

Loyola G. Keough
Direct Line: 403.298.3429
e-mail: keoughl@bennettjones.ca
Our File No.: 12276-81

October 27, 2008

Yukon Public Utilities Board
Box 31728
Whitehorse, Yukon Y1A 6L3

Att: Ms. Wendy Shanks, Board Chair

Dear Ms. Shanks:

Re: Yukon Electrical Company Limited
2008-2009 General Rate Application

Pursuant to the Board's Schedule, please find attached the Yukon Electrical Company Limited's Final Argument in the above-noted proceeding.

Should you have any questions regarding the above, please do not hesitate to contact the undersigned.

Yours truly,

BENNETT JONES LLP



Loyola G. Keough
Counsel for Yukon Electrical Company Limited

cc: Interested Parties

**YUKON UTILITIES BOARD
YUKON ELECTRICAL COMPANY LIMITED
2008-2009 PHASE I GENERAL RATE APPLICATION
FINAL ARGUMENT**

1. INTRODUCTION

By Application dated April 30, 2008 the Yukon Electrical Company Limited ("Yukon Electrical") submitted its General Rate Application ("GRA") which requested approval of the Revenue Requirements for the Test Period 2008-2009. As the Yukon Utilities Board ("Board") is aware, this is the first time Yukon Electrical has been before the Board since the 1996-1997 Test Years. As confirmed by Yukon Electrical, it has continued to provide safe, reliable and cost effective service to its customers over this period. In Yukon Electrical's view, the extended period between rate cases is a reflection that regulation has been working well, as it allowed Yukon Electrical to stay out of regulatory proceedings, while providing benefits to both the company and customers (Ex. B-1, p. 1-2; 1T19-21). However, as demonstrated by Yukon Electrical through the evidence filed in this proceeding, certain system conditions and requirements have changed and additional resources are required to maintain and enhance system conditions.

As detailed in its Application, Yukon Electrical has been exposed to significant cost pressures in recent years that now require it to come forward to the Board to ensure that it has the resources to continue to deliver at the same high standard of service to customers at fair and reasonable rates. In addition, Yukon Electrical is seeking approval of three specific major capital projects for the Test Period that are outside the normal capital expenditures that are typically undertaken by the Company. The impact of these capital projects is reflected in the requested rates for the Test Years.

In preparing its General Rate Application Yukon Electrical recognized that it would be exposed to a high level of scrutiny, given that it had not been before the Board

for an extended period of time. In contemplation of the process it would face Yukon Electrical provided detailed information in its filing regarding each component that comprised its requested Revenue Requirement, including year over year variance explanations. In addition, Yukon Electrical provided expert testimony regarding the areas of depreciation and return on equity/capital structure, given that these are important components of the Revenue Requirement which had not been examined for some time.

In this Argument Yukon Electrical will follow the format outlined in the Table of Contents to its GRA and will focus upon matters which have attracted the greatest attention throughout the course of the proceeding, particularly during the Information Request process and cross-examination. However, before doing so Yukon Electrical considers it necessary to address a number of general points, in order to ensure that the Board and parties are approaching the consideration of Yukon Electrical's requested Revenue Requirements from the same perspective.

While the Board needs no reminding of its statutory mandate, the same cannot be said of certain other parties, including specifically Yukon Energy Corporation ("YEC"), who appear to have a fundamental misunderstanding of the manner in which this Board is required to set the Revenue Requirement for Yukon Electrical for the 2008 and 2009 Test Years. It is trite to say that the Board is required to establish fair and reasonable rates for Yukon Electrical, which provide it a reasonable opportunity to recover the costs incurred in the provision of utility services to customers. In the context of this legislative mandate, when arriving at its determination regarding various components of Yukon Electrical's Application, the Board can indeed have regard to the historic information provided on the record to these proceedings. However, it cannot in any way penalize Yukon Electrical based on what has occurred in the past, so as to deprive it of fair and reasonable rates for the Test Years. During the course of these proceedings certain parties devoted considerable time to discussing the returns achieved by Yukon Electrical in the past and whether such achieved returns exceeded approved levels in certain years. In addition, YEC conducted extensive cross-

examination regarding areas such as the comparison of Yukon Electrical's actual achieved returns with return levels that were approved for its parent company, ATCO Electric Ltd., in another jurisdiction (1T32-38). This was done without ever establishing any link or casual connection between these two unrelated items. Yukon Electrical submits that the Board must establish a fair and reasonable return and capital structure for Yukon Electrical based on the evidence on the record to these proceedings for each of the Test Years and such return cannot be impacted by the level of achieved return over the past Non-Test Years. Additionally, the past approved returns for ATCO Electric have no relevance to the matters before the Board and provide no assistance in establishing a fair and appropriate return on capital structure for Yukon Electrical.

On the matter of evidence, it should be absolutely clear that the only evidence on the record to these proceedings is that put forward by Yukon Electrical. This would include the original Application, the Supplementary Information filings by Yukon Electrical, Responses to Information Requests, oral testimony and responses to Undertakings. This is to be distinguished from the extensive statements placed on the record by Counsel for YEC, which may at first glance appear to be in the nature of evidence. However, these unsupported and unsubstantiated statements do not constitute evidence and cannot be relied upon by the Board as a basis for arriving at any decision regarding the matters to be adjudicated upon in this GRA.

Yukon Electrical also notes that at numerous points during the proceeding Counsel for YEC inappropriately provided previews of Argument during the conduct of cross-examination. While these previews may indeed reflect the positions that will ultimately be taken by YEC, it is critical to understand that this Board must arrive at decisions based on the evidence on the record; and not unsubstantiated and unsupported broad brush statements that have no grounding in fact. For example, Counsel for YEC alluded to the fact that YEC would be arguing that O&M cost increases should be limited to an arbitrary and artificial amount, such as 5% per year for each of the Test Years (1T55). While YEC indeed does have the choice to ignore the totality of the evidence placed on the record in these proceedings and make such unsubstantiated

and arbitrary statements, the Board does not have the same luxury. To the contrary, the Board must examine the detailed information provided by Yukon Electrical to support the requested increases in the various components of its O&M costs. It is these detailed explanations which provide the evidentiary basis that the Board must rely upon, versus broad general statements that purportedly focus on the historic level of cost increases incurred in non-Test Years.

Yukon Electrical submits that, if one were to step back and consider the current GRA from a high level perspective, the increases of 5.8% in 2008 and 4.9% in 2009, as adjusted for the reduced I-TEK costs, are indeed reasonable for a Company that has not been before the Board for some 12 years, particularly when one considers inflation and other factors that have been at play over this period (1T19).

During the course of the proceedings, several parties, including specifically YEC, questioned Yukon Electrical regarding various approaches it could take on certain matters in order to reduce the associated aspects of Revenue Requirement for the Test Period. Yukon Electrical wishes to state categorically that collecting reasonable costs incurred in accordance with recommended and accepted practices, or in order to achieve a reasonable Return on Equity and Capital Structure, are not inappropriate or excessive costs. Such costs should not be disallowed simply because it would result in a decrease in the current year revenue requirement. As will be detailed below, Yukon Electrical submits that each of the approaches advanced by it in the context of this Application are fair and reasonable and should be adopted by the Board, as filed. The establishment of fair and reasonable rates does not entail the utilization of inappropriate measures that are adopted solely for the purpose of reducing the Test Year Revenue Requirements. Such an approach does not fairly balance the interests of the ratepayers and the company.

In this Argument Yukon Electrical will attempt to address all of the material issues raised during the course of these proceedings. Out of practical necessity, Yukon Electrical will not be able to comment on every single issue that could potentially arise

from its comprehensive Application and the record that has been established. As such, in this Argument Yukon Electrical will focus on issues which have been the subject of controversy or debate, while assuming that matters which have not been pursued during the hearing process have been adequately addressed by the Application and Information Request process, as well as, via the oral testimony provided. As mentioned above, Yukon Electrical will attempt to follow the outline of its Application in dealing with the various matters raised by its Application.

2. SALES AND REVENUE

During the course of the proceedings several parties questioned Yukon Electrical on its forecast sales and resulting revenues for each of the Test Years. In examining Yukon Electrical's sales forecast for the Test Period it is important to understand that, for purposes of this GRA, Yukon Electrical engaged in a far more extensive and detailed process than would have been the case for non-Test Years. As explained by Yukon Electrical, it has conducted a large amount of due diligence in preparing these GRA quality forecasts; and it has provided a large amount of documentation in its filing which examines sales by community, including the development of use per customer ("UPC") for each community. In addition, Yukon Electrical conducted a detailed review of historic sales data by customer class and used the most recent information available at the time the forecast was prepared to arrive at the Sales and Revenues Forecasts contained in this Application. Yukon Electrical based its forecast on a normalized weather forecast, as has been its practice. It is recognized that actual weather can, and likely will, vary from the normalized data. Nonetheless, the approach adopted by Yukon Electrical is a standard and commonly used approach and is seen as providing more consistent and reliable results. In addition, as detailed by Yukon Electrical, it obtained significant information through its work in the community, as well as, consultation with the City of Whitehorse, Yukon Government officials and local developers. Yukon Electrical acknowledged that the secondary sales forecast mainly comes from Yukon Energy, as it is responsible for determining the forecast availability of surplus hydro (Ex. B-1, p. 2-2; 3T267-269).

The City of Whitehorse inquired as to whether an aggregated approach, versus a community by community analysis, would provide a more appropriate forecast. Yukon Electrical is clearly of the view that the approach it has adopted, which makes use of all the data available to develop the best forecast by community, provides a more accurate forecast than any such general approach. As indicated, Yukon Electrical made use of historical information and utilized known and accepted methods, including the use of regression analysis, to develop its detailed forecasts (3T286-290).

While YEC appeared to make much of the fact that, during certain past periods, Yukon Electrical's actual sales forecast had exceeded the internal business plan forecasts that were provided to YEC, it is very clear that the level of scrutiny and detail used to formulate such internal business plan forecasts is nowhere near as vigorous or comprehensive as used to derive the GRA quality forecasts included in the current filing. As well, Yukon Electrical confirmed that, while statistical analysis were used for the GRA, they were not used for the annual business plan numbers provided to YEC (YEC-YECL-7; 3T291). In this regard, Yukon Electrical notes that it is somewhat ironic that on the eve of the current proceeding the YEC, by letter dated October 6, 2008, provided Yukon Electrical with a revised forecast for its 2008 and 2009 Secondary Sales (Ex. C-1-11, Tab 19). This letter states in part as follows:

"As part of the preparation of your Application, Yukon Energy provided certain information, specifically a forecast of Secondary Sales supplied via the WAF Grid. At the time, we had not fully analyzed the impact of Minto Mine and the implications for Secondary Sales forecasting. Accordingly, we adopted the relatively conservative stance that only very limited access to surplus hydro would occur for these customers in the summer months.

As part of our Application, we have tested our assumptions rigorously and were able to determine that in fact significant sales were still expected to occur in the Test Years with the Minto Mine on the system."

It appears that YEC has adopted the same approach to preparing its forecasts as was utilized by Yukon Electrical. In this regard, both companies appear to have adopted a far more rigorous approach to developing GRA quality forecast than was used for the purpose of exchanges between the companies in non-Test Years. Yukon Electrical considers the comparisons that YEC has attempted to make between non-Test Year actuals and the in-house forecasts that were provided to YEC as part of its business plan development to be inappropriate and unfair. These non-Test Year forecasts were not prepared on the same detailed basis as the current GRA forecasts and did not result from the use of statistical analysis and detailed community by community data evaluations. Yukon Electrical submits that the forecasts contained in its Application must be judged based on the evidence provided on the record and not the attempt by YEC to derive a comparison that simply does not exist.

The City of Whitehorse also conducted extensive questioning with respect to Yukon Electrical's forecasts for the Test Years. In its questioning Whitehorse focused on the results of the various statistical analysis conducted by Yukon Electrical and suggested that if an R^2 was less than .7 it was not a "good fit"; and therefore should not be relied upon for purposes of deriving the Test Year forecasts. Whitehorse went on to suggest that Yukon Electrical could simply extend a trend line based on past forecasts. Yukon Electrical submits that there are several points that must be noted regarding these views. First and foremost, Yukon Electrical has used a standard, consistent and logical approach to its forecasting and has not abandoned this approach when it would be convenient to do so. For example, even though the information confirmed that the residential use per customer for the City of Whitehorse was in fact declining on a trend basis, Yukon Electrical is proposing to use a three year normalized average notwithstanding the fact it is greater than the actual 2007 normalized UPC number (3T286-287). In Yukon Electrical's view, it is entirely inappropriate to pick and choose the approach to be used, simply to achieve a predetermined end goal.

In addition, Yukon Electrical would note that the R^2 values derived for Whitehorse and the other large communities are indeed indicative of a "good fit", even using the

standards put forth by Whitehorse. As indicated, Yukon Electrical considers that the use of regression analysis is a tested and common method that has previously been relied upon by this Board (3T294-297). Yukon Electrical submits that the Board should continue to do so in the context of these proceedings.

Yukon Electrical submits that it has developed a rigorous and detailed forecast of expected changes in customers and use per customer for each community it serves for the Test Period. In fact, each aspect of Yukon Electrical's forecast is supported by detailed information and has been adjusted for known or one time events. For example, Yukon Electrical chose to use one year of actuals for Whitehorse Commercial UPC, in order to capture the impact of the arrival of several large institutions and big-box stores in 2007 and also to be able to adjust for the impact of the Canada Winter Games.

While the recent information provided to Yukon Electrical by YEC will have a small impact on its net income due to the small margin on Secondary Sales, Yukon Electrical submits that its Test Year forecasts were prepared based on the best information available at the time and as such should be accepted by the Board, as filed.

3. PURCHASE POWER

As indicated in its Application (Ex. B-1, p. 3-1) approximately 90% of the supply required by Yukon Electrical is purchased from YEC. The percentage forecast to be purchased is consistent for each of the Test Years. As the Board is aware, power purchase costs to Yukon Electrical associated with YEC's shortfall are flowed through to Yukon Electrical's customers via Rider J. Yukon Electrical does not propose to alter this approach that has been in place for an extended period of time in this regard.

During the course of the proceeding certain questions arose regarding the Fish Lake Hydro Generation that could be expected during the Test Period. As detailed by Yukon Electrical, its forecast is based on the average generation over the last ten years at Fish Lake, adjusted for estimated down time in the Test Period for required rebuilds.

During the course of the proceeding Yukon Electrical confirmed that the ten year average it proposed to use was discussed with YEC officials, who indicated that it was a reasonable way to estimate the usage of Fish Lake on a go forward basis. As noted by Yukon Electrical, it is in a new water license period and is subject to certain restrictions. Yukon Electrical indicated that it has worked together with YEC on these forecasts and at this point the best forecast available is that Fish Lake will generate approximately 6.2 GWH's per year during the Test Period (3T271-274). In this regard, Yukon Electrical notes that the 10 year average for Fish Lake generation (without considering the impact of downtime) is 7 GWH's/year. In fact, 7 GWH's is higher than actual output in six of the last ten years (YUB-YECL-5, Attachment 1).

With respect to Fish Lake, YEC also raised the issue of capitalizing the increased purchase power costs that would be incurred during the maintenance downtime. Yukon Electrical considers that it has adopted the appropriate approach in expensing these costs, but recognizes that it is a grey area (3T275-276).

Yukon Electrical submits that its forecast of Purchase Power, including the amount of generation from Fish Lake, are reasonable and appropriate and should be adopted by the Board, as filed.

As detailed in Yukon Electrical's Application, p. 3-2, Yukon Electrical is requesting a continuation of two deferral accounts with respect to purchase power. These deferral accounts are established in accordance with the generally accepted criterion for setting up such deferral accounts (CW-YECL-7). Yukon Electrical has used these criterion for an extended period of time. The first deferral account relates to the cost of purchase power, which is based on Yukon Energy's rates that are currently in place for Primary Energy and Secondary Sales, as detailed in Yukon Electrical's Application. As indicated, subsequent increases or decreases to these rates for 2008 and thereafter will be flowed through to Yukon Electrical's customers.

The second deferral account relates to Diesel Contingency Fund, which would apply if WAF Diesel is on the margin at any point during certain months in the Test Period. Based on expected developments over the Test Years, Yukon Electrical is requesting the continuation of the Diesel Contingency Fund mechanism as approved during the 1996/1997 GRA. Yukon Electrical submits that these deferral accounts meet the criteria for the establishment of a deferral account and hence should be approved, as filed. These deferral accounts protect both the customer and the Company and appropriately balance the benefits and risks as between the parties.

4. DIESEL FUEL COSTS

As detailed in its Application (p. 4-1) diesel fuel costs are forecast to increase significantly during the Test Period. As indicated, this cost increase is mainly due to the inclusion of the Rider F fuel rider in base rates for the Test Period. This is simply an adjustment to base rates to reflect the fact that updated fuel rates will be used by Yukon Electrical on a go forward basis. As noted, Yukon Electrical's 2009 forecast diesel fuel costs decrease from 2008 levels, due to reduced diesel generation in Pelly Crossing, as a result of its interconnection to the WAF Grid. As detailed in its Application, Yukon Electrical purchases diesel fuel for each of the six diesel plants that it operates. Yukon Electrical conducts a fuel tendering process annually in which a vendor is selected to be the exclusive provider of fuel to Yukon Electrical. As noted, Yukon Electrical also has standby diesel units in a number of locations to which it provides back-up service. These units generate power in the event of interruption of power from the Grid.

Once again, Yukon Electrical is proposing to continue a diesel fuel price Rider deferral account, in order to address differences between forecast and actual fuel prices. This is considered reasonable and appropriate in the circumstances.

In addition, Yukon Electrical is seeking a deferral account related to increased fuel costs associated with Pelly Crossing. As detailed in its Application (p. 4-3) Yukon Electrical's forecast generation in the Test Period assumes the connection of Pelly

Crossing to the main Grid effective November 1, 2008. Whether or not Pelly Crossing is actually interconnected on that date will be impacted by events beyond Yukon Electrical's control. In addition, the amounts associated with a delay in this interconnection would be material. During the course of questioning Counsel for YEC confirmed that no deferral account was used for the prior interconnection of Stewart Crossing to the Grid. Yukon Electrical confirmed that this was indeed the case, primarily because this event occurred during a non-Test Year and, as such, there was no approval granted for such a deferral account (3T283-285). Yukon Electrical submits that the requested deferral account satisfies the recommended criteria to be utilized for the establishment of such deferral accounts and is reasonable and appropriate in the circumstances. Approval of this deferral account is fair to both ratepayers and the company and should be approved, as requested.

5. OPERATIONS AND MAINTENANCE EXPENSES

As detailed in its Application (p. 5-1) Yukon Electrical is seeking an increase in the quantum of O&M expenses to be included in Revenue Requirement above actuals incurred in several prior non-Test Years. Yukon Electrical recognizes that in such circumstances the obligation is squarely on it to justify why these increases are necessary for the forecast period, when such costs were not incurred in non-Test Years. In order to address this issue, Yukon Electrical provided detailed information of each specific requested increase in Section 5 of the Application, including Schedules 5.1, 5.2 and 5.3. These Schedules detail, on a sub-category by sub-category basis, the reasons why additional dollars are required for the Test Years in order for Yukon Electrical to continue to provide safe and reliable electricity service to its customers. Additional detail was provided on numerous specific items during the Information Request process. As detailed at the outset, one of the primary drivers for the current filing was the increased cost pressures that Yukon Electrical was experiencing at the present time, which could not be offset by customer growth and/or increased efficiencies.

During the course of these proceedings YEC introduced a document (Ex. C-1-14) which provided a comparison of certain cost categories and changes thereto for the period 2003 through 2009. In one of its "previews to Argument" YEC asserted that the actual information for past years indicated that Yukon Electrical's O&M expenses increased by approximately 5% per year and stated that it would argue that this should form a cap on the increases in O&M expenses that should be allowed for the Test Years. As indicated in the Introduction above, while YEC indeed has the luxury of ignoring the totality of the evidence on the record to these proceedings and urging the Board to adopt an arbitrary cap on allowed O&M expenses, the Board itself does not have such a luxury. Contrary to the approach proposed by YEC, the Board must have regard to the detailed information provided by Yukon Electrical, which explains in detail why the Test Year O&M expenses are in fact above historic levels. It is these detailed justifications, which YEC has conveniently chosen to ignore, which provide the support for the requested increases. Yukon Electrical would also note that, in its response to the Undertaking given to YEC at 1T52 in this regard (see Undertaking Response dated October 14, 2008), Yukon Electrical explained why such an arbitrary cap would be entirely inappropriate and unfair in the circumstances.

With regard to O&M expenses, Yukon Electrical confirmed that it relies upon the detailed and specific justifications provided for the forecast expenditures in its Application, as supported by various Information Requests and Testimony. In addition, Yukon Electrical noted that its depreciation expense is based upon the increases in property, plant and equipment that are forecast to be incurred in the Test Years. As such, it is not appropriate to arbitrarily restrict such an expense to a 5% per year increase, which has no relationship to PP&E. Likewise, the amortization of deferred costs/credits is driven by deferred costs that are being incurred, such as hearing costs. These have no relationship to an arbitrary 5% cap. Finally, the amount of return (debt and equity) is linked directly to the decision of this Board regarding return, debt and capital structure. Again, there is absolutely no basis to artificially cap the amounts determined based on the above inputs.

A number of specific aspects of Yukon Electrical's O&M expenses were discussed extensively during the proceeding and warrant specific comment.

(i) Labour Costs

As detailed in its Application (p. 5-2) Yukon Electrical confirmed that, over the past number of years, identifying, competing for, securing and retaining qualified personnel has become one of the most challenging and important ongoing activities of Yukon Electrical. Yukon Electrical acknowledged that it has been required to implement new and different compensation packages in order to attract and retain employees, particularly skilled trades and technical resources that are critical to the operation of an electric utility. Unless Yukon Electrical is competitive in the marketplace it will not be able to attract and retain such critical resources. Yukon Electrical noted that, while the local market can be a source of employees for certain jobs, Alberta and other external markets must be accessed for the above-referenced skilled trades and technical positions (1T108-109).

In this regard, Yukon Electrical confirmed that it benefits from arrangements with its parent company in Alberta, as it is able to draw on employees from the ATCO Group in order to obtain the specialized expertise required (1T108-109). With regard to the Test Year costs, Yukon Electrical confirmed that it must remain competitive with the rates being paid to ATCO Electric and its affiliated companies in the Northwest Territories. As the Collective Bargaining Agreement has been finalized for 2008 and 2009 for these companies, Yukon Electrical considers that its forecasts are based on very accurate information regarding what will be required under its own Collective Bargaining Agreement (1T106-107). Yukon Electrical also confirmed that it obtained information on the competitive marketplace via the Sierra System Study, conducted on behalf of a number of organizations, as well as direct discussions with other organizations with which it competes for labour resources in the marketplace.

Based on the detailed information accumulated by Yukon Electrical, it introduced a community skills premium effective January 1, 2008 in order to remain competitive with other parties in the marketplace. As noted, Yukon Electrical intends to continue this community skills premium into the future, with the amount of such premium reduced to a 10% level, with the balance of the amount paid in 2008 being included in base pay for future periods. As with many entities in the Yukon, Yukon Electrical is not immune to outside cost pressures if it wishes to attract and retain skilled labour that is required by it in order to perform critical utility functions and maintain safe and reliable service. Yukon Electrical has introduced programs that will assist it in attracting and retaining necessary resources; and its ability to provide safe and reliable service will indeed be compromised if these cost pressures are not recognized and the associated O&M costs approved for inclusion in Revenue Requirement.

(ii) Vacancy Rate

Considerable discussion occurred during the course of these proceedings regarding Yukon Electrical's historic vacancy rate. Given that Yukon Electrical has not been before the Board for an extended period of time it is clear that a vacancy rate, as the term is commonly used in regulatory proceedings, simply did not exist. Nonetheless, Yukon Electrical acknowledged that, for business purposes, it indeed tracked the targeted FTEs per management requirements versus the actual FTEs that were present during any particular year. This information was provided in response to an Undertaking given to YEC at 1T103 (see Undertaking Response dated October 14, 2008). Yukon Electrical submits that this historic information is of marginal value when attempting to assess an appropriate vacancy rate for purposes of the Test Years. As detailed in Yukon Electrical's Response to YUB-YECL-8(e) (Ex. B-7), Yukon Electrical has implemented a number of programs to ensure that critical vacancies are filled on a go-forward basis. Additional information on the new positions that are required to ensure that the company can operate in a safe and reliable manner have been provided in Response to YEC-YECL-8(l). As indicated, these are frontline positions that are required to support health and safety and planned programs.

Additional information on the recent measures adopted by Yukon Electrical to address manpower requirements are also detailed in CW-YECL-24. All of these Responses provide information on the specific employee positions that have been added and why they are needed (1T103; 3T369-370).

Yukon Electrical also explained that the increase in FTEs over past years occurred because it added a line crew in order to reduce the reliance on contractors that had previously been relied upon to conduct this work. Yukon Electrical explained that increasing costs and the inability to find qualified contractors led to it shifting away from this practice. This has proven to be a prudent decision given the lack of available manpower and the risks to the system if such qualified personnel are not available (3T355-357).

As detailed by Yukon Electrical, its enhanced efforts and the increased benefits made available to employees are in fact working, as it has been able to fill its vacancies (1T103). In fact, as indicated to Board Counsel, only one position now is open for the Test Years and the projects and measures adopted by Yukon Electrical to fill vacancies are working (3T369-370).

As shown in the Organizational Chart included in the Application, the vast bulk of Yukon Electrical employees are on the ground personnel that are required to run the company and address the actual operation and maintenance of its system. Yukon Electrical considers that its current FTE compliment is the minimum requirement to safely and reliably operate its system and as such should be approved, as requested. Given the actual vacancy situation that exists for Yukon Electrical at this point in time, it is submitted that the vacancy rates included in the forecasts for the Test Period are reasonable and appropriate.

(iii) Non-Labour Costs

During the course of the proceedings certain questions arose regarding the appropriateness of Yukon Electrical using an Alberta inflation rate for its non-labour costs. As detailed by Yukon Electrical, Alberta rates remain appropriate, as this is the location of Yukon Electrical's parent company, from which it acquires a number of services and materials. In addition, significant other materials are purchased in Alberta and transportation services from Alberta must be incurred in order to get materials and equipment to the Yukon. As explained, the local rates for Whitehorse, or macro-level rates for Canada, that fall below the 5% rate being utilized by Yukon Electrical are not appropriate in the current circumstances. Yukon Electrical has explained in detail the reasons why the local inflation rate is not a proxy for the inflation being experienced by Yukon Electrical. As detailed in YEC-YECL-9, Yukon Electrical has experienced inflationary increases at least as high as the Alberta inflation rate. As noted, the 5% rate used in the Application was based on the 2007 Alberta CPI (LE-YECL-19); and is still viewed as a reasonable rate for the two year Test Period, particularly given that the year on year inflation to August 2008 is approximately 4%. Yukon Electrical submits that its forecast for other inflation is reasonable and appropriate and should be approved, as filed.

(iv) Affiliate Costs

As detailed in its Application (p. 5-3) Yukon Electrical outsources certain major administrative functions to affiliate companies, including specifically ATCO Electric. This approach takes advantage of economies associated with the scope and scale of services available from a larger utility. In addition, Yukon Electrical purchases Information Technology and Billing Services from ATCO I-TEK and ATCO I-TEK Business Services, respectively. These services are detailed in Schedule 5.3.

During the course of the proceedings, discussion occurred with respect to the IT/ITBS costs that would be incurred by Yukon Electrical during the Test Period. As

well, Yukon Electrical updated parties on the status of the Benchmarking Process that is currently taking place before the Alberta Utilities Commission ("AUC") regarding the provision of such services. Yukon Electrical also updated the IT and ITBS costs included in the present Application, based on information arising from the Collaborative Process conducted in Alberta. Yukon Electrical submits that the updated information (YEC-YECL-11) should be approved in this proceeding and not remain as placeholders. As indicated, Yukon Electrical is of the view that a separate process could be lengthy and expensive and reductions arising from the Alberta collaborative process have already been incorporated into this filing. As indicated, the changes that could ultimately arise, if any, would not be material given Yukon Electrical's costs compared to those of the ATCO Utilities (3T311).

Questioning also occurred with respect to the ITBS rate of \$1.72 that Yukon Electrical is proposing to utilize for such services for the Test Period. As explained by Yukon Electrical, this rate has been calculated based upon a base rate for 2003 of \$1.52 derived during the benchmarking process and has been inflated to derive an average price for the Test Period. The calculation underpinning the \$1.72 amount was detailed in Ex. C-2-15, filed by Yukon Electrical in these proceedings. As indicated, the starting point for the derivation of this number was appropriate as it excluded services, such as market transactions, not required by Yukon Electrical. In addition, the inflation factors used are appropriate and the 5 year pricing is in accordance with how the services are priced (3T307-311).

(v) Brushing

During the course of these proceedings certain questioning also arose with respect to the Yukon Electrical's forecast increase in brushing expenses for the Test Period. As explained, Yukon Electrical has implemented a new and improved brushing program that is aimed at reducing the number of tree related outages that have historically been experienced in its service area. In fact, tree related outages have decreased noticeably since the introduction of this program. As indicated, the

standards which Yukon Electrical has adopted are common to other jurisdictions and have paid immediate dividends in terms of a reduced number of outages (3T372, 390-391). Yukon Electrical submits that the need for its improved brushing program has been well justified (YUB-YECL-11) and that the program has made a positive difference in reliability for customers. As such, the costs for this program should be approved, as filed.

6. TAXES OTHER THAN INCOME

During the course of proceedings very little discussion occurred regarding this matter. Board Counsel did question the witnesses with respect to property taxes and confirmed that the actual rate for 2008 is now expected to be 3.8%, versus the 7.5% forecast increase included in Yukon Electrical's Application. Yukon Electrical submits that the 7.5% was based on the best information available to it at the time of filing. It would be inappropriate to update a single specific aspect of the overall GRA. Yukon Electrical submits that its forecast should be approved, as filed.

7. DEPRECIATION

During the course of these proceedings considerable discussion took place regarding several aspects of Yukon Electrical's applied-for depreciation expense. In these proceedings Yukon Electrical retained an independent expert, Gannett Fleming, Inc. ("Gannett Fleming") to provide a full and comprehensive depreciation study for use in the Test Years. While YEC sought to challenge various aspects of Yukon Electrical's depreciation expense, it is noted that the average service life and net salvage estimates, as developed in the Gannett Fleming study, were not challenged by any evidence or cross-examination during these proceedings. As well, the depreciation policies used in this Application are unchanged from the policies approved for Yukon Electrical in prior cases (YUB-YECL-20). In addition, the current depreciation study results in a decrease of some \$280,000 when the depreciation rates from the current

study are compared to the depreciation expense that would result from the use of the depreciation rates, as previously approved by this Board (YUB-YECL-20).

A number of depreciation issues warrant specific comment.

(i) Use of the Equal Life Group Procedure

During the course of these proceedings YEC conducted extensive questioning regarding its use of the Average Service Life ("ASL") approach, as opposed to the Equal Life Group ("ELG") approach and the impact a change in the method for determining depreciation would have on the applied-for Revenue Requirement for the Test Years. Yukon Electrical confirmed that it supports the expert evidence presented by Gannett Fleming, which recommended the continued use of the ELG method (1T62-63). It is of note that in these proceedings Yukon Electrical is not requesting a change in the procedure previously approved by this Board. To the contrary, it is seeking to continue the use of the procedure that has been approved for Yukon Electrical for a number of years (2T254). In fact, it is Yukon Electrical's understanding that the ELG procedure has been used and approved in prior YUB hearings, with the only exception being the last YEC Application (2T254). In that case the Applicant requested a change in the prior approved method, even though in that proceeding it was recognized that the ELG method was superior. In this regard, it is important to complete the partial quote read into the record by Counsel for YEC in these proceedings (2T246). The full quote is as follows:

"Gannett Fleming agrees that toll stability is an overall ratemaking objective that needs to be considered in the development of appropriate depreciation policies. As such, Gannett Fleming accepts the decision of Yukon Energy Corporation to convert to the average service life procedure in the calculation of depreciation rates. However, Gannett Fleming has also advised Yukon Energy that it should reconsider the use of the equal life procedure in future depreciation studies." (emphasis added)

As detailed during the proceeding, the ELG procedure is the superior approach (YUB-YECL-23). This fact has not been disputed in this proceeding. As stated by Yukon Electrical, the ELG approach better matches the consumption of the asset to the costs (1T67). This was confirmed by Mr. Kennedy during his introductory remarks (2T240-242). In addition, it is clear that the ELG procedure has been approved in a number of other jurisdictions, including by the Northwest Territories Public Utilities Board (2T255). In fact, Yukon Electrical's expert witness confirmed that the use of the ELG method is widely accepted in many regulatory jurisdictions (2T248). In addition, the ELG method better complies with the new IFRS accounting standards that are to be imposed shortly (2T241). Finally, as noted by Mr. Kennedy, intergenerational equity issues develop when the depreciation procedures are changed midstream through an asset's life (2T242).

As indicated at the outset, Yukon Electrical does not consider it appropriate to change its depreciation procedure simply because the end result would be to decrease the Test Year Revenue Requirement, while noting that a long term offsetting increase would occur. Yukon Electrical submits that it should be permitted to continue the use of the ELG procedure based on the reasons put forward above.

(ii) Future Reserve For Sight Restoration ("FRSR")

During the course of these proceedings YEC also conducted extensive questioning with respect to the FRSR issue. As indicated by Mr. Kennedy, a FRSR fund is not widely used and, in fact, Mr. Kennedy is only aware of B.C. Hydro and YEC ever using an FRSR fund (2T242). In contrast, the collection of net negative salvage in depreciation rates has long been approved by the YUB for Yukon Electrical (see YEC-YECL-17(g)). As confirmed by Mr. Kennedy, the collection of net negative salvage through depreciation is also widely accepted across Canada and the United States (2T242). As indicated, the recovery of net negative salvage through tolls and the establishment of an asset retirement obligation ("ARO") for financial reporting purposes are two different issues. Only a few utilities in Canada have used the Accounting

Guidelines relating to ARO for tolling purposes. In fact, most utilities recognize that there is a significant difference between ARO or FRSR and the recovery of costs of retirement through tolls (2T243). Yukon Electrical submits that the recovery of net negative salvage through tolls best complies with the depreciation objective to recover the service value of assets over their estimated lives, and best complies with regulatory fairness (YEC-YECL-17(h)).

Yukon Electrical submits that its approach to negative salvage is fair and appropriate and the amounts arising therefrom should appropriately be included in the Test Year Revenue Requirements.

8. RETURN ON RATE BASE

During the course of these proceedings considerable discussion took place regarding a number of the components that provide inputs into the requested return on rate base for the Test Years. These include specifically the cost of capital, including the return on equity and the capital structure proposed for Yukon Electrical, as well as the cost of long term debt included in the current Application.

As detailed in its Application (p. 8-2) Yukon Electrical engaged the services of Foster Associates, Inc. ("Foster Associates") to present expert testimony on a fair return for Yukon Electrical for the Test Period which would be comprised of both an appropriate capital structure and a return on equity. This expert testimony reflects Yukon Electrical's request for a return on common equity of 9.25% and an equity component of its capital structure of 47.5%.

In the context of these proceedings Ms. McShane of Foster Associates recommended, and Yukon Electrical accepted, a return on common equity based on the formula approach currently utilized by the Alberta Utilities Commission ("AUC"). During questioning YEC pursued the fact that it had used the BCUC approach in its 2005 Revenue Requirement Application, which was accepted by the Board, instead of the

Alberta approach. It was noted that YEC did not consider this as establishing a precedent – at least at that time (1T29). Yukon Electrical confirmed that it did not consider using the BCUC approach, as it received recommendations from Ms. McShane, which it accepted. In addition, Yukon Electrical acknowledged that it argued against the BCUC approach in the YEC proceeding (1T26-28).

While considerable discussion occurred regarding the various approaches used by the BCUC, the AUC and the National Energy Board ("NEB"), Ms. McShane confirmed that, while there are differences between these various approaches, they are essentially equivalent and are seeking to achieve the same thing (2T191-194). Yukon Electrical submits that it is somewhat academic to debate which approach should be used by this Board, as the end point derived is essentially in the same range. In this regard, it is noted that the use of the BCUC approach would result in a return of 9.14% versus the 9.25% recommended by Ms. McShane. As stated, Yukon Electrical considers these two numbers to be in the same range (1T30).

Yukon Electrical chose to adopt a formula based approach to setting return on equity for the Test Years as it would avoid an extensive debate over the appropriateness of using the traditional methods to determine return on equity which, as indicated by Ms. McShane, would be considerably higher than the return derived by use of the formula method (2T147). Yukon Electrical is also cognizant of the fact that the formula based approach is undergoing a review in at least two other jurisdictions and, as such, it was preferable to await the outcome of those proceedings versus conducting an extensive debate in this hearing.

Yukon Electrical submits that its approach to developing its requested return on equity is reasonable and sensible in the current context and should avoid an extensive debate over the use of alternate methodologies. Yukon Electrical does not consider that the results of its approach compared to those that would have followed from an adoption of the BCUC approach to be material and, as such, should not affect the approval of the requested 9.25% return on equity for the Test Years.

As noted at the outset, YEC devoted considerable time to a comparison of the historic achieved returns for Yukon Electrical to the approved returns for ATCO Electric in Alberta. Yukon Electrical submits that the information contained in Ex. C-1-12 filed by YEC is of absolutely no probative value in addressing the issues to be considered in these proceedings. It appears that YEC is attempting to draw some tenuous link, which is not supported by any evidence on the record, which would have this Board conclude that its awards for Yukon Electrical have been lower than the Alberta awards for ATCO Electric. This appears to be based on very old data and is certainly not relevant to the establishment of a fair and reasonable return on equity for Yukon Electrical for the Test Years.

(i) Return on Equity ("ROE")

As stated above, Yukon Electrical's proposed ROE relies on the generic ROE and ROE formula used by the AUC as a point of departure for estimating the ROE for Yukon Electrical for the express purpose of its two test years rather than re-estimating the ROE from first principles. The proposal to base the ROE on the AUC formula rather than re-determining the ROE from first principles recognizes that (1) a formula ROE similar to the AUC's currently governs most of the major Canadian utilities and (2) the validity of the existing formulas is currently undergoing review in two major jurisdictions, before the NEB and the AUC. The proposal to rely on the generic ROE as a point of departure was intended to be the most efficient means of addressing what is inherently a complex and costly matter, given the current state of ROE determination throughout Canadian regulatory jurisdictions. By using the formula ROE as a point of departure, focus then is on the capital structure issue.

The generic ROE was estimated for 2008 and 2009 using forecast long Canada bond yields based on consensus forecasts. The forecast of the 30-year Canada bond for the two test years was estimated using the most recent available consensus forecasts at the time the application was filed, which produced a long-term Canada

bond yield of 4.5% for the two test years. The generic ROE at a 4.5% long-term Canada bond yield is 8.75%.

(ii) Capital Structure

Given that Yukon Electrical had not been before the Board for an extended period of time, it requested that Ms. McShane examine the appropriate capital structure for Yukon Electrical given the business risks to which it is exposed. Based on Ms. McShane's analysis, a significant increase in the current capital structure is required. In fact, Yukon Electrical has targeted a 47.5% equity structure by the end of 2008, which would reflect the lower end of the range recommended by Ms. McShane and the addition of 50 basis points to the return on common equity for the reasons detailed in Yukon Electrical's Application. As explained by Ms. McShane, the change in capital structure is recommended based on the changes that have occurred in the market and the conditions which have changed since this matter was last examined (2T149). The City of Whitehorse conducted extensive questioning with respect to the various parameters, such as supply, operational and regulatory risks, examined by Ms. McShane as part of her capital structure recommendation (2T185-186). Ms. McShane confirmed that all of these factors had been taken into account in arriving at the recommended equity component of capital structure reflected in her testimony.

Yukon Electrical's proposal recognizes that the capital structure and ROE are inextricably related: the ROE is a function of both business risk and financial risk. Financial risk is measured by capital structure. The objective of Ms. McShane's testimony in this proceeding was to identify the capital structure which would make the generic ROE (that is, one applicable to a utility of average business risk) applicable to Yukon Electrical.

Ms. McShane estimated that the common equity ratio which would make the generic ROE of 8.75% applicable to Yukon Electrical would be the upper end of a range of 47.5% to 52.5%. To arrive at her estimates, she applied three widely accepted

principles for the determination of capital structure: the stand-alone principle, compatibility of capital structure with business risks, and maintenance of financial integrity and creditworthiness. The fair return standard then requires that the combination of capital structure and ROE produce a return on capital which meets the three requirements of the fair return standard: these three requirements, the comparable returns standard, the financial integrity standard and the capital attraction standard, were articulated by Ms. McShane in cross-examination (2T137).

The application of the stand-alone principle requires that the combination of capital structure and ROE reflect the cost of capital that Yukon Electrical would incur if it were accessing the capital markets on the basis of its own business risks. The capital structure, when combined with the ROE, should be sufficient in principle to allow the utility to maintain investment grade credit ratings. Yukon Electrical's customers have the benefit of the debt ratings of CU Inc. (or "CUI"), one of the most highly rated utilities in Canada. Those ratings give Yukon Electrical and Yukon Electrical's customers access to a lower cost of debt than would otherwise be available to it. The capital structure which should be maintained by Yukon Electrical should be consistent with the cost of debt that customers enjoy. It would be unfair to shareholders to adopt a common equity ratio for Yukon Electrical that was only adequate to support a BBB rating, but to give Yukon Electrical's ratepayers the benefit of CU Inc.'s A rated cost of debt. Allowing a combined equity ratio/ROE which understates Yukon Electrical's stand-alone cost of capital results in a misallocation of resources and a cross-subsidy from CU Inc. and the ratepayers of its other regulated operations to the ratepayers of Yukon Electrical. Moreover, the combination of equity ratio and ROE must produce an overall return which is consistent with the returns available to comparable risk enterprises.

The proposed common equity ratio reflects Ms. McShane's analysis of Yukon Electrical's business risks. From this analysis, Ms. McShane concluded that Yukon Electrical, as a very small utility operating in a service territory with an undiversified economic base and facing significant geographic physical/operating challenges, is

exposed to a significantly higher degree of business risk than the typical electricity distribution utility in Canada, and is of higher than average business risk within the spectrum of Canadian utilities. The specification of the appropriate capital structure was based on an analysis of (1) the capital structures allowed for Yukon Electrical's peers, in conjunction with any incremental equity risk premiums that have been adopted, (2) the actual capital structures maintained by other utilities (as these are the capital structures which are the basis for debt ratings), (3) the guidelines for capital structure and A debt ratings set forth by the debt rating agencies, and (4) an analysis of the resulting financial metrics (coverage ratios) that would result from the combined capital structure and ROE. The analysis also took into account the views of the debt rating agencies that the prevailing capital structures for Canadian utilities are weak, both relative to their U.S. peers and for their existing debt ratings.

In summary, Ms. McShane's analysis demonstrated that a common equity ratio at the upper end of the range of 47.5% to 52.5% would be required to fully compensate for Yukon Electrical's higher business risks, to be consistent with debt ratings in the A category, and, in conjunction with an ROE applicable to an average risk Canadian utility, would meet the comparable returns standard. In this last context, Ms. McShane noted the importance of recognizing changes that have occurred in the capital markets since the capital structure was last determined for Yukon Electrical. She testified that "the basic reason that we're proposing a change in the capital structure is things have changed; markets have changed. What we would consider to be comparables have changed; the markets have become much more global; we're no longer just looking at comparisons with other Canadian utilities. You have to be aware of and compete with utilities across North America. We have all of these companies in the utility infrastructure area that are going to be going out and raising billions of dollars in utility pipe and transmission and new generation, and you need, as a utility, to offer a capital structure that's comparable, competitive." (2T149)

Ms. McShane expressed concern with moving the actual common equity ratio to 52.5%. As noted, there is a fundamental incongruity with requiring common

shareholders to contribute additional equity to have the opportunity to earn an ROE that is widely regarded as inadequate (2T198). Various studies in support of the conclusion that the formula driven ROEs are viewed as inadequate was provided in response to YUB-YECL-44. As a result, she recommended that Yukon Electrical move to a common equity ratio of 47.5% (the bottom end of the range) and that the Board adopt an ROE of 9.25% equal to the generic ROE of 8.75% plus an incremental equity risk premium of 0.5%. The incremental equity risk premium of 0.5% represents the incremental ROE that would be required as compensation to equity shareholders to recognize the higher financial risk in the 47.5% common equity ratio relative to the 52.5% required to equate Yukon Electrical to an average risk utility.

(iii) Cost of Debt

As noted in its Application (p. 8-2) the cost of debt for Yukon Electrical includes the weighted average cost of all long term advances from its parent company, ATCO Electric. Yukon Electrical's forecast imbedded cost of debt of 6.60% for the Test Period is explained at p. 8-2 of the Application.

During the course of these proceedings considerable discussion took place regarding Yukon Electrical's borrowing from its parent company. In fact, there appears to be considerable confusion regarding the benefits that Yukon Electrical receives from adopting this approach. As noted, CU Inc. has one of the highest debt ratings of any utility in the country and therefore the lowest rates possible, which are mirrored down to Yukon Electrical. As such, Yukon Electrical is getting the most competitive rates available, even though it would not be able to do so on its own (2T140-141).

During the proceeding questioning focused on the issuance of debt and the mirroring down of such debt by ATCO Electric to Yukon Electrical. As indicated, Yukon Electrical did not initially get any funds loaned to it at the time ATCO Electric actually made its debt issues earlier in 2008. However, given that it now appears that CUI will not actually have another debt issue in 2008 (given current market conditions) the

current proposal is to mirror down funds to Yukon Electrical at the weighted average cost of 5.623% incurred by ATCO Electric (2T179-80, 237).

While Yukon Electrical recognizes that this debt rate is below that included in its Application, it reiterates the view that the forecast included in its Application was based on the best information available at the time and, as such, should be accepted by the Board and approved as such.

During the proceedings questioning also occurred with respect to the recent decrease in yields based on prevailing market conditions. While the witnesses acknowledged that yields are indeed down one must take into account the offsetting increase in spreads, with the result that utilities are not able to borrow at lower rates. In fact, this will yield higher utility debt costs (2T156-157; 219).

(iv) No Cost Capital

During the course of these proceedings brief questioning occurred with respect to Yukon Electrical's no cost capital, including specifically the treatment of other post employment benefit ("OPEB") plans. As indicated, for the Test Period Yukon Electrical is proposing to treat OPEB on a cash basis. As explained, this change was made in order to ensure consistency with Yukon Electrical's parent and as well, to pass the benefits of this approach along to ratepayers during the Test Period (2T236).

(v) Deferred Charges and Credits

During the course of these proceedings brief questioning occurred regarding Yukon Electrical's proposed rate case reserve account. As indicated, Yukon Electrical is using a reserve account to flow through to customers the costs associated with its GRAs. The proposed reserve account would operate in the same manner as the Reserve for Injuries and Damages and would see a constant amount amortized each year. Yukon Electrical submits that its forecast of \$750,000 for both Phase I and Phase

II Applications is reasonable for purposes of establishing the annual amount to be included in the reserve account, as it includes all outside costs, including expert consultants for cost of capital and depreciation testimony.

Yukon Electrical is also using a reserve account to flow through to customers the costs associated with major cyclical diesel plant overhauls and rebuilds. Yukon Electrical notes that this treatment is consistent with the treatment for overhauls approved in the 1996/1997 proceeding; and submits that it is reasonable and appropriate to continue this treatment for the Test Period.

9. CAPITAL ADDITIONS

Yukon Electrical is aware that the quantum of capital additions requested by it for the Test Period is materially above the level that was actually incurred in the years prior to the Test Period. However, upon closer scrutiny of the requested increase in capital expenditures, it becomes clear that three unique and distinct projects are primary responsible for this increase. Each of these projects will be discussed in detail below.

(i) North of 60 Billing System

In Response to Information Request YUB-YECL-16, Yukon Electrical filed a detailed Business Case to support its new billing system. As explained, the existing Customer Care and Billing System is over 30 years old and is based on a IMS data base technology that is no longer economically supportable. As explained, the ATCO based Alberta utilities have discontinued the use of the old billing system and the costs of the North of 60 companies continuing to use the system on their own, without the benefits of the economies of scale previously enjoyed, is prohibitive. Therefore, in late 2006/early 2007 Yukon Electrical, in conjunction with Northland Utilities (Yellowknife) Limited and Northland Utilities (NWT) Limited, completed a detailed search and evaluation of various potential billing solutions. A decision was made by the North of 60 utilities to proceed with ATCO-CIS.

As detailed in the Business Case, extensive work was conducted in order to ensure that the billing system was the best solution for customers from a functional and technical point of view, as well as, a cost perspective (3T334-335). Yukon Electrical confirmed that it is sharing the costs of the new billing system with the other Northwest Territories based ATCO Electric affiliates, in order to minimize costs to all ratepayers (3T337). Yukon Electrical submits that it has conducted an extensive examination to determine the most appropriate billing system for its use and has arrived at a cost effective solution that provides maximum benefits to customers. As such, Yukon Electrical requests that the costs included in its Application for this billing system be approved, as filed.

(ii) Automated Meter Reading ("AMR")

A detailed Business Case with respect to the proposed AMR project was provided in Response to Information Request YUB-YECL-15. As discussed extensively during the proceeding, while the AMR technology will provide the opportunity for significant enhanced benefits in the future, the business case is based upon economic benefits that will be derived from this conversion over its life, without consideration of these future, additional benefits. In this regard, it is critical for the Board to understand that the AMR project is justified solely on the basis of cost savings over the life of the project based on its current intended use. As the business case indicates, the project is forecast to provide customers with long-term savings of approximately \$900,000 over the life of the project. The other benefits that would potentially be derived from the adoption of the AMR technology would only serve to enhance the overall benefits to be achieved from utilization of this technology. Yukon Electrical submits that the time has arrived for it to implement this significant technological advance that will serve customers well into the future. As stated, implementing AMR is a business altering development (1T125-126). As well, this is proven technology that is presently being used by ATCO Electric and other smaller utilities. It was noted that AMR has previously been implemented by the Northwest Territories Power Corporation (3T383).

As explained during the hearing, certain fees are payable to ATCO Electric for the assistance it is providing to set up and test the subject meters, as well as to test and seal the meters in ATCO Electric's Federally accredited Alberta based facilities (3T382-386). Yukon Electrical submits that the work performed by ATCO Electric is vital to the implementation of the project and are fair and appropriate.

Yukon Electrical also provided sensitivities regarding the capital costs that are forecast to be incurred in order to implement its AMR project (3T322-323). Yukon Electrical submits that the information provided on the record demonstrates that this project will provide both short and long term benefits to customers and, as such, should be approved, as filed.

(iii) Carcross Diesel Generator

Yukon Electrical has included in its 2009 forecast capital expenditures \$2.0 million for a new 1.5 megawatt power plant to be installed at Carcross. As explained in its Application and during questioning, the communities of Carcross-Tagish are forecast to have a peak load during the Test Period which exceeds 1 megawatt. An examination of the criteria contained in Yukon Energy's 20 Year Resource Plan, with which Yukon Electrical agrees, indicates that such communities are candidates for the installation of backup generating plants and this was one of the factors considered by Yukon Electrical in reaching the decision that a new 1.5 MW power plant should be built at Carcross.

During the course of these proceedings extensive discussion occurred regarding the justification for the construction of the Carcross diesel plant. As explained by Yukon Electrical, higher outage levels have been experienced in the Carcross-Tagish area than in other portions of its service area, which have standby diesel generation available when Grid service is not available. As indicated, Yukon Electrical owns the distribution lines in this area and is responsible to address the extensive outages that have been experienced and deal with the resulting customer complaints. In addition, Yukon

Electrical considers that it has a requirement to provide non-discriminatory service to its customers and notes that other areas within its service territory that are approximately the same size do have backup local generation to support the provision of service to the community when electricity from the Grid is not available (1T116-117).

Yukon Electrical indicated that the level of service to its customers is of concern, due to the large amount of outages that are a function of these communities being at the end of a long radial line. Yukon Electrical confirmed that it is concerned with providing safe and reliable service to its customers and fulfilling its obligation to do so. During questioning, Yukon Electrical introduced a graph (Ex. B-17) which depicted the outages experienced in the Carcross-Tagish area versus other areas that are of similar size, but served by backup generation. Yukon Electrical observed that the impact of local diesel generation was to significantly increase the level of reliability and decrease the duration of outages experienced by these communities. As noted by Yukon Electrical, the Whitehorse generators are quite a ways away and generation needs to be more localized in order to address the identified reliability and outage concerns (3T332-333). As indicated, Yukon Electrical is seeking to install the Carcross plant in order to facilitate improved service in the area, which is currently at a substandard level of service compared to what Yukon Electrical would expect and based on an analysis of the level of service provided to other areas (3T393-394).

Additionally, Yukon Electrical noted that the new Carcross diesel plant would be on skids and available to other communities, such as Watson Lake, which had experienced difficulty in obtaining back-up generation in the past (3T395). This is seen as an additional benefit arising from the installation of this unit.

Yukon Electrical submits that the approval of the Carcross Generating Station is necessary in order to provide an appropriate level of service to the Carcross-Tagish area. For the reasons identified above, Yukon Electrical submits that this requested capital expenditure should be approved, as filed.

(iv) Miscellaneous Capital Issues

During the course of the hearing Counsel for YEC conducted a brief cross-examination with respect to the Haines Junction diesel unit that has been included in Yukon Electrical's rate base for an extended period of time. While YEC attempted to narrow the focus of the justification for the Haines Junction unit to a requirement to add system support, it is very clear from the record that this was not the rationale which supported the construction of this unit. As clearly indicated by Yukon Electrical, the rationale supporting the installation of the Haines Junction unit was as a result of extended outages and lengthy restoration times experienced with respect to this community when there were Grid outages (3T397-398). Yukon Electrical submits that should any residual confusion remain regarding the rationale for the installation of the Haines Junction diesel unit it has now been cleared up, as it had nothing to do with Grid capacity. Rather the justification related to the extended outages and lengthy restoration times experienced in the area (1T113-115).

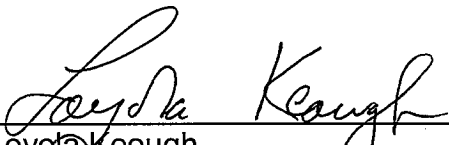
Yukon Electrical was also questioned to some degree on what was included in the "other" basket category for various of its capital addition sub-accounts. Yukon Electrical notes that this issue was addressed for certain periods in YUB-YECL-47 and 48. As explained by Yukon Electrical, the other category represents smaller, frequently reoccurring types of projects that are below the individual project cost threshold of \$75,000 adopted by Yukon Electrical for these proceedings. Yukon Electrical confirmed that its forecast for these smaller projects use historical levels of actual costs incurred to develop the forecast for the Test Period (3T373-376).

Yukon Electrical submits that aside from the three projects identified above, that are new to the Test Period, it is "business as usual" for Yukon Electrical from a capital expenditure point of review. Yukon Electrical confirmed that it has available the resources necessary to complete its forecasted capital program (3T397). Yukon Electrical requests that its forecast of capital expenditures be approved, as filed.

10. INCOME TAX

No real issues arose with respect to this aspect of Yukon Electrical's Application. As indicated, Yukon Electrical is requesting an income tax rate deferral account in order to ensure that it can pass through the benefits of anticipated reductions in income tax rates to customers over the Test Period.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 27th day of October, 2008.



Loyda Keough
Counsel for The Yukon Electrical Company Limited