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October 23, 2012

Mr. Bruce McLennan, Chair
Yukon Utilities Board
Box 31728
Whitehorse, YT Y1A 6L3

Dear Mr. McLennan:

Re: Yukon Energy 2013 Interim Rates

On October 11, 2012, Yukon Energy Corporation (YEC or Company) filed a letter with the Yukon Utilities Board (Board) requesting an interim refundable revenue shortfall rider of 6.5% for 2013 (Rider R) to be applied to all retail and industrial firm rates (including the 2012 shortfall Rider J and the fixed Rider F) effective January 1, 2013.

A letter from the Board dated October 12, 2012, invited parties to comment on this request by Friday, October 19, 2012 and YEC to reply by Tuesday October 23, 2012.

Comments were provided by Leading Edge (LE), the City of Whitehorse (CW) and the Utilities Consumers' Group (UCG).

Yukon Energy Response

Yukon Energy's response focuses on addressing the submissions provided by each intervenor regarding the following two key issues raised:

1. The rationale & basis for the interim rate increase and process for review; and
2. The quantum of the interim rate increase.

Although Yukon Energy has focused on key issues of concern for the matter at hand, failure of YEC to address a particular matter does not indicate concurrence with any of the positions advanced by the intervenors.

1. The Rationale & Basis For the Interim Rate Increase and Process For Review

Both CW and UCG provided comments regarding the need for YEC to provide further evidentiary basis for the interim rate increase for 2013, and the need for a more fulsome review process prior to the Board approving the interim rate increase. UCG argued that based on the lack of rationale for interim rates that it should be denied altogether.

In Order 2012-5 (regarding the interim rate increase for 2012 – Rider J) the Board affirmed its jurisdiction to make determination on interim rate requests without the need for an oral public hearing, and also confirmed the principles to be applied in an interim rate application as set out previously in Board Order 2008-6.

As indicated in that Order, the Board has jurisdiction to make interim orders under Section 63 of the Act, and in this regard it is not limited to circumstances in which the utility can demonstrate that its financial integrity will suffer or that the safety of its operations will be compromised. The Board noted, "interim refundable rate orders provide the Board with the flexibility necessary to accommodate regulatory lag, which might otherwise deprive a utility of a reasonable opportunity to recover its prudent costs", and further that there is no requirement for a full hearing on the merits because such an approach "could contribute to greater regulatory lag and defeat the purpose of the interim refundable rates." The Board also stated that it should "be careful not to deny interim rates altogether if doing so could jeopardize the ability of the utility to implement and recover the final revenues determined by the Board to be just and reasonable." However, the Board also indicated that "most jurisdictions do not grant interim orders for recovery of 100% of forecast revenues requirement increases, but grant some percentage to minimize the turbulence of rate changes over short periods".

The current circumstances are similar to the 2012 interim rates applied for in June 2012. A separate and specific process (including filing of updated financial information for 2012 and 2013, interrogatories and oral argument) for review and approval of 2013 rates is not warranted. Specifically, the current General Rate Application has already seen two rounds of interrogatories with an unprecedented 1036 interrogatories asked and answered by Yukon Energy.

As was the case for the 2012 interim rate application (Rider J), the interim rate application for the 2013 revenue requirement (Rider R) is not based on a specific unforeseen change in financial circumstances for YEC that requires immediate action, but is based instead on the reality that a final order on 2013 rates will not be available until well into 2013[1]. Given this reality, absent an

[1] In the 2008/2009 GRA it took approximately 4 months from the time the oral hearing ended for a decision to be issued and an additional approximate 1.5 months after that for the compliance filing to be approved. Specifically, the oral hearing for the 2008/2009 GRA, occurred May 5, 2009, argument was completed July 5, 2009 and an Order (Order 2009-8) on the matter was issued September 8, 2009. Thereafter, Yukon Energy filed a Compliance Filing October 8, 2009 and an Order accepting the Compliance Filing and approving rate adjustments effective December 1, 2009 (Order 2009-10) was issued November 18, 2009.

order providing interim rates for 2013, YEC would be detrimentally impacted through not receiving any of its applied for additional revenue requirement for the first four or five months of 2013 and ratepayers would face unnecessary rate change turbulence for the following six to twelve months after the final Board order.

On the question of urgency raised by CW, it is noted that while the implementation date is two months away, approximately 30 days are required for the utilities to implement final rates. Consequently, a final order is required prior to December 1, 2012 for a January 1, 2013 implementation date.

2. Quantum of the Interim Rate Increase

Both LE and CW provided comments regarding the quantum of the interim rate increase that should be approved as of January 1, 2013:

- LE proposes a Rider R increase of 5.0%, on the expectation that this is a more realistic expectation of the revenue requirement that will ultimately be approved by the Board.
- CW proposed a reduction in Rider J and a Rider R at 3.25% such that only 50% of the applied for revenue requirement would be collected.

Yukon Energy notes that interim refundable rates from 2012 (Rider J) have already been approved by Order 2012-5, and that there is no basis to revisit Rider J at this time. To do so would add further confusion to this process and would not promote rate stability. Assuming no change to the interim Rider J, the CW proposal is equivalent to a Rider R of less than 0.5% (about 0.39%).

With regard to the quantum of the rate increase for 2013, YEC reiterates its concerns related to rate stability. Pursuant to Order 2012-5, Yukon Energy is only collecting revenues for six months of 2012 (and would therefore only receive approximately one-half of the applied for revenue requirement increase in 2012 on an interim refundable basis). The arguments raised by CW fail to recognize the "true up" needed for 2012 rates in 2013 to address the 6 months of uncollected 2012 revenues. The approach for 2012 interim rates already built in a significant cushion to take into account the fact that YEC may not receive the entire applied for increase once a final order on the 2012/2013 GRA is issued by the Board. This cushion is more than adequate to reasonably accommodate any possible reductions in revenue requirement in both 2012 and 2013.

Accordingly, the full 6.5% Rider R interim refundable rate increase already takes into account the significant cushion provided in the approved 2012 Rider J interim refundable rate increase. Approval of Rider R (on an interim refundable basis) at 6.5% as proposed will promote rate stability, reducing the likelihood that rates finally approved by the Board will need to recover a shortfall for 2013 (similar to the issues raised in the 2012 interim rate application).

Yukon Energy further notes that the full proposed 2013 rate increase in the Application, i.e., the combined Rider J and Rider R, is only forecast to fund approximately 59% of the long-term average (LTA) diesel generation costs on a go-forward basis[2]. In order to support longer term rate stability -- if in the extraordinary case the Board orders a reduction in non-diesel revenue requirement at a level that exceeds the present cushion -- any additional revenue collected under the interim and final rate increase that exceeds the Board's approved 2013 non-diesel costs could be used to increase the percentage of LTA diesel generation costs above 59% . In that way rate stability resulting from maintaining a balanced rate increase of approximately 6.4% in 2012 and 6.5% in 2013 can be preserved regardless of the size of the reduction in non-diesel revenue requirement for 2013[3].

Yours truly,
DAVIS LLP
Per:

P. John Landry
PJL/sas

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[2] The gap in 2013 between recovering the proposed percent of LTA (approximately 59%) versus 100% of LTA diesel generation costs exceeds \$2.1 million, or an amount equal to more than 50% of the additional 2013 revenue of \$4.1 million forecast to be provided by the full Rider R (Application, Table 4.2, line 14).

[3] A higher percentage of LTA diesel generation costs being recovered will benefit ratepayer rate stability in future years, and all amounts not required in any year to fund actual diesel costs up to the level approved in rates will go directly to the Diesel Contingency Fund for the future benefit of ratepayers.