ATCO Electric
YUKON

October 29, 2014

Yukon Utilities Board
Box 31728
Whitehorse, YT Y1A 6L3

Attention: Mr. Bruce McLennan
Board Chair

Dear Sir:

Re: Application to Revise the Diesel Contingency Fund (DCF) and Related Amendments to the Energy Reconciliation Adjustment (ERA)

Pursuant to Board Order 2014-08, please find attached ATCO Electric Yukon's Written Argument in the above noted application.

Should you have any questions, please contact the undersigned at (780) 733-2489.

Yours truly,

Original Signed By:

James Grattan, CA
Director, Regulatory

/llk
Encl.

YUKON UTILITIES BOARD

IN THE MATTER OF an Application to Revise the Diesel Contingency Fund & Related Amendments to the Energy Reconciliation Adjustment

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FINAL ARGUMENT OF ATCO ELECTRIC YUKON

A. INTRODUCTION

1. By submission dated January 31, 2014, The Yukon Electrical Company Limited operating as ATCO Electric Yukon ("ATCO Electric Yukon")[1] submitted to the Yukon Utilities Board (the "Board") its proposals concerning the Diesel Contingency Fund ("DCF") and the Energy Reconciliation Account ("ERA"). In this submission, ATCO Electric Yukon presented the following:

(i) An overview of the history of the DCF and the ERA mechanisms, including why the circumstances under which they were created are very different from circumstances today;

(ii) Concerns regarding the appropriateness of the DCF and ERA mechanisms in today's circumstances;

(iii) Concerns that the DCF and ERA mechanisms are based on unclear and flawed premises, including being overly complicated, being based on an untested model ("YECSIM"), imposing a sales margin growth deferral on ATCO Electric Yukon, causing charges to flow through the ERA that would otherwise have been recovered from customers via Yukon Energy's ("YEC"'s) shortfall recovery Rider J if YEC's wholesale sales forecast was equal to actual wholesale sales, and attributing specific diesel costs to specific customers (which YEC itself has recognized is fraught with serious issues of principle);

[1] ATCO Electric Yukon notes that by its April 4, 2014 filing of a Declaration of Use form with the Yukon Community Services' Corporate Affairs group pursuant to subsection 87(1) of the Partnership and Business Names Act, R.S.Y. 2002, c. 166, it is legally permitted to carry on business as ATCO Electric Yukon. For the purposes of this proceeding, the company has referred to itself in all submissions filed before April 4, 2014 as Yukon Electrical and all submissions subsequent to April 4, 2014 as ATCO Electric Yukon. For the purposes of this Argument, the company will refer to itself as ATCO Electric Yukon in all regards.

(iv) Concerns that the mechanisms as proposed by YEC will result in significant regulatory inefficiency and are contrary to well-accepted regulatory principles;

(v) Concerns that YEC's proposal does not address the Board's concerns, as stated in Board Order 2013-01, about masked market signals and intergenerational inequity that result from the DCF;

(vi) A proposal for a new YEC diesel deferral to address diesel volume variances, which addresses many of ATCO Electric Yukon's stated concerns about the mechanisms; and

(vii) A request for a Board-mediated dispute resolution process to address the unresolved issues regarding the DCF and ERA mechanisms.

2. Out of practical necessity, ATCO Electric Yukon does not propose to address all matters related to its own submissions and YEC's submissions regarding the DCF and ERA and will not be able to comment on every single issue that could potentially arise from the record that has been established. As such, ATCO Electric Yukon will limit its comments to matters it believes are of the greatest significance to the various stakeholders in the DCF and ERA, including the Board, customers, and the two utilities, in order to be of greatest assistance to the Board in rendering a decision. The failure of ATCO Electric Yukon to address any specific matter should not be interpreted as concurrence with the positions of YEC or interveners and ATCO Electric Yukon expressly reserves its right to address all matters in reply argument if the need arises.

3. ATCO Electric Yukon continues to have significant concerns with the mechanisms proposed by YEC (both Option A and Option B) in its January 31, 2014 submission, but has been unable during this process to get YEC to seriously consider alternative mechanisms or to test the mechanisms that are proposed. Both of these options should be rejected by the Board. ATCO Electric Yukon continues to recommend that the issue of diesel volume variances should be handled through a YEC deferral account that is trued up to actuals. ATCO Electric Yukon submits this approach would be fair and reasonable to customers and the utilities, would be easily understandable and testable, would minimize regulatory inefficiency and administration costs, and would balance the objectives of rate stability, sending appropriate price signals to customers, and avoiding intergenerational inequity.

B. PROCESS

4. By application dated April 27, 2012, YEC filed with the Board its General Rate Application ("GRA") for the 2012-2013 test years. As part of this application, YEC requested changes to and the reactivation of the DCF as of January 1, 2012 and related rate adjustments to Rate Schedule 42 (the ERA). ATCO Electric Yukon intervened in this proceeding on several topics of greatest concern to ATCO Electric Yukon and its customers, including issues related to the DCF and the ERA. In this proceeding, ATCO Electric Yukon recommended that YEC prepare and file a deferral account application to address increased diesel costs to be administered by YEC and dispensed amongst all customers by YEC.[2]

5. In Board Order 2013-01 regarding YEC's 2012-2013 GRA, the Board rejected YEC's proposed DCF mechanism and expressed concerns that the DCF as it had been designed and activated in the past caused concerns regarding masked market signs and intergenerational inequity.[3] The Board directed the two utilities to work together to provide a joint recommendation on the DCF and ERA.[4] The Board also observed in Board Order 2013-01 that the DCF has never been fully tested.[5]

6. ATCO Electric Yukon interpreted the directives from the Board in Board Order 2013-01 to be instructions to the utilities to jointly complete a comprehensive examination of the DCF and ERA mechanisms as designed in the 1990s to determine if they remain appropriate and make sense today, in the existing circumstances; and to work together to develop an appropriate solution, whether it be minor changes to the existing mechanisms or the creation of new solutions, to address both the Board's and ATCO Electric Yukon's concerns with the mechanisms as applied for in YEC's 2012-2013 GRA proceeding. ATCO Electric Yukon also interpreted the Board's comments that the DCF had never been fully tested to mean that the Board was looking to ATCO Electric Yukon and other interveners, as part of the DCF-ERA proceeding, to take the opportunity to thoroughly understand and test the DCF mechanism.

7. Based on YEC's submissions in this proceeding, however, it appears that YEC's approach to responding to the Board's instructions in Board Order 2013-01 was very different from that of ATCO Electric Yukon's. YEC appears to be of the belief that the DCF mechanism

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2 YEC 2012-2013 GRA, Final Argument of Yukon Electrical, paragraph 21
3 Board Order 2013-01, paragraphs 253 and 254
4 Board Order 2013-01, paragraph 255
5 Board Order 2013-01, paragraph 249

was already approved by the Board and the only changes allowed to be made to the DCF were those outlined in Board Order 2013-01:

- Include diesel generation costs at 100% of LTA hydro generation;
- Remove secondary sales;
- Incorporate non-diesel generation facilities (wind, Fish Lake hydro) forecasts;
- Incorporate suggestions from interveners as to how DCF transactions are to be reported in annual filings; and
- Provide five years of transactions that indicate how the balance in the DCF will change and how those changes will be reported. [6]

This conclusion regarding YEC's interpretation of the Board's Order is based on YEC's January 31, 2014 and June 30, 2014 submissions, which do not address any of ATCO Electric Yukon's or the Board's concerns about the DCF and ERA mechanisms, but instead defend the mechanisms that YEC has previously proposed and why YEC believes it is constrained in changing them.

8. As a result of this fundamental difference in opinion of the mandate of the joint utility discussions, the utilities were unable to make any progress toward developing a joint solution to present to the Board. ATCO Electric Yukon's focus in the discussions was on developing a solution for the Board and customers that was simple, transparent, easily testable, fair to all stakeholders, and addressed the Board's concerns regarding masked market signals and intergenerational inequity. YEC's focus was, and continues to be, based on defending what it had already proposed. As a result, YEC has been unwillingly to seriously consider any alternatives or changes to the DCF or to address any of ATCO Electric Yukon's or the Board's concerns about its proposed mechanisms.

9. The Board-mandated discussions between the utilities, which took place between the issuance of Board Order 2013-01 on March 25, 2013 and the separate submissions that were made on January 31, 2014, did not produce any helpful discourse or new solutions for a fair and reasonable mechanism for dealing with fluctuations in diesel volume variances in the Yukon. In fact, the results of the various discussions left ATCO Electric Yukon with even more concerns

[6] Board Order 2013-01, paragraph 255

regarding the ERA, as during YEC's 2012-2013 GRA YEC had stated that ATCO Electric Yukon would be entitled to recover all ERA charges under Rider D, which would apply to all Yukon customers.[7] YEC is now proposing an update to the ERA mechanism that nets any "incremental revenues" for ATCO Electric Yukon (based on YEC's as opposed to ATCO Electric Yukon's test year forecast of wholesale purchases that is used in developing ATCO Electric Yukon's approved rates) against ERA charges. Changes such as this were unhelpful in moving towards common ground and jointly supported solutions that were fair and reasonable to all parties.

10. As well, as discussed further below, the YECSIM model which drives YEC's DCF calculation was not available for testing as part of this proceeding, as YEC has deemed it proprietary.[8] As a result, ATCO Electric Yukon was unable to fully test the DCF mechanism, as it believes the Board had ordered in Board Order 2013-01.

11. In summary, and as outlined in further detail below, ATCO Electric Yukon respectfully submits that none of the concerns raised by ATCO Electric Yukon or the Board regarding the DCF or ERA have been addressed by YEC during this process. As a result, ATCO Electric Yukon's argument to follow reiterates its concerns with both the DCF and the ERA and supports the rejection of YEC's proposals herein in their entirety

C. HISTORICAL DCF AND ERA

12. ATCO Electric Yukon has outlined several reasons in various submissions in this proceeding as to why the DCF and ERA mechanisms, as designed in the 1990s, are no longer reasonable or appropriate in the Yukon today. YEC, however, continues to argue that both mechanisms are relevant today and need to be reactivated,[9] albeit in modified ways. Therefore, ATCO Electric Yukon will summarize the significant changes that have occurred since the DCF and ERA mechanisms were last activated, and why they render the mechanisms as originally designed no longer reasonable or appropriate.

a. Significant change in grid size and complexity

13. In the first half of the 1990s, when the DCF was originally designed, the Yukon grid was much less complex than it is today. The difference between the load experienced during "on the margin" and "off the margin" conditions was very clear as it was affected by a single industrial

[7] Letter from YEC dated November 1, 2012, Exhibit B-15 in YEC 2012-2013 GRA proceeding; YEC 2012-2013 GRA transcript at p. 127, line 19 to p. 128, line 9.
[8] AEY-YEC-1-5(d)
[9] YEC January 31, 2014 submission, page 2

customer (the Faro mine). Diesel "on the margin" was an easy concept to understand; namely, the Faro mine was on or off.[10]

14. The Yukon Integrated System ("YIS") is significantly more complicated today due to the increased size of the grid (e.g. the Mayo-Dawson transmission line, the Carmacks-Stewart transmission line), the inclusion of hydro and diesel generation in Mayo, the addition of diesel generation in Dawson City, and the location and quantum of industrial load (e.g. Minto and Alexco). YEC appears to concur with this observation when it states that "today's conditions make consideration of a monthly or even annual diesel generation level trigger measure far more problematic than when the Faro mine connection created the simple test for "diesel on the margin" conditions and a monthly trigger was reserved as a test only when the Faro mine was not operating."[11] The various factors that have increased the complexity of the YIS also impact decisions on dispatch which, in turn, impact forecast and actual line losses which, likewise, impact when diesel is or is not "on the margin."[12] In this environment, understanding, never mind testing and relying upon a model that purports to be able to fully isolate the impact of water flows on diesel generation at different load levels at different locations appears to be very problematic.

15. Continuing to rely on DCF and ERA mechanisms that were designed for a much less complicated grid by simply determining that diesel is now always "on the margin," as YEC is proposing to do, is not appropriate.

b. Change in management structure of the two utilities

16. When the DCF and ERA mechanisms were initially designed, agreements were in place for YEC to be managed by ATCO Electric Yukon (then known as Yukon Electrical) and for both utilities to operate in a manner indistinguishable by customers from a vertically integrated utility. In order to achieve this, the GRAs of both utilities were submitted jointly for identical test periods. For all intents and purposes, YEC and ATCO Electric Yukon were operated as a single integrated utility.[13]

17. Effective January 1, 1998, YEC moved to direct management. Since then, YEC and ATCO Electric Yukon have prepared their own sales, wholesale and purchased power forecasts

[10] YUB-YECL-4, Attachment 1, page 6 of 7
[11] YUB-YECL-4, Attachment 1, page 6 of 7
[12] YUB-YEC-1-1, page 9 of 12
[13] YEC-YECL-4 Attachment 1, page 5 of 7

and filed them as part of separate GRAs, which have included common as well as not common test periods. The ERA as designed in the 1990s allowed for the sharing of forecast risk between the two companies, which was appropriate because the companies were under joint management and shared common forecasts and test periods. As this is no longer the case, the sharing of YEC's forecast risk through an ERA mechanism is no longer appropriate.[14]

18. As the two utilities are no longer managed as an integrated utility, they now have separate unsynchronized GRA forecast processes and rate setting time frames.[15] It is important to note that requiring the utilities to consult each other regarding load forecasts prior to filing GRAs does not mitigate ATCO Electric Yukon's concerns about the reactivation of mechanisms designed for a very different structure and environment as is proposed by YEC. Preparing a thorough, GRA-quality forecast is a resource-intensive process, so requiring each utility to consult on forecasts for the other on an "as required" basis would result in inefficiencies (which would impose additional costs on customers) and would lead to many other issues, as stated by ATCO Electric Yukon during this proceeding.[16]

c. Significant change in cost structure

19. In the 1990s, when the DCF and ERA were last activated, the run-out rate (the additional cost to YEC to generate an additional kWh when diesel was "on the margin") was approximately 10.45 cents/kWh.[17] At the same time, ATCO Electric Yukon's incremental revenue for each kWh sold was slightly higher than the run-out rate.[18] This meant that, for the period the ERA mechanism was being used in the 1990s, the added expense from the ERA charge was fully mitigated by increased sales.

20. Since the ERA was last activated, the cost of diesel has risen significantly – from $0.29/L in Table 3.2 of the 1996/1997 GRA to a range from $1.05/L to $1.17/L in Tab 2 of YEC's 2012/2013 GRA.[19] However, there has not been a corresponding increase in ATCO Electric Yukon's incremental sales revenue per kWh sold.[20] This further demonstrates that the ERA as originally designed is no longer fair or reasonable as ATCO Electric Yukon's incremental sales revenue is lower than the proposed potential ERA charges.

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14 YEC-YECL-4 Attachment 1, page 6 of 7
15 *Ibid.*
16 YUB-YECL-1(c)
17 YUB-YECL-21(f)
18 YEC-YECL-5(b)
19 ATCO Electric Yukon January 31, 2014 submission, page 3
20 Per Schedule 2.1 of the Compliance Filing for the Yukon Electrical 2013-2015 GRA, ATCO Electric Yukon's average sales revenue is 15.37 cents/kWh.

21. It is also worth noting that, since turning the ERA off in the 1990s, there have been no ERA charges. As a result, incremental margin derived from increased non-test year retail sales has been available to ATCO Electric Yukon to offset inflationary and system growth costs, which has benefitted customers by reducing costly GRA proceedings.[21]

D. CONCERNS WITH THE DCF

22. As discussed previously, ATCO Electric Yukon interpreted the Board's instructions in Board Order 2013-01 to be a direction to fully test the DCF mechanism in this proceeding, and ATCO Electric Yukon has attempted to do so. However, as outlined previously, YEC seems to have interpreted the Board's instructions differently and was not willing to consider alternatives to the DCF or to provide all of the information required to test the mechanism. As a result, ATCO Electric Yukon does not believe that the DCF mechanism has been fully tested, and reiterates its significant concerns with the mechanism.

a. Complexity

23. YEC makes the assertion that ATCO Electric Yukon's comments regarding the DCF demonstrate a fundamental misunderstanding of the purpose and mechanisms behind the DCF proposal.[22] While ATCO Electric Yukon respectfully disagrees with this comment and believes it does wholly understand the mechanisms as proposed (though it does not agree with them), YEC's supposition points to a fundamental flaw in its proposed mechanism; namely, if the other utility in the Yukon has difficulty fully understanding the DCF, how can it be reasonable for the Board or interveners to understand the mechanism? This supposition points to the excessive and unnecessary complexity that is incorporated into the proposed mechanism.

24. The Utilities Consumers' Group (the "UCG"), in its evidence filed on September 3, 2014, provided a summary of how the Northwest Territories ("NWT") handles diesel volume variances.[23] ATCO Electric Yukon concurs with YEC's assertion that the NWT's Snare-Yellowknife grid is relevant to the current DCF proceeding.[24] As noted in the UCG's evidence, however, the calculation of the amount to be credited to the rate stabilization fund for the Snare-Yellowknife grid is far less complex than that proposed by YEC – simply, an amount of fuel costs for diesel generation is built into the base rates of the Northwest Territories Power Corporation ("NTPC"), and any amount of actual fuel costs for diesel generation (based on

[21] YUB-YECL-10(b)
[22] YEC June 30, 2014 submission, Attachment 2, page 2-2
[23] Evidence of the UCG, September 3, 2014, pages 1-4
[24] YEC Rebuttal Evidence, October 15, 2014, page 4

NTPC's approved plant efficiencies) which are greater or less than this level are charged or credited to the fund.[25] This mechanism is simple, easily understandable, and easily testable, unlike the DCF.

25. ATCO Electric Yukon is unable to see any beneficial reason for the complexity of the DCF mechanism proposed by YEC. Customers, who pay for YEC to recover its prudently incurred costs, including the third party costs for developing and updating the complex YECSIM model (further addressed below), certainly do not benefit by having a complex, difficult to understand and virtually untestable mechanism. Nor does YEC benefit, as it is ATCO Electric Yukon's respectful submission that YEC could be held whole for prudent diesel costs incurred through the use of a much less complex model that would be simpler and more cost effective to administer, such as the mechanism proposed by ATCO Electric Yukon in its January 31, 2014 submission or a mechanism similar to the NWT stabilization fund.

b. Does not true up to actuals

26. The concept of a deferral mechanism, such as a rate stabilization fund like the DCF, is to ensure that customers are neither overpaying nor underpaying for a cost (such as diesel volumes) where it is not possible for the utility to reasonably forecast the cost. In such a case, it is customary for purposes of regulatory efficiency not to waste time and resources on complex models attempting to forecast such an item – it is much simpler and more efficient to true up the forecast to the actual cost and to test the actual cost as part of an application to the Board.

27. YEC's proposed DCF mechanism, however, is contrary to these basic principles of a deferral account. It utilizes the overly complex, opaque, untestable YECSIM model to not only forecast diesel volumes for the purposes of setting YEC's rates, but it is also uses the YECSIM model to calculate the "expected actual" diesel volume amount, which the forecast is trued up to, for the purposes of determining the amount to credit to the DCF. [26]

28. ATCO Electric Yukon believes that using a complex and untestable model to attempt to forecast an item that is inherently very difficult to forecast, being diesel volumes, and then using the same model to calculate the amount to which the forecast is trued up, goes against basic principles of deferral accounts and causes unnecessary complexity. This approach also yields unreliable results. It would be much simpler and more transparent to true up the forecast diesel amount included in base rates to the actual amount of diesel burned, as is done in the NWT.

[25] NWTPUB Decision 1-2013, page 91
[26] AEY-YEC-1-5-(a)

This is how deferral accounts work in other jurisdictions, including Alberta. As well, ATCO Electric Yukon believes that intervener resources would be better utilized during YEC GRA proceedings on testing YEC on whether or not YEC has made prudent use of the water available to it to burn the lowest amount of actual diesel possible, not on attempting to test an overly complex deferral mechanism and the associated model results.

c. YECSIM Model

29. In addition to ATCO Electric Yukon's concerns with YEC's proposed mechanism regarding its complexity, ATCO Electric Yukon is also concerned about YEC's dependence on YECSIM. For the reasons outlined below, YEC's evidence on the record in this proceeding casts doubt on YEC's need for YECSIM for planning, and certainly does not justify the use of YECSIM for billing ERA charges to ATCO Electric Yukon.

YECSIM cannot be tested or independently verified

30. ATCO Electric Yukon notes the model cannot be tested or independently verified because it is "proprietary"[27] and "is not structured in a way that lends itself to retrospective verification per se."[28] Simply put, insufficient information has been provided to facilitate the testing of this model.

YECSIM cannot be proven to produce accurate results

31. When the Board requested YEC to "rerun the YECSIM model using actual grid load and actual hydro availability and provide results for forecast diesel generation requirements,"[29] YEC could not (or would not) address this request. Instead, YEC responded to the request by asserting that ATCO Electric Yukon does not understand the complex YEC proposal. Regardless of whether ATCO Electric Yukon, interveners or the Board fully understand YEC's proposals, it does not in any way preclude the need for YECSIM to produce accurate results, given actual system conditions. ATCO Electric Yukon can only presume that the Board's request was not responded to because the model does not produce accurate results.

Diesel consumption is affected by more than water and wind availability

32. When asked by the Board if YEC's "difference in cost between forecast diesel and actual diesel generation in a test year reflects only the variance in water availability", YEC responded

[27] AEY-YEC-1-5(d)
[28] YUB-YEC-1-3(c), YUB-YEC-1-9(a)
[29] YUB-YEC-1-4(b)

that “past and proposed DCF determinations in a test year when diesel is on the margin reflect only the diesel generation variance due to hydro and wind generation variance from long-term average (LTA) water and wind availability.”[30] This statement does not appear to be consistent with the evidence in this proceeding where YEC demonstrates that the DCF and ERA calculations vary with:

- YEC system losses

  YEC demonstrates that varying YEC’s system loss percentage from 8.8% to 12% changes YEC’s calculated DCF refund from $3.7 million to $5.5 million and the ERA charge from $439k to $643k, proving that YEC’s system losses also affect the DCF and ERA calculations. YEC states that system losses are impacted by the following variables: (1) distance from generation to use; (2) location of generation; (3) age and size of line; and (4) reporting.[31]

- Load profile

  YEC’s proposed DCF calculation and ERA invoice in 2013 were derived from the 2012 configuration of YECSIM which excluded YEC’s Whitehorse Copper Tailings (“WHCT”) forecast,[32] which resulted in a dramatic increase to the incremental diesel rate. Not only did YEC incorrectly forecast WHCT as a YEC customer in its GRA, it also incorrectly forecast WHCT’s load profile, and now proposes to invoice ATCO Electric Yukon and adjust the DCF based on its own mistaken forecast.

  In the same response, YEC goes on to state that it expects to modify YECSIM “when there is a material change in load shape over the year”. YEC has not proposed any rules for changing YECSIM forecasts, including what is material or what is not material. This makes its use for regulatory forecasts or for settlement with any party all that more questionable.

  Finally, YEC demonstrated the ERA invoice to ATCO Electric Yukon varies with YEC’s industrial forecast variance. If YEC has a positive industrial sales variance, the ERA charges to ATCO Electric Yukon increase, whereas if YEC has a negative industrial

[30] YUB-YEC-1-7(a)
[31] AEY-YEC-1-3(a&d)
[32] YUB-YEC-1-26(b)

sales variance, the ERA charges to ATCO Electric Yukon decrease.[33] These outcomes clearly show there are fundamental logic issues with YEC's proposals.

33. YEC explains that YECSIM is a "composite of many sub-models,"[34] its calculations are based on "general rules of physics", and it relies on almost thirty variables[35] (many of which would have multiple values for each different hydro plant). Detailed variance analysis would be required on each variable used by the YECSIM model and its sub-models to begin to accurately parse out the causes for any diesel variance. (However, even this analysis would still rely on the assumption that YECSIM incorporates all variables that could influence the diesel-hydro generation mix and that the model contains no errors.)

34. Such detailed analysis is not possible because YEC has not provided the model. Further, even if the model was provided, there would be numerous challenges to thoroughly testing the YECSIM model during YEC's Phase I Application because there are likely infinite permutations and combinations of the variables used and many assumptions embedded into the model. These concerns obviously impact the validity and reliability of any results generated.

Conclusions about YECSIM

35. ATCO Electric Yukon acknowledges that forecasting diesel might require a complex planning model such as YECSIM, but it is clear that the DCF and ERA calculations are affected by more than strictly water and wind availability. By YEC's own calculations, these amounts are directly affected by YEC's operation of the system (system losses) and the assumptions for the variables incorporated in the YECSIM model (load profile).

36. YEC has not provided any quantitative evidence to demonstrate YECSIM is competent or reasonable for planning diesel usage, therefore ATCO Electric Yukon submits that there is no basis upon which it, the Board or interveners can have confidence in using YECSIM as a billing model.

37. In fact, YEC's evidence on the record serves to magnify the complexity of forecasting the diesel-hydro generation mix, suggesting an even greater need for YEC's diesel volumes to be trued up to actuals, as proposed by ATCO Electric Yukon.

[33] AEY-YEC-1-4(a(ii,iii,iv))
[34] YUB-YEC-1-3(c)
[35] AEY-YEC-1-5(d)

38. By trueing-up diesel volumes to actuals through a deferral, several regulatory concerns would be addressed:

a. Transparency – it is straightforward to compare actual diesel (based on approved plant efficiencies)[36] to allowed diesel embedded in rates; therefore, the deferral can be tested;

b. Fairness – diesel costs (and savings) are appropriately attributed to customers;

c. Disagreements over forecasts become irrelevant – by crediting or debiting the diesel variance to a deferral account, if the forecast for debiting or crediting diesel is not accurate, shortfalls or surpluses would remain within the account and thus be trued up when the account is next disbursed; and

d. Dependence on YECSIM would be reduced – if diesel volumes are trued up to actuals through a deferral, the accuracy of YECSIM becomes less consequential and even a straightforward regression forecast for diesel might suffice. YECSIM is a very complicated model that requires very specific expertise to understand and operate, potentially at considerable expense. ATCO Electric Yukon submits this model isn't necessarily to the benefit of customers and YEC's continued reliance on this model should be questioned considering the Board, interveners, and customers have no ability to test or verify the forecasts or the derived actuals it produces.

d. Masked Price Signals and Intergenerational Inequity

39. No changes to the DCF mechanism have been proposed by YEC to address the concerns expressed by the Board in Board Order 2013-01 regarding masked market signs and intergenerational inequity.[37] No attempt has been made by YEC to address the fact that, under the current structure, customers have no motivation to conserve energy in years of lower than average water.

40. YEC makes the statement that ATCO Electric Yukon's proposal would "shift to customers the full instability of rates related to annual variances in water flows."[38] This is simply not true. Rather, ATCO Electric Yukon believes that a balance between sending appropriate

[36] AEY-YEC-1-5(d)
[37] Board Order 2013-01, paragraphs 253 and 254
[38] YEC June 30, 2014 Supplementary Filing, page 4

price signals, intergenerational inequity, and rate stability needs to be struck in the design of the DCF and that such concerns would be fully addressed if:

> i. actual diesel costs were trued up to actual diesel revenues (recovered in YEC's base rates); and
>
> ii. shortfalls or surpluses are addressed on a timely basis.[39]

41. ATCO Electric Yukon has proposed a threshold approximately equal to 5% of YEC's revenue requirement (which is approximately equal to +/-$2 million), as opposed to the +/-$8 million threshold proposed by YEC.[40] But regardless of the threshold amount set for collection or disbursement of the balance for either YEC's proposed DCF mechanism or the simple diesel volume variance deferral mechanism proposed by ATCO Electric Yukon, avoiding rate shock is still an obtainable objective. Neither proposal precludes the disbursement or collection of the prescribed balance over either a shorter or longer time period, which can be assessed and presented to the Board for approval based on the circumstances at the time with consideration to any other rate changes that are occurring at that time.

E. CONCERNS WITH THE ERA

42. As previously mentioned, none of ATCO Electric Yukon's concerns with the ERA mechanism and its inefficiency and inappropriateness in today's environment were addressed by YEC in the joint utility discussion or in YEC's submissions in this proceeding. In fact, the only changes made to the ERA by YEC in this proceeding did not bring the utilities closer to agreement, but moved them further apart. During YEC's 2012-2013 GRA, YEC stated that ATCO Electric Yukon would be entitled to recover all ERA charges under Rider D, which would apply to all Yukon customers.[41] YEC, in its January 31, 2014 submission, has now created a new calculation whereby "sales margin growth" for ATCO Electric Yukon, as calculated by YEC (not ATCO Electric Yukon) based on YEC's own wholesale sales forecasts, is netted against the ERA charge.

43. As a result of the above, none of ATCO Electric Yukon's concerns with the ERA mechanism have been addressed by YEC in this proceeding and ATCO Electric Yukon will reiterate those concerns below.

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[39] YUB-YECL-5(d)
[40] *Ibid.*
[41] Letter from YEC dated November 1, 2012, Exhibit B-15 in YEC 2012-2013 GRA proceeding; YEC 2012-2013 GRA transcript at p. 127, line 19 to p. 128, line 9.

a. ATCO Electric will be subject to forecast risk based on YEC's forecast

44. Currently, ATCO Electric Yukon has forecast risk on its own sales and purchase power volumes based on its own forecasts as approved by the Board in its own GRA proceedings. YEC's proposal calculates ATCO Electric Yukon's "sales margin growth" based on YEC's own approved wholesale sales forecast, which is not ATCO Electric Yukon's approved forecast and which causes ATCO Electric Yukon to assume risk for YEC's forecasts. This is entirely inappropriate, as ATCO Electric Yukon has no way to manage or mitigate this risk.

45. This passing on of risk from YEC to ATCO Electric Yukon is clearly illustrated in the example showing that, if YEC's forecast of wholesale sales to ATCO Electric Yukon were equal to actual wholesale sales to ATCO Electric Yukon, the total costs of generation including diesel costs would be passed on to customers through YEC's rate riders.[42] Therefore, it follows that such costs, if charged through the ERA mechanism, should be flowed through to customers. If ATCO Electric Yukon cannot pass these costs onto customers, ATCO Electric Yukon is being asked to assume risk associated with YEC's forecasts and diesel costs, neither of which ATCO Electric Yukon can control.

b. Does not give ATCO Electric Yukon an opportunity to recover prudently incurred costs

46. Consistent with applicable legislation and cash law, it is a well-established regulatory principle that utilities are entitled to recover their prudently incurred costs.[43] Any ERA charges flowed through from YEC could not be verified to be accurate and reasonable by ATCO Electric Yukon, beyond a basic check of the calculations, as the ERA is based on a model that YEC has deemed to be proprietary and that YEC has not allowed to be fully tested. Under YEC's proposal, ATCO Electric Yukon would also be unable to reject any ERA charges. Therefore, any ERA charges from YEC would be incremental changes to the purchase power rate that are entirely beyond ATCO Electric Yukon's control and which should appropriately be passed on to customers. However, YEC's proposal does not allow for these costs to be passed on to customers, but instead the proposed approach nets these costs against a "sales margin growth" number based on YEC's own forecasts, as previously discussed.

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[42] YUB-YECL-3

[43] Letter The Alberta Court of Appeal has ruled that the rate-setting tribunal in Alberta must "ensure that the utility has a reasonable opportunity to recover its costs, providing they are prudent": ATCO Electric Ltd. v. Alberta (Energy and Utilities Board), 2004 ABCA 215, para. 131. In Enbridge Gas Distribution Inc. v. Ontario (Energy Board), [2005] O.J. 756 (S.C.J.), at para. 8, the Ontario Superior Court of Justice held: "Essentially, a utility is entitled to recover its prudently incurred costs". The decision was reversed on appeal on other grounds; however, the Ontario Court of Appeal confirmed that the utility was entitled to recover its prudently incurred costs: [2006] O.J. No. 1355 (C.A.), at para. 11; leave to appeal ref'd [2006] S.C.C.A. No. 208. See also: Natural Resource Gas Ltd. v. Ontario (Energy Board), [2006] O.J. No. 2961 (Ont. C.A.); TransCanada PipeLines Ltd. v. Canada (National Energy Board), 2004 FCA 149, at para. 32.

47. As well, in Board Order 2009-2, the Board approved a Purchased Power Flow Through deferral to capture changes in the wholesale purchase power rate charged by YEC.[44] An ERA charge from YEC is an after-the-fact change in the wholesale rate charged by YEC, which it is again not under the control of ATCO Electric Yukon and is not reasonably forecastable. As such, it should be captured by a Board-approved deferral account and flowed through to customers. ATCO Electric Yukon notes this matter was determined to be out-of-scope during its 2013-2015 GRA pending the completion of this DCF-ERA process. As such, it remains a matter to be addressed by the Board either as part of this proceeding or thereafter.

48. The impact of not allowing ATCO Electric Yukon to recover prudently incurred ERA charges flowed through from YEC from customers is that ATCO Electric Yukon would have no opportunity to earn a fair return, as is required by subsection 32(2) of the Public Utilities Act and subsection 2(1) of OIC 1995/90. ATCO Electric Yukon demonstrates this in response to UCG-YECL-14, which shows that if even if ATCO Electric Yukon's actual sales, other revenue, and expenses were to be exactly equal to the 2015 forecast approved by the Board as part of ATCO Electric Yukon's 2013-2015 GRA, ATCO Electric Yukon would not earn its awarded return on equity if any ERA charge was received for that year.

c. Regulatory inefficiency

49. In addition to the other concerns with the ERA addressed above, in non-test years, YEC's calculation remains fixed at the last YEC GRA approved forecast, which means that ATCO Electric Yukon can have little or no "sales margin growth" beyond the last approved YEC forecast against which to offset increased costs in order to avoid filing a GRA (as has happened in 1998-2007 and 2010-2012). YEC's ERA calculation does not consider any of ATCO Electric Yukon's incremental costs incurred when non-test year sales are higher than the last approved sales forecast. In other words, YEC's proposals do not allow for sales margin growth to offset ATCO Electric Yukon's other costs that increase year-over-year due to inflation, required additional infrastructure (rate base) or other factors that accompany load growth.

50. If the ERA mechanism as proposed by YEC were to be approved, ATCO Electric Yukon's ability to avoid costly GRAs would be limited; it would have to take the steps necessary to recover its prudently incurred costs. In the past, ATCO Electric Yukon has been incented to offset increased costs in non-test years via seeking out efficiencies and recognizing increased

[44] Board Order 2009-2, page 16

sales margins due to load growth. ATCO Electric Yukon submits removing this opportunity on a go-forward basis would not be a positive or efficient result for either customers or ATCO Electric Yukon.

F. OIC 1995/90

51. The requirements of OIC 1995/90 were referenced by YEC numerous times in this proceeding. ATCO Electric Yukon would like to reiterate that its proposed alternative diesel volume deferral for YEC is entirely consistent with OIC 1995/90. This alternative allows YEC an opportunity to recover its prudently incurred costs and to earn a fair return on equity, as is required by OIC 1995/90.

G. CONCLUSION

52. The mechanisms as proposed by YEC are not in the best interest of customers for numerous reasons, including:

- Being overly complex for no beneficial reason, and the additional complexity drives third party costs in order to create and maintain complicated models (such as YECSIM) and results in more frequent rate hearings;

- Untestable, given that YEC is unwilling to provide the YECSIM model for testing; and

- Does not send appropriate price signals to encourage conservation in years of drought.

53. The most efficient regulatory model is one that incents the utilities to only file a GRA when their existing rates are not sufficient to allow to the utility to provide safe and reliable service and earn a fair return. Tying the two utilities' forecasts together, as would be necessary for YEC's proposal to make any sense, would require both utilities to file whenever one had a requirement to do so. ATCO Electric Yukon submits the increased regulatory costs associated with this approach would not be in the interest of any party. As well, with YEC's proposed ERA mechanism, ATCO Electric Yukon would be unable to accurately forecast its purchase power costs and would likely have to file every year, increasing costs for customers. This is a direct result of ATCO Electric Yukon having to assume the risks associated with YEC's own forecasting.

54. The mechanisms proposed by YEC are also not fair or reasonable for ATCO Electric Yukon, as they:

- Require ATCO Electric Yukon to take on risk based on factors outside of its control, including YEC's own forecasts;

- Require ATCO Electric Yukon to pay for an ERA charge driven by a model that is "proprietary" and untestable and cannot be vetted for reasonability or accuracy; and

- Do not allow ATCO Electric Yukon an opportunity to recover prudently incurred costs.

55. YEC asserts that ATCO Electric Yukon's January 31, 2014 submission seeks to eliminate the DCF and re-allocate risk between the utilities and customers.[45] That is untrue and contrary to all of ATCO Electric Yukon's submissions in this proceeding. ATCO Electric Yukon has never proposed the elimination of a rate stabilization mechanism in the Yukon for fluctuations in diesel volumes. What it has proposed is that a rate stabilization mechanism, such as the DCF, should meet the following basic and necessary principles:

- Simply, transparent, easily explainable and easily testable;

- Allow each utility to recover its prudently incurred costs;

- Based on actual data;

- Dispersed in a timely manner, so as to not mask market signals in times of a drought and to avoid intergenerational inequity; and

- The deferral account balance thresholds that trigger the disposal should be set at a reasonable level so as to not cause undue rate changes or rate impacts to customers.

YEC's proposed DCF and ERA mechanisms clearly do not meet these principles.[46]

56. Regarding risk, ATCO Electric Yukon has not proposed any reallocation of risk between the utilities and customers. ATCO Electric Yukon is asking to maintain the risks it currently has – that is risk based on its own GRA approved sales and purchase power volumes. It simply is unwilling to take on risk related to YEC's own GRA wholesale purchase power costs or the wholesale purchase power rate, as they are not under ATCO Electric Yukon's control and are not forecastable by ATCO Electric Yukon. In a similar way, ATCO Electric Yukon is proposing that customers should pay for the actual diesel burned when the costs are not under the control

[45] YEC June 30, 2014 submission, page 1
[46] YUB-YECL-9(b)

of YEC and are not reasonably forecastable. This is consistent with the risk allocation of the DCF whereby customers have the risk for variances in diesel volumes.

H. RECOMMENDATION

57. ATCO Electric Yukon continues to submit that any mechanism approved to handle diesel volume variances needs to balance the needs of the various stakeholders, should be fair and reasonable for both customers and the utilities, should be easily understandable and testable, and should prevent rate shock in the short-term while sending appropriate price signals in an event such as a prolonged drought. Opaque, untestable mechanisms such as YEC's currently proposed, YECSIM-based DCF and ERA, do not achieve these objectives. A much simpler and more practical mechanism, trued up to actuals, would minimize administration and hearing costs, which is in the best interest of all stakeholders.

58. ATCO Electric Yukon respectfully submits the Board should direct YEC to develop a much simpler and more practical diesel volume deferral account, similar to that utilized in the NWT, to handle fluctuations in diesel volumes. The issues of price stability, appropriate price signals and intergenerational inequity should be balanced through the use of an appropriate threshold and time frame for collecting or disbursing the deferral balance to customers. This alternative would eliminate the necessity for the ERA.

59. However, in the event that the ERA mechanism, as proposed by YEC, were to be approved by the Board, ATCO Electric Yukon would request that the Board also approve the continuation of its Purchased Power Flow Through deferral in order to capture the change in the wholesale purchase rate resulting from ERA charges flowed through from YEC. These charges would then be flowed through to customers through Rider D, which ATCO Electric Yukon will apply for approval of in a future application.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 29th day of October, 2014.

THE YUKON ELECTRICAL COMPANY LIMITED O/A ATCO ELECTRIC YUKON

Per: _____

James Grattan, CA
Director, Regulatory