be calculated using the allowed load forecast as a base. YEC appears to be under the mistaken assumption (per its response to YUB-YEC-1-2(a)) that the impact can be accurately measured assuming a higher load forecast.

YEC states that "*its response in any event addressed the projected revenue impact broken out by demand and energy charges by reference to its response to YUB-YEC-1-2(a) where projected 2011 revenues were provided for each charge before and after the requested rate escalations*". UCG submits that the demand (80,400 kVa) and energy (42,800,000 kWh) levels used by YEC in YUB-YEC-1-2(a) bear no resemblance to the Consolidated Customer, Demand and Energy Forecast currently approved for rate setting purposes. While it is interesting to note the changes in expected demand and energy consumption related to the industrial class, UCG submits that the data provided in YUB-YEC-1-2(a) does not allow for a fair or accurate comparison against allowed revenue requirements.

As per the Board decisions, YEC's revenue requirement has been divided between customer, demand and energy cost classifications and is to be recovered using rates and charges specifically designed to address customer, demand or energy-related costs. UCG submits that the actual impact of any rate adjustment must be calculated incorporating the proposed rate changes as well as any changes that YEC has identified to the demand and energy consumption to which the proposed rates will be applied. UCG submits that the overall impact of the proposed rate increase must be not only identified but incorporated into balancing adjustments to non-industrial rates in order to arrive back at the allowed revenue requirement.

According to the *Public Utilities Act* (section 29 (b)), in setting rates that a public utility is permitted to charge, the Board may give effect to that part of any excess of revenue received or deficiency incurred that is in the opinion of the Board applicable to the whole of the financial year of the public utility in which the proceeding was initiated as the board considers just and reasonable. UCG submits that YEC has underestimated the additional revenues to be received from the proposed rate increase and that any and all additional revenues must be used to reduce the rates charged to non-industrial customers.

YEC states that the information requested in UCG-YEC-1-10 "*has no bearing on the determinations required under OIC 2007/94*". UCG submits that the requested information about Base Load Energy rates has a direct connection to the demand and energy charges applied to industrial customers and that's what this application is all about. According to Rate Schedule 39, all energy consumed in excess of the Base Load must be charged at a rate reflecting the incremental cost of service using diesel fuel generation and all other energy being charged at the reduced rate required to yield the same overall energy charge at forecast energy use. UCG submits that it does not make sense from a stability perspective to not consider all changes to demand and energy rates in one proceeding and ensure that non-industrial customers are only paying what they should be paying.

UCG submits that the intent of the demand and energy rate escalation clause in Rate Schedule 39 is to ensure that rates track inflationary pressures on the demand and energy-related costs to serve industrial customers. With UCG-YEC-1-10, UCG was trying to gather information on one of the more significant costs (diesel fuel generation) that cannot be tracked by inflation yet will drive rates higher. UCG submits that the incremental costs to provide service to Rate Schedule 39 customers must be determined before the Board can ensure that a fair rate has been established. UCG submits that while YEC would prefer to simply increase its revenues as part of a “simple annual administrative filing”, it is important that the Board and other parties develop an understanding of the actual costs of providing service to industrial customers to ensure YEC’s rates are fair to all ratepayers.

YEC argues that to date it has not requested that the Board implement the Base Load Energy provisions of Rate Schedule 39. UCG submits that not making a request in the past does not mean that the Base Load Energy provisions should not have been implemented or that they should not be implemented now. UCG submits that the requested information will allow for a more informed decision to be made on the requested levels of demand and energy charges within Rate Schedule 39. YEC is already on record In response to YUB-YEC-1-3 that “*the resulting incremental revenues are expected to be less than YEC's ongoing incremental cost escalations*”. UCG submits that these escalating costs are as a result of diesel generation being at the margin and the truth about costs cannot be determined without the requested information.

If the rates and charges within Rate Schedule 39 are being set prospectively to recover the future cost of service, then the Board and other parties need to have the best information available. If there are updates in costs and load that need to be reflected in rates, then now is the time to do it, especially as we are still awaiting a compliance filing related to the most recent General Rates Application.

UCG submits that one of the key attributes of electricity rates is stability of the rates themselves with minimal unexpected changes that are seriously adverse to existing customers. If the demand and energy charges within Rate Schedule 39 are under review and subject to change, UCG submits that it should be a full review with assurances that the rates set are just, reasonable, equitable and recover the allowed revenue requirement as has already been determined appropriate by the Board.

Should you have any questions on this submission, please contact me directly.

Yours truly,

Roger Rondeau
Utilities Consumers' Group