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IN THE MATTER OF THE YUKON ENERGY CORPORATION 2012-2013 GENERAL RATE APPLICATION

Heard before the

YUKON UTILITIES BOARD

November 12 - 14, 2012

REPLY ARGUMENT OF JOHN MAISSAN LEADING EDGE PROJECTS

Reply Argument introductory comments

In its reply argument Leading Edge addresses issues that it considers important to address at this stage of the GRA proceeding. On some issues Leading Edge is in agreement with the applicant or other intervenors, and on others Leading Edge has a differing view or disagrees. Leading Edge's views on other issues as expressed in final argument remain unchanged unless indicated expressly in this reply argument.

The Final Arguments of Yukon Energy (the applicant), the Yukon Conservation Society, the City of Whitehorse (the City), and the Utilities Consumers Group (UCG) are addressed in turn. There were no matters addressed in the Final Arguments of The Yukon Electrical Company Limited (YECL) that Leading Edge felt a particular need to address in reply argument.

Final Argument of Yukon Energy

1. Page 5 "Ratepayer Savings Today…"

The first bullet on the top of page 6 has 3 sub-bullets. The first sub-bullet is legitimate if one considers only the portion of costs of Mayo B financed by ratepayers and not the actual cost of Mayo B. Leading Edge considers that the Aishihik third turbine project is a good and a cost effective investment – even at the increased actual cost.

The second sub-bullet describes the refinancing of YDC debt. While on the surface it appears as a financial benefit to Yukon Energy to have Yukon Development Corporation (YDC) borrow money at 5% to loan to Yukon Energy at 4.25%, in the long run it is likely to be detrimental to ratepayers. The reason is that this will reduce the money YDC has available to invest in future Yukon Energy infrastructure projects. This is likely to result in higher borrowing costs at that time. In summary this is likely to be short term gain for long term pain.

The third sub-bullet is definitely short term gain for long term pain. An increased period of depreciation will result in ratepayers paying more in interest and equity returns in the long run, and if the extended depreciation periods turn out to be unrealistically long, the ratepayers will pay again to replace the assets in question.

2. Page 7 "New Era of Depleted Hydro…"

At the bottom of page 7 Yukon Energy discusses mitigating the rate increase that would otherwise come from using long term average hydro and diesel generation in calculating revenue requirements. Similar discussions are repeated on page 11 and page 22 of Yukon Energy's final argument. Leading Edge strongly disagrees that this is an appropriate course of action. The reasons are as follows:

(a) First because there are various inappropriate costs which once disallowed will likely make up for the difference in revenue requirement involved;

(b) Second because the reduced industrial load at the Minto mine (page 14) will also result in a reduction in diesel generation requirement;

(c) Third because in using hydro generation rates above the long term average, Yukon Energy would essentially be using the ratepayer funds to subsidize 2012 and 2013 rates that should be accumulating in the DCF to cover the (very significant) ratepayer costs of drought conditions when it next occurs; and

(d) Fourth Yukon Energy's expectation that LNG generation costs will be substantially lower than diesel generation costs, provided as a reason for using below long term average diesel generation in the test years, remains very speculative. LNG generation costs are still unknown and LNG generation is still two years away, i.e. 2015 or later and at least one year beyond the test years.

3. Page 8 "Growth in System Driving Increases…"

On page 9 under "Increase in Planning Cost" Yukon Energy discusses the various costs that it wants to put into rate base. As articulated in its final argument, Leading Edge has views on many of the individual studies (and is thus not in agreement with the proposed Planning Policy as applied to these projects). In Leading Edge's view some of the study costs were imprudently incurred and should be disallowed and others should remain as work in progress until such time as they become projects or are discontinued. This would be a better "transition plan" from a ratepayer perspective, and would allow for a more thorough examination of costs before they do go into rate base.

4. Page 20 "Fuel and Purchased Power…"

On page 22 under "Ratepayer Cost Risks related to Drought" Yukon Energy explains the risks that ratepayers face with regard to drought – Yukon Energy is not exposed to this risk. This is an excellent reason <u>not</u> to use an above long term average hydro generation level as discussed in 2 above.

Further down on page 22 Yukon Energy explains the proposal to have secondary sales revenues to go to the DCF. Leading Edge supports this proposal. However, Leading Edge would like to see some financial incentive provided to Yukon Energy for promoting secondary sales wherever possible, even by the hour during short periods of surplus hydro availability, ideally controlled by the SCADA system. In this manner both ratepayers' and Yukon Energy's benefits will align.

<u>Yukon Conservation Society</u>

5. Wind energy

Leading Edge is in strong agreement with the Yukon Conservation Society's (YCS) views on wind energy. Yukon Energy has neglected its Haeckel Hill wind facilities for years and has spent only a fraction of the attention and money merited on possible new wind facilities on Mt. Sumanik and / or Ferry Hill. Instead Yukon Energy has spent ten times as much money on each of a number of other studies and assessments that it now wishes to put into rate base with no firm future projects and some (like Atlin Lake storage) with no hope of a project whatsoever. As hinted at by YCS during cross examination, if Yukon Energy does not want to be bothered by the challenges of operating wind energy facilities but would like to take advantage of this cost effective winter energy supply, they should get out of the way and let the private sector develop and operate it. That way neither Yukon Energy nor the ratepayers will be on the hook for non-performance.

<u>City of Whitehorse</u>

Leading Edge wishes to express particular agreement with the final argument of the City in the following three matters.

6. Page 4 "Capital Additions"

Leading Edge agrees with and supports the arguments put forward by the City with respect to "Opening Plant Balances" put forward by the City in paragraphs 11 through 13 on pages 4 and 5 of its final argument.

7. Page 9 "Depreciation, Amortizations and Deferral Accounts"

Leading Edge agrees and supports the City in its arguments in paragraphs 23 to 29 on pages 9 to 12. The City proposes a Hearing Cost Reserve Account so that only actual approved regulatory costs are recovered and that no hearing costs are imbedded into rates to be recovered during non-test years to the benefit of the utility.

Leading Edge also supports the City in final argument at paragraph 36 on page 15 in which it argues that there should be a deductible applied to the costs applied to the RIFD. See also Leading Edge's comments on UCG final argument 12 below.

Leading Edge disagrees or has concerns about the following two matters raised by the City in final argument.

8. Page 8 "DSM Administration Expense"

In paragraphs 20 to 22 on pages 8 to 9 the City argues that the DSM administration expense of $49,000 in each of 2012 and 2013 should be disallowed. Leading Edge strongly disagrees with this position. DSM (and supply side efficiencies) is a vitally important initiative that should have been implemented some years ago. The disallowance of these costs would be a strong negative signal to the utilities and would further discourage much needed progress on this front. Furthermore, it is very important for all costs attributable to DSM be tracked so that the costs and benefits of DSM will be clearly apparent.

9. Page 19 "Forecast Cost of Debt"

In paragraphs 47 to 49 on pages 19 to 20 the City discusses its proposed approach to setting Yukon Energy's cost of debt. Leading Edge has a concern with this approach. A formulaic approach to setting the cost of debt from YDC would be appropriate if YDC was supplying this debt from its internal cash resources; however, YDC has had to borrow money at 5%. If this is the money that YDC is now loaning to Yukon Energy the actual cost of that debt should be used as YEC's debt cost. YDC should not be using Yukon Energy dividends for short term subsidization of consumer rates (by charging Yukon Energy less interest than it pays.

Utilities Consumers' Group

10. Page 7 "Recovery of Revenue Requirement"

In paragraphs 31 to 52 UCG argues that Yukon Energy must have been working under Yukon government direction with respect to how the GRA was made to be OIC 2012/68 compliant. Leading Edge agrees that the Yukon government and Yukon Energy must have been working together for some time on this matter.

Further Leading Edge agrees with UCG arguments that the GRA could have been prepared and submitted sooner. Yukon Energy argued that its budgets for 2012 would have been prepared in late 2012 and approved in early 2013 by Yukon Energy's Board of Directors. However, clearly the budget for 2013 could not have been prepared and approved at that same time, and 2013 is a test year, so there is no reason why Yukon Energy could not have prepared a 2012 – 2013 GRA based on 2011 budgets with projections for 2012 and 2013.

In this particular situation Yukon Energy had three large capital projects underway in 2011 and scheduled for completion in that year (Mayo B, CSTP Phase 2, and Aishihik third turbine). So it would make sense to know the 2011 year-end status of these projects before completing a GRA. Yukon Energy's choices are understandable but aside from the consideration of these large projects, Yukon Energy could have prepared a 2012-2013 GRA in advance of 2012. However, we are now approaching year end 2012 and we are effectively setting rates retrospectively for one of the two test years.

11. Page 16 "Rate Base Treatment of Failed Capital Project Expenses"

In paragraphs 83 to 91 on pages 16 to 18 of their final argument UCG argues that study costs or failed project costs should not be put into rate base where Yukon Energy earns a return on equity on them. UCG argues that these costs should be assigned an interest rate and amortized over the proposed period of time.

Leading Edge is of the view that if the Board is not persuaded of Leading Edge's views that some of the study costs should be disallowed and some kept as work in progress is appropriate, the UCG suggested approach would be a reasonable alternative. This would minimize rate shock to ratepayers and also discourage Yukon Energy from spending money on poorly justified studies.

12. Page 36 "Reserve for Injuries and Damages"

In paragraphs 203 to 210 on pages 36 to 38 UCG questions what are reasonable costs / matters to be included in the RIFD. Leading Edge agrees that the Board should take a hard look at the figures and determine what is reasonable to be included in this reserve and what should be excluded. UCG's arguments are also reflected in the City's final argument (see 7 above).

Respectfully submitted,

John Maissan
Leading Edge Projects
December 12, 2012