IN THE MATTER OF YUKON ENERGY CORPORATION & YUKON ELECTRICAL COMPANY LIMITED RIDER F – FUEL ADJUSTMENT RIDER & DEFERRED FUEL PRICE VARIANCE POLICY

REPLY ARGUMENT OF YUKON ENERGY CORPORATION & YUKON ELECTRICAL COMPANY LIMITED

November 21, 2011

Outlined below is the Companies' Reply argument to Leading Edge ("LE") and Utilities Consumers' Group ("UCG") arguments filed on November 14, 2011.

INTERVENOR ARGUMENTS

Both LE and UCG raise issues in argument which are clearly out of scope of the current proceeding.

Over half of LE's argument (Sections 4, 5 and 7) focuses on the Diesel Contingency Fund ("DCF") rather than management of the DFVPA and related Rider F charges.

The central LE recommendation is that the Board not allow deferrals to the DFPVA for diesel fuel costs above Board approved prices when diesel generation exceeds the level of diesel generation approved by the Board in the most recent GRA decisions "*until clarity is provided regarding the any potential avoidance of the DCF with excess hydro and the resulting impact on the DFPVA*" (Section 5, Recommendation 2(a) - emphasis added; also repeated in Section 4, Recommendation 1).

Further, notwithstanding extensive IR responses by the Companies, LE recommends that the Board instruct the Companies to table additional DCF information and analyses (Section 4, Recommendation 2), and that the Board order the Companies to revise the calculation of the DCF for the integrated system (Section 7, Recommendation 1), or alternately that the utilities provide an updated integrated system DCF for the Board's review and approval (to be applied retroactively to 2011).

UCG's argument is premised upon the assertion (paragraph 11) that "*the Board does not have the authority to permit regulated utility companies to modify rates for electric power pursuant to an automatic fuel adjustment clause without following statutory safeguards established through the Public Utilities Act. The power to modify or adjust rates is the power to set rates, and this is exclusively with the Board*". UCG argues (paragraph 7) that *"the Rider F fuel adjustment clause is not considered by UCG to be an effective mechanism for keeping electricity rates fair, responsible and predictable for ratepayers*" and asserts (paragraph 39) that "*the utilities bear the burden of demonstrating that the Rider F is just and reasonable and that without it, the utilities cannot earn a fair rate of return*". UCG concludes (paragraph 14) "*that before any fuel cost recovery is authorized the Board should ensure an adequate fuel procurement policy exists, procedures to ensure lowest reasonable prices at time of purchase are paid for fuel, timely disclosure of complete and adequate information to ensure confidence that procurement policy is being appropriate administered, public disclosure and transparency with respect to fuel adjustment clause and a meaning fuel review/audit process under administration of the Board*".

YUKON ENERGY AND YUKON ELECTRICAL REPLY

Contrary to the LE and UCG arguments, the Companies were not directed in this proceeding to file a Rider F Application in order to examine its impact to revenue requirement matters or rate policy objectives (matters that are properly addressed as part of a GRA proceeding such as the one recently completed by the Board for both Companies), or to review the underlying policy direction provided in OIC

1995/90, or to consider the current status or future use of the DCF as part of this review. Arguments and recommendations related to these matters are out of scope.

The argument and recommendations provided by UCG specifically ask the Board to ignore the clear regulatory policy direction provided pursuant to OIC 1995/90. Arguments and recommendations made by UCG which ignore OIC 1995/90, including those noted above, are out of scope of this process and patently beyond the jurisdiction of the Board. With regard to issues of transparency and public review (as noted in paragraph 14), as noted in YUB-YEC/YECL-2-2(h) and (i), when Rider F is adjusted the calculations are provided to the Board. Further, the Companies also now provide Quarterly updates which are required to be made publically available on each Company's website. Issues related to fuel procurement and procedures to ensure lowest reasonable prices at time of purchase for fuel are properly addressed as part of a GRA review. The Companies have responded during past GRAs to IRs related to Rider F records and calculations.

UCG specifically at Paragraph 37 recommended changes to Rider F noting that the existing fuel adjustment clause should provide for an incentive/penalty mechanism "*as is done in other jurisdictions like Nova Scotia*". There is no material in evidence regarding the mechanism used in Nova Scotia and no basis to conclude that the mechanism as described in any way relates to a fuel adjustment mechanism similar to Rider F. Even assuming this mechanism is accurately described it would not be in accordance with the current rate policy OIC 1995/90 as the Companies must be permitted to adjust their rates so as to reflect the "fluctuations in the prices for which the two utilities pay for diesel fuel."

On matters within scope in this proceeding, LE has acknowledged (Section 2) that "*the Utilities have provided ample evidence to show that they have consistently applied the DFPVA calculations to all diesel fuel consumed and applied the difference between the existing GRA approved fuel price and the actual fuel price to the account.*" This settles one set of issues that took up a considerable part of the IR responses.

LE recommends, however, that the Board modify the current Rider F to limit the costs collected in the DFPVA to the level of diesel generation approved by the Board in its most recent GRA decisions.

At page 5, LE acknowledges that it had not understood how the DFPVA was administered in this regard, and further acknowledges that Rider F as currently administered on this matter is a fair arrangement wherein the Companies carry the risk of diesel generation under-forecasts – but LE introduces a new assertion to justify recommending the above change to Rider F, namely that this element of Rider F is somehow being subverted "*because [of] …the potential avoidance of the DCF despite above average hydro generation and the resulting impact on the DFPVA/ Rider F…*"

Based on this assertion, LE recommends that Rider F should be modified as noted above until "*the Board is satisfied that any potential avoidance of the DCF with excess hydro and the resulting impact on the DFPVA have been completely eliminated and that clarity exists [sic] the satisfaction of all parties*[1]."

The Companies' reply is as follows:

1. The Board cannot over-ride OIC 1995/90 to limit the costs collected in the DFPVA to the level of diesel generation approved by the Board in the most recent GRA decisions as recommended by LE. Its jurisdiction is defined by that OIC and, accordingly, it does not have the legal ability to implement LE's recommendation.

2. LE's alleged "*potential avoidance of the DCF with excess hydro*" raises issues well beyond the scope of this proceeding, and ignores the evidence and approved operating rules regarding the DCF as set out in IR responses, including:

    a. As noted in response to IRs (including YUB-YEC/YECL-2-4 (a, b and c; d, e and f), the most recent GRA decision (Board Order 2010-13) recognized that diesel was not forecast to be "on the margin", and that until "diesel is on the margin" the DCF cannot be triggered and amounts cannot be debited or credited to the DCF. It further recognized that Yukon Energy does not anticipate that the DCF would be triggered until necessary changes in operating rules[2] are reviewed and approved by the Board. Accordingly, no current rates have been set based on DCF assumed levels of hydro generation and related expected diesel generation. In addition, the Companies note that the vast majority of diesel generation and corresponding Rider F impacts today are from YECL off grid plants that are not connected to the integrated grid, and have nothing to do with hydro generation or the DCF.

    b. Further, as reviewed in the example provided in response to LE-YEC/YECL-1-4 REVISED, it is clear how the DFPVA operates today independently of the DCF:

        i. No impact occurs on the DCF when diesel is not on the margin, regardless as to whether hydro energy availability is above or below the long term average; and

        ii. To the extent that higher hydro generation leads to reduced diesel generation, as suggested by LE's argument, the amounts paid to DFPVA are reduced; the reverse occurs if hydro generation is below the long term average to the extent that it thereby causes increased diesel generation (but under such circumstances diesel would presumably be on the margin, and the DCF could then be used to recompense the Companies for the added diesel generation required due to low

---

[1] Section 5, Recommendation 2(a) also repeated in Section 4, Recommendation 1.

[2] Issues such as to deal with new long-term average hydro generation values, fund "triggers", potential means to address secondary sales, and adjustments to deal with more than WAF generation.

water availability - but, as noted in the examples provided to LE, any DCF transactions are always at the approved GRA fuel price and therefore have no impact on the DFPVA charges or recoveries).

c. Since the last GRA the DCF has not been triggered, notwithstanding periods when water availability was below average (which LE ignores) and periods in 2011 when water availability was above average.

d. Finally, the revised and second round information requests also provided several detailed examples and analysis to demonstrate that there is no interrelationship between the administration of the DFPVA and the DCF. The recommendations provided by LE with regard to the DCF ignore that detailed information and, accordingly, in addition to being patently outside the scope of the current review they have simply no factual basis.

In response generally to the issues raised regarding the DCF, Yukon Energy is committed to address in its next GRA the necessary changes to DCF operating rules and the revised revenue requirements needed to reflect long-term average hydro generation capability for the integrated WAF/MD grid (and the related long-term average diesel generation costs required in those revenue requirements). Until such a review occurs, the DCF cannot address any water related operating conditions faced by the Companies.

OTHER ISSUES REGARDING ADMINISTRATION OF THE DFPVA AND RIDER F

The Companies have provided all information necessary for the review of the written policy regarding the administration of the DFPVA and related Rider F charges, including two rounds of extensive interrogatories. These responses provided detailed explanations regarding the history of the DFPVA and Rider F, including details regarding the past and current practice for administering the account, and also provided (in response to IRs) assessment of potential options for management of Rider F consistent with OIC 1995/90. The Companies address the following specific issues raised in argument by UCG and LE below:

- UCG asserts (paragraph 25) that the Companies have not been following their own policy and using "an estimation process" given that the "actual" litres consumed calculation involves "*taking the actual kWh of diesel generator output and convert this to litres using an average efficiency level*".

  The Companies note that interrogatory responses have detailed the fact that the Companies have applied the same method previously reviewed and approved by the Board in Order 1990-2 for calculating deferrals to the DFPVA since the late 1980's[3].

[3] Footnote 5 in YUB-YEC/YECL-2-1 (a) and (b) specifically notes "*that while frequent reference is made to the DFPVA applying to "actual" litres consumed, the mechanical implementation in fact involves taking the actual kW.h of diesel generator output and converting this to litres at the GRA approved efficiency level. This is necessary and practical as there is no way to directly and accurately measure consumption of fuel in generation over short periods – the conventional approach is to "dip" fuel tanks to*

- UCG also asserts at paragraph 29 that "*the Rider F mechanism helps to guarantee that the utilities not only recover a fair return but also gives them an opportunity to over earn while relying on section 8 of OIC 1995/90*."

  The Companies note that the response to UCG-YEC/YECL-1-2(f) clearly sets out that Rider F charges or rebates to customers do not affect the income of the Companies; there is no opportunity under the current mechanism to "over earn".

- Leading Edge in argument asserts there should be an "orderly system of reviewing Rider F on at least a twice annual basis" included in the Policy and recommends implementation dates of January 1 and July 1 and notes the seasonal trend in oil prices should be considered (Section 2, Recommendation 1).

  In interrogatory responses (see response to LE-YEC/YECL-1-10[4] and YUB-YEC/YECL-1-2 and 1-3) and in argument, the Companies have noted that the timing of any collection/refund rider related to the DFPVA requires flexibility and use of best judgment to adjust to changes in circumstance (i.e., swings in fuel prices and external events such as GRA proceedings or pending Board Orders). A directive to file a Rider F adjustment within a fixed time period would not provide the necessary flexibility to adjust to specific situations (such as unresolved GRA proceedings) or changes in circumstances related to swings in fuel prices (that may negate the requirement for a Rider change). The Companies believe the current policy provides for a reasonable compromise that includes regular updates to the Board and other interested parties, while maintaining flexibility. Consequently, the recommendations made by LE should be dismissed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 21th day of November, 2011.

YUKON ELECTRICAL COMPANY LIMITED	YUKON ENERGY CORPORATION
Original signed by	**Original signed by**
Rob Pitzel Financial Services Supervisor	Ed Mollard Chief Financial Officer

determine quantities used, but this is only a periodic determination and is not precise particularly in respect of measuring smaller quantities of fuel such as are consumed in communities that use diesel for standby or peaking. Further, the effect of this approach is that the companies remain at risk for changes in efficiency which either drive the consumption of fuel to higher or lower actual litres than would have been calculated at the GRA forecast efficiency level".

[4] This interrogatory response provides detailed explanation regarding specific circumstances over the period from December 2010 to July 2011 that resulted in the DFPVA having combined balance to an end of June 2011 of ($448,216).