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November 13, 2014

Yukon Utilities Board
Box 31728
Whitehorse, Yukon Y1A 6L3

Attention: Mr. Bruce McLennan, Chair

Re: Yukon Energy Corporation Application to Revise the Diesel Contingency Fund and Related Amendments to the Energy Reconciliation Adjustment - UCG Reply Argument

Dear Mr. McLennan:

The Utilities Consumers' Group ("UCG") filed its Final Argument related to the above captioned application on October 29, 2014. Final arguments were also submitted by Yukon Energy Corporation ("YEC") and ATCO Electric Yukon ("AEY"). UCG hereby submits its reply argument to the submissions made by YEC and AEY.

The failure of UCG to address any specific matter raised in the arguments submitted by YEC and AEY should not be interpreted as concurrence with those arguments.

Yukon Energy Corporation

In its final argument, YEC focuses on how its proposals respect core principles underlying the Diesel Contingency Fund (DCF) and the Energy Reconciliation Adjustment (ERA) as established by past practice and consistent with practice in other jurisdictions. UCG notes that AEY's argument asks the question "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?"[1]

UCG remains concerned with YEC's argument that the key regulatory premise for the DCF is that ratepayers (and not the utility or its shareholder) are ultimately at risk for thermal generation cost impacts related to variations in water and wind availability[2]. YEC also continues to incorrectly assert that this principle is common to the limited number of hydro utility jurisdictions reviewed by YEC (NWT, Manitoba, Newfoundland). UCG submits that this "key regulatory premise" has already been called into question by the NWT Public Utilities Board in its Decision 1-2013 where the Board highlighted its concern about a rate stabilization fund mechanism which allows pass through of all diesel costs as this may not provide the appropriate incentive for the utility to maximize use of the hydro resource.

UCG submits that YEC's argument relies on an inaccurate premise and inaccurately states that "no evidence has been provided to the contrary in the current proceeding"[3]. As noted in UCG's evidence and argument, there are reasons for and examples of utility shareholders sharing the burden of risks with their ratepayers for their system operating decisions and efficiency/productivity gains they should be achieving. UCG submits that our evidence and argument clearly demonstrates how other

[1] AEY Argument, page 8
[2] YEC Final Argument, page 5
[3] YEC Final Argument, page 5

jurisdictions proceed with stabilization mechanisms that need to be regarded as "normal principles" established in Canada for hydro utilities.

UCG submits that YEC has not defined “sufficiently large caps” nor given any type of risk analysis other than claiming a severe drought would cost in the order of $20-30 million[4]. This premise is simply “alarmist” as we have never had such a catastrophe in our electrical system in the Yukon and there is no verifiable data supporting such a claim.

UCG objects to YEC submitting new evidence to the record regarding experiences in the Northwest Territories as part of its rebuttal evidence[5] and argument[6] when UCG and the Board have not had an opportunity to verify any of these claims nor test their validity through the information request process. UCG submits that this untested, unverified add-on evidence should ignored in the Board’s deliberations when coming to a decision on this application and the utilities should be reminded of the importance of a transparent regulatory process that is fair to all parties.

UCG has also given examples in final argument of how and why such large caps are not necessarily beneficial to ratepayers.

Accordingly, UCG remains committed to our argument for a smaller DCF cap of $4 - $5 million. UCG submits that this cap be made interim until such time as the two utilities file a risk analysis for public scrutiny and regulatory approval.

With respect to YEC’s argument that its application has not sought to change the fundamental purpose of the DCF fund but was driven by the need to reactivate the DCF[7], UCG submits that there is no record confirming the DCF should have ever been deactivated and left dormant through the many years and although it appears that YEC does not change the fundamental purpose of the DCF, it does mess with the metrics and mechanics of how this fund should now be managed and operated.

UCG questions YEC’s reasoning that the DCF was not designed to regularly collect and/or refund amounts to/from ratepayers through regular riders and that a larger cap provides rate stability by limiting the requirement for collections/ refunds to ratepayers[8]. UCG submits that if a lower threshold resulting in a rebate to non-industrial customers was not a proper premise, then it would not have been added as one of the terms in the DCF negotiated settlement agreement for which YEC was a signatory.

UCG submits that rate stability can be achieved by now rewarding the non-industrial firm ratepayers (who just endured two years of bill increases due to interim and GRA approved rates) with an immediate rebate in the form of a DCF refund rate rider of equal monthly amounts to all non-industrial customer classes rather than be linked to a consumption-based per kWh rate rider.

With respect to YEC’s position that annual YECSIM model determinations of "expected default diesel generation" are appropriate for the DCF, UCG repeats its argument that it is detrimental to the review efforts of the YUB and stakeholders to have YEC refuse to provide all the data, calculations and assumptions used to derive the YECSIM model by hiding behind a proprietary model claim[9]. YEC did not provide any reasons why they consider this model to be proprietary, how disclosure would harm any competitive position nor did they produce any license agreement prohibiting its disclosure. UCG

[4] YEC Final Argument, page 12
[5] YEC Rebuttal Evidence, page 5, footnote 2
[6] YEC Argument, pages 12-13, footnote 31
[7] YEC Argument, page 7
[8] YEC Argument, page 9
[9] AEY-YEC-1-5

submits that reviews of relied-upon models such as YECSIM by knowledgeable experts with experience in other jurisdictions is vital to keeping the regulatory regime transparent.

Although it appears that the YECSIM model benefits the ratepayer at this particular time[10], UCG is uncertain whether this simulator will continue to demonstrate this facet. While UCG does not have the in-house knowledge to review the inner workings of the YECSIM, it is still important for an independent review of the model to verify that it is the optimal program to be using.

UCG submits that this YECSIM review would fit with its recommendation for a pre-determined schedule to be established for reporting continuity schedules to the YUB with the Board overseeing / setting any rate adjustments after a full audit by an independent expert.

While YEC argues for an updated method to determine "Expected Thermal Generation" for actual grid loads[11], UCG is unclear why we cannot simply continue to use the model previously employed for the DCF and ERA, now using 100% LTA forecasting for water availability on the integrated grid and GRA approved diesel forecasting. UCG submits that YEC has not convincingly argued in favour of such a change. UCG submits that testing of proposed changes forecasting models should be left for a broader general rates application.

YEC argues that material diesel generation is expected to occur at current and future forecast loads on the integrated grid including adjustments needed to reflect new industrial loads[12]. UCG submits that YEC purchase power agreements and Yukon government directives which impact system operation decisions should be outside of the DCF model as these are risks that the utility should bear, not the firm non-industrial customers (i.e., more thermal power needed to accommodate new industrial load purchase agreements, such as WHCT, should be paid for within the independent contracts with any new industrial customer, and no forecast model should include expected thermal generation reflecting new industrial loads for determining this aspect of the new DCF model).

In addition, forecast grid loads used in determining the 100% LTA thermal generation for any forecast grid load must take into account the forecasted income from this increased load, including industrial customers, if they are determined to be reflected in the DCF model.

ATCO Electric Yukon

UCG agrees with AEY's recommendation 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, should prevent rate shock in the short-term while sending appropriate price signals in an event such as a prolonged drought, and a much simpler and more practical mechanism, trued up to actuals, would minimize administration and hearing costs[13].

UCG submits that AEY's recommendation that the issue of diesel volume variances should be handled through a YEC deferral account that is trued up to actuals[14] has some merit as long as the proper review mechanisms are put in place to allow for the proper disposition of such a deferral account.

[10] YEC Argument, page 3, reference to YUB-YEC-1-25
[11] YEC Argument, page 10
[12] YEC Argument, pages 8, 9
[13] AEY Argument, page 19
[14] AEY Argument, page 2

UCG submits that the AEY proposal, while more simplified, certainly is less customer-driven (i.e., has less benefits to ratepayers versus the current DCF model while having more benefits for the utilities).

UCG is concerned with AEY's admission that as a result of a 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 regarding the DCF to present to the Board[15]. AEY also argues that none of its concerns have been addressed by YEC in this proceeding[16]. UCG submits that if the utilities cannot agree on how to proceed with Board directions, then they should be going to the Board for clarification. The two utilities continuing to work against each other is a detriment to ratepayers. UCG believes that it is unrealistic to expect the Board to come to a decision on the DCF going forward when the Yukon's two utilities can't figure out what they were suppose to be discussing and proposing. If the Yukon's two utilities continue to work against each other, it will be to the detriment of ratepayers.

UCG questions why the two applications were submitted in the first place if the discussions between the utilities 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[17]. UCG submits that the Board should be more pro-active by taking benefits away from or penalizing the utilities when disjointed applications are submitted. It appears as though the utilities must be forced to cooperate with each other.

UCG is concerned with AEY's admission that the two utilities have separate unsynchronized GRA forecast processes and rate setting time frames[18]. UCG submits that, while the disconnection between the utilities has been obvious, it does not help to make the regulatory process efficient if you have the Yukon's two utilities operating with separate information. UCG submits that the utilities should be brought back in line so that ratepayers can avoid the confusion created with separate GRAs resulting in multiple changes to their bills and inflated regulatory costs.

UCG agrees with AEY's argument that YEC's DCF proposal appears to be excessively and unnecessarily complex[19] and agrees with AEY's conclusion that a complex and untestable model like the YECSIM to attempt to forecast 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[20].

As discussed above and in argument, UCG does not agree with AEY that a DCF threshold of +/- $2 million is enough[21] but UCG agrees with AEY that avoiding rate shock is still an obtainable objective.

Yours truly,

Roger Rondeau
Utilities Consumers' Group

[15] AEY Argument, page 4
[16] AEY Argument, page 14
[17] AEY Argument, page 4
[18] AEY Argument, page 7
[19] AEY Argument, page 8
[20] AEY Argument, page 9
[21] AEY Argument, page 14