ATCO Electric
YUKON

August 9, 2018

Yukon Utilities Board
Box 31728
Whitehorse, YT Y1A 6L3

Attention: Deana Lemke
Executive Secretary

Dear Ms. Lemke:

Re: Yukon Electrical Company ("YEC")
2017-2018 General Rate Application
Argument

ATCO Electric Yukon ("AEY") hereby submits the enclosed argument.

If you have any questions or concerns, please contact me at (780) 420-5449 or chris.cullingham@atco.com.

Yours truly,

Chris Cullingham
Manager, Regulatory

CC/by
Encl.

FINAL ARGUMENT OF ATCO ELECTRIC YUKON

I. INTRODUCTION

1. This argument is submitted on behalf of ATCO Electric Yukon ("AEY") in support of AEY's intervention in the Yukon Utilities Board ("YUB" or "Board") proceeding regarding the Yukon Energy Corporation ("YEC") 2017/2018 General Rate Application ("Application").

2. AEY does not propose to address all matters covered in YEC's Application, Information Requests, and oral evidence. AEY's failure to address any specific matter in Application should not be interpreted as concurrence with YEC's position. Rather, AEY will limit its submissions and comments to the following matters:

    1) Diesel Contingency Fund ("DCF") and Energy Reconciliation Adjustment ("ERA"); and

    2) Treatment of streetlight conversions from HPS fixtures to LED fixtures.

3. As outlined in further detail below, AEY submits that YEC is seeking approval of matters that will have impacts on AEY and its customers.

II. ARGUMENT

A. DCF and ERA

4. In accordance with Board Order 2017-08, the Application process was suspended to investigate and settle prior period DCF & ERA mechanisms in the "Yukon Energy Corporation Part 1 Application Regarding the Energy Reconciliation Adjustment (ERA)" proceeding. AEY participated in that proceeding by submitting information requests and argument.

5. As argued in that proceeding, AEY maintains that "the extensive record in relation to both DCF and ERA is reflective of their complexity and demonstrates that the mechanisms are beyond what is appropriate or necessary for the Yukon regulatory setting" and by "adopting these mechanisms,

on a permanent basis, into the Yukon utility framework will result in a continued significant burden on administrative and regulatory resources into the future[1]."

6. Despite YEC's exhaustive efforts to explain the DCF and ERA mechanisms, and interveners' exhaustive efforts to understand the mechanisms, AEY remains unconvinced these efforts have been fruitful to the point where a broad, clear understanding of the mechanisms' operation has been achieved in this regulatory setting. By YEC's own account, from a review of other Canadian jurisdictions' hydrogeneration funds, the proposed DCF / ERA mechanisms are "perhaps more advanced in some respects than some of the other jurisdictions[2]".

7. In the current proceeding, AEY submits the applied-for parameters regarding fuel in this Application mask the potential of these mechanisms to result in significant, material, DCF and ERA transactions. In turn, AEY is concerned there is potential it will be saddled with a material ERA expense that it may need to carry while it recovers the ERA amount from all Yukon ratepayers.

8. By way of example, for the 2018 test year, AEY understands the DCF Term Sheet determines YEC's annual thermal costs[3].

9. In effect, Board approval of the proposed DCF Term Sheet would implicitly pre-approve a range of thermal costs for grid loads from 370 GWh to 485 GWh, or fuel costs ranging from $0.1 M to $8.6 M[4] at the applied-for mixed fuel rate of $0.158 / kWh.

[1] Paragraph 5, Final Argument of ATCO Electric Yukon, Yukon Energy Corporation Part 1 Application Regarding the Energy Reconciliation Adjustment (ERA)
[2] Transcript Volume 3, pp. 630-631.
[3] Exhibit B-19, YUB-YEC-2-16(a): *"The LTA approach results in thermal generation fuel costs being set based on the actual grid load and related LTA thermal requirement per the approved DCF Term Sheet Table, which minimizes opportunities for potential forecast error issues."*
[4] Please refer to the following table:

		Min	Proposed	Max	Source
1	Grid Load (GWh)	370	421	485	**Exhibit B-1, p 3.4-17:** Table 3.4-1
2	Thermal Generation (MWh)	663	14,480	54,135	**Exhibit B-1, p 3.4-17:** Table 3.4-1
3	Weighted Cost of Fuel ($/kWh)	$0.158	$0.158	$0.158	**Exhibit B-1, page 4:** 90% LNG at $0.1467/kWh: 10% Diesel at $0.2633/kWh
4	Fuel ($000s)	$105	$2,293	$8,573	Line 4 = Line 2 x Line 3

10. This potential range of pre-approved thermal costs increases substantially when considering the applied-for fuel mix and fuel prices are: (A) not statistically-based[5], and (B) should act as an incentive for YEC to use less diesel[6].

11. For example, if YEC's future management (or the Board) decides that a statistical approach is more appropriate and, for example, the 2016 actual weighted-average thermal cost of $0.272 / kWh[7] is applied, the potential range of pre-approved thermal generation costs in the DCF Term Sheet becomes $0.2 M to $14.7 M.

12. AEY continues to be concerned this significant, material range of potential, pre-approved thermal costs could funnel into the ERA, and AEY will be left to recover this amount from ratepayers via its recently-approved Rider S for its Purchase Power Flow Through Deferral Account.

13. Considering the materiality of expected invoices, AEY is seeking to mitigate expected future issues with an annual, unpredictable, material ERA cash expense. Particularly, AEY is concerned the carrying costs associated with a large cash outlay will be incurred and need to be recovered from ratepayers.

14. As such, AEY respectfully requests the Board direct any future ERA payments from AEY to YEC be made payable as the amount is collected from ratepayers for associated ERA amounts, presumably from AEY's approved Rider S.

[5] Exhibit B-19, YUB-YEC-2-6(c).
[6] Transcript Volume 2, p. 279: "MR. OSLER: …And a good example of that is in fact the 2017 DCF final report filed in Exhibit B-20 in response to UCG-YEC-2-39 where the year-end result is not 90/10, it's more like 87/13 because enough diesel was run in 217 to force that result.
Q. So you're telling me that it -- this the way that this is structured, it should act as an incentive for YEC --
A. MR. OSLER: Yes.
Q. -- to use less diesel.
A. MR. MOLLARD: Absolutely, yes."
[7] Exhibit B-19, YUB-YEC-1-25(b): $101.8 M / 374.8 MWh = $0.272 / kWh.

B. Treatment of streetlight conversions from HPS fixtures to LED fixtures

15. In Board Order 2017-01, the Board provided the following direction on LED streetlight conversions:

> *"292. Accordingly, the Board directs that all capital costs associated with the end-of-life streetlight conversions be treated as a system cost.*
>
> *293. With respect to LED streetlight installations that are not end-of-life conversions, the Board directs AEY to treat the costs related to new installations or requested conversions as capital costs that attract a full customer contribution in aid of construction."*

16. YEC's proposed approach to streetlight conversions appears to be: 1) "most of the streetlights in its fleet were at or near end of life[8]"; and 2) it was unconcerned about the remaining net book value ("NBV"), which was estimated to be less than $1,000 in Dawson[9] (but was not estimated for Faro, Mendenhall, Champagne, and Mayo). YEC ultimately wrote off any remaining NBV to YEC's shareholder expense[10].

17. AEY submits this approach is not consistent with Board Order 2017-01 as YEC has replaced lights that are not at the end of their useful life. As such, AEY suggests this solution, is inconsistent with the directions placed on AEY and its customers. AEY submits any approved solution must be available to all Yukon customers due to the postage stamp rate environment in the Yukon – i.e. an LED conversion service should not be exclusively available to YEC's retail customers at all ratepayers' expense if it is not available to AEY's customers as well.

18. AEY suggests YEC's approach can be addressed in two components:

    1) System investment in streetlight conversions; and
    2) Treatment of remaining NBV for assets that have been removed from service that are not at end-of-life.

[8] Exhibit B-5: YUB-YEC-1-81 (a&b)
[9] Exhibit B-5: YUB-YEC-1-81 (a&b)
[10] Transcript Volume 3, p. 443: MR. MOLLARD: "I am asking to be paid for the costs to purchase and install LED streetlight heads, but the existing costs I've written off to -- to shareholder expense."

19. AEY is supportive of allowing the streetlight conversion costs as a system investment without the requirement for the existing assets to be at the end of their useful life. AEY believes this would help address customer requests for LEDs, allow for efficiencies of conversions at scale, and avoid more complex regulatory mechanisms involved with attributing specific costs for LED service to the customers that request that service.

20. AEY submits the streetlight retirements should follow a traditional utility method of accounting for retirements. That is, the lights should be deemed fully depreciated, or, in this case, a customer contribution equal to the NBV should be made.

21. Accordingly, AEY respectfully requests:

    1) the Board allow the streetlight conversion project costs into YEC's rate base, without the end-of-life requirement; and

    2) the Board confirm the replaced streetlights should treated according to a traditional accounting method for retirements.

22. In this manner, AEY would also be allowed to provide streetlight conversions at their customers' request, if the remaining NBV is appropriately addressed through either depreciation or customer contribution.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 9th day of August, 2018.