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**IN THE MATTER OF YUKON ENERGY CORPORATION 2017 – 2018 GENERAL
RATE APPLICATION**

Heard before the

YUKON UTILITIES BOARD

June 26-28, 2018

REPLY ARGUMENT OF JOHN MAISSAN

Reply Argument introductory comments

In this reply argument, the Yukon Utilities Board is referred to as the “Board” and Yukon Energy Corporation as Yukon Energy. Interrogatory responses (IRs) will be referenced by their identifying numbers.

In reply argument I address issues discussed in the Utilities Consumers Group (UCG), the City of Whitehorse (CW), and Yukon Energy Final Arguments. My silence on issues not addressed is not to be interpreted as agreement with, or disagreement with, the stated positions. I leave these matters to the Board to address based on all the information on the record.

UCG and CW Final Argument matters

1. Elimination of the DCF

UCG, in paragraph 22 on page 5 (PDF page 6) and further in paragraphs 138 to 152 on pages 21 to 23 (PDF pages 22 to 24) discusses their concerns with regard to the DCF. UCG concludes and recommends that the DCF be eliminated. I am open to any improvements to the DCF that the parties and the Board think appropriate, however, in my view the elimination of the DCF will result in a profound instability in power bills (caused by positive and negative variations in the rate rider that will be necessary to enable Yukon Energy to pass the water variability risk on to consumers). I do not believe that this will be in anyone’s best long-term interest.

2. Use of short-term water forecast in preference to long-term average water forecast

UCG notes in paragraphs 123 and 124 on page 19 (PDF page 20), and in related matters in the preceding paragraphs, the reasons for their view that a short-term water forecast should be used. UCG recommends to the Board that it use the short-term forecast along with a performance-based regulation model. I have no objection to a performance based regulatory model, however, for reasons laid out in my written final argument my strong preference is for the long-term average water forecast to be used in the DCF Term Sheet and in rate setting.

3. Yukon Energy 2016 Resource Plan update costs

CW starting in paragraph 15 (page 4) and continuing to paragraph 22 (page 7) discuss their concerns with the Yukon Energy 2016 Resource Plan update. UCG expresses its concerns starting in paragraph 470 on page 67 (PDF 68) and continuing to paragraph 482 on page 69 (PDF 70). Both CW and UCG recommend against allowing Yukon Energy to recover their costs.

My comments are based on having had the opportunity to review and comment on the last three Resource Plan updates. The 2016 Resource Plan update at a bit over \$2

million was not cheap, however, it is by far the most thorough and objective of the three Resource Plans. In particular the background studies that make up the appendices to the plan are strong and objective assessments of the technologies being reviewed. In my view while we all have opinions on how a Resource Plan update can be strengthened in future, it provides a very sound basis on which future updates can be based and this should lead to a reduction in costs for future updates.

For these reasons I support Yukon Energy in its request to be allowed to recover its costs.

4. Request for audits on prudence of project expenditures

UCG in paragraphs 28 on page 5 (PDF page 6) and 245 on page 37 (PDF page 38) recommends audits be done on capital projects to determine if cost overruns and expenditures were prudently incurred. This is a very valid issue. The level and type of information provided in GRAs and in response to IRs does not enable the Board or any other party to determine the prudence of the management decisions that led up to these expenditures. An example is the \$40,464 spent to determine if there were natural gas engines other than the GE Jenbacher that could and should be added as the third engine. Could this have been done with a \$10,000 contract to one knowledgeable individual? Could this have been done with a few telephone calls and a day's work by an in-house technical person? We do not have the information to judge that. Details on the expenditures are provided in some cases but prudence is very hard to judge. Perhaps it would be good to have some projects audited to determine objectively if costs were prudently incurred.

Yukon Energy Final Argument matter

5. LNG plant

YEC discusses the LNG project on pages 38 to 41 of their Final Argument. It is regrettable that Yukon Energy continues to use the same spin-doctoring to justify their decision in hindsight as they did in the Part 3 hearing.

Yukon Energy starts by characterizing the LNG plant as “the least cost option to address a capacity shortfall” (page 36). It was, of course, not the least capital cost option but was justified on the basis of energy cost savings based on various optimistic factors/assumptions including the oil – gas energy cost differential, a high load growth rate, and a very fast construction schedule.

As we all know now, the “new diesel” option as Yukon Energy describes it on page 37 of their argument, was in fact a new dual-fuel option of 13.4 MW capacity (two 6.7 MW generators) the capital cost for which included electrical and other upgrades for a third 6.7 MW dual-fuel generator (i.e. for a 20.1 MW dual-fuel plant capacity) (oral hearing transcript page 299 lines 9 through 22).

As the plant came on-stream the oil – gas energy cost differential decreased, the electrical load decreased rather increased, and permitting and construction delays into winter were experienced (due in part at least to public opposition, and despite starting construction well before the Part 3 hearing), and capital cost overruns were incurred.

In 2015 the Yukon Government through YDC shielded the ratepayers from the then apparently imprudent decision by making an \$18.3 million contribution to the LNG plant cost. So, we get to pay for it as taxpayers as well as ratepayers.

The economics of the LNG plant improved in the fall of 2017 when Hurricane Harvey affected refineries in the Huston Texas area pushing up diesel prices. They have not yet returned to pre-hurricane levels. The economics also improved because the Victoria Gold mine (not on the horizon at the time of the part 3 hearing) got financing and wanted to connect to the grid thus driving up future electrical loads.

In response to undertakings 12 and 13 Yukon Energy preformed a comparison that was closer to “apples to apples” than had been done in the Part 3 proceeding. Yukon Energy says that the simple payback could be 7.2 years, however, as outlined in my Written Argument that is based on a number of implicit or explicit assumptions – all favouring LNG over diesel.

Whether the plant is or will be economic compared to the dual-fuel alternative provided in the Part 3 LNG hearing or a true diesel alternative (which would have been lower in capital cost than the dual-fuel option put forward) is anyone’s guess. Only time can tell.

Respectfully submitted,



John Maissan
August 23, 2018