

**YUKON ENERGY CORPORATION (“YEC”)  
2017 - 2018 GENERAL RATE APPLICATION  
COMPLIANCE FILING**

**ARGUMENT OF  
THE CITY OF WHITEHORSE**

**April 19, 2019**

## **1. Introduction**

1. This argument is filed on behalf of the City of Whitehorse (“CW” or the “City”) which participates in this proceeding on behalf of the City and its residents, and is guided by what it considers to be in the best interests of the City as a corporation as well as what is in the best interests of its citizens.

### **Undue Complexity of Energy Reconciliation Adjustment (“ERA”) and Low Water Reserve Fund (“LWRF”)**

2. In its reply argument in the proceedings leading to Board Order 2018-10, the City expressed agreement with ATCO Electric Yukon (AEY) that the ERA and the Diesel Contingency Fund (“DCF”) mechanisms were unduly complex and the City supported efforts aimed at improvements, clarifications, or simplifications.
3. At paragraph 320 of Appendix A: Reasons for Decision in Board Order 2018-10, (“Board Order 2018-10”) the Yukon Utilities Board (“Board”) held that the existing DCF was complex and in paragraphs 318-325 the Board provided directions to Yukon Energy Corporation (“YEC”) aimed at simplifying the mechanism and addressing these concerns.
4. The City has reviewed the IR responses from YEC to AEY with respect to efforts to simplify what is now the LWRF, and submits that further simplification and clarity is still required. The City submits that the same remains true for the ERA.

### **Concerns Regarding Disconnect Between Revenues and Costs**

5. For some time, the City has had concerns that there may be a disconnect between the revenues collected in rates and the costs of providing the services the rates are designed to collect. An example with respect to AEY are concerns about the rates and costs for street lights.
6. Arising from the record in this YEC compliance filing, the City is concerned that the revenue derived from wholesale sales to ATCO Electric Yukon (AEY) are subsidizing

the costs of other customers, which results in the customers in Whitehorse subsidizing customers outside of Whitehorse.

7. As noted in the YEC Application the volume of sales for the wholesale rate increased by 19,426 MWh in 2017<sup>1</sup> and 5,181 MWh in 2019.<sup>2</sup> Usually an increase in sales in one rate class results in the decrease in the rates charged to that rate class, yet YEC has indicated it will not change the rates charged, only the forecast sales and revenues.<sup>3</sup> Under normal utility rate principles, it would be the City’s expectation that an increase in forecast sales, without a corresponding increase in forecast costs should result in a reduction in the rate charged. Without a Phase II application, where the costs are allocated to rate classes based on an analysis of cost causation, this kind of cross subsidization will continue.
8. The City sought information about when YEC would file a Phase II application to address this issue. In response to CW-YEC-1-2 (b), YEC indicates that it is not proceeding with a Phase II proceeding at this time. To justify this, YEC refers to OIC 2018/220 and Board Order 2013-01.
9. OIC 2018/220 amends the *Rate Policy Directive* first enacted in OIC 1995/090, and subsequently amended including in OIC 2012/68, which replaced section 2.1 with section 2.1 subparts (1) (2) and (3). OIC 2018/220 amends subsection 2.1 (1) and repeals subsections 2.1 (2) and (3) leaving subsection 2.1 (1), which as amended reads as follows:

2.1(1) The Board must ensure that rate adjustments for retail customers and major industrial customers apply equally, when measured as percentages, to all classes of retail customers and to the class of major industrial customers.
10. The City understands that this Order-in Council effectively prevents the Yukon utilities from filing a Phase II application.

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<sup>1</sup> Tab 7 Schedules comparisons – 2017 GRA Compliance Filing, Schedule 9

<sup>2</sup> Tab 7 Schedules comparisons – 2018 GRA Compliance Filing, Schedule 9

<sup>3</sup> CW-YEC-1-1 (a)

11. The City notes that the current rates were approved in the decision on the Joint 2009 Phase II rate application filed by YEC and AEY.<sup>4</sup> That decision was issued nearly 10 years ago,<sup>5</sup> and as such, the City submits that it would be entirely appropriate to reexamine the costs, cost allocations and loads attributable to the various customer groups.
12. Given the elapsed time since the last Phase II Decision, and the real possibility that changes in costs and loads may have resulted in current rates no longer being cost based, the City respectfully submits that parties, including the Board and YEC should consider taking reasonable steps with the Territorial Government to request an Order In Council amendment to allow for a joint Phase II application in conjunction with the next YEC and AEY GRAs.

### **Risk premium**

13. In the proceedings leading to Board Order 2018-10 the City argued that the extensive use of deferral accounts by YEC should result in a reduced risk premium. In the result, after reviewing a number of considerations, the Board did not approve the 57 basis point risk premium applied for, but instead approved a 45 basis risk premium.<sup>6</sup>
14. While the City appreciates the Board’s decision in this regard, this compliance filing provides further support for the City’s view that this issue may need to be explored further in the future.
15. In YUB-YEC-1-1, the Board asked about non test year risks. In the response, YEC states:

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<sup>4</sup> CW-YEC-1-1 (b) and (c)

<sup>5</sup> Board Order 2010-13

<sup>6</sup> Board order 2018-10, paragraph 283

**Unless otherwise specified in an approved deferred cost mechanism and/or a specific rate mechanism (e.g., ERA) that shifts cost variance to ratepayers or the wholesale utility (subject typically to a future YUB review), YEC bears the risk of revenue requirement items varying from approved GRA forecasts. This applies during non-test years as well as test years (as approved rates do not vary in non-test years from those last approved for a test year).**

The definition of “bearing the risk” in this context is specifically about who has responsibility for a cost risk between GRA decisions of the Board, i.e., this automatically includes any non-test years that may occur between such GRA decisions. On cost risks borne by the utility (e.g., for load forecasts), each GRA re-opens the forecast and ability to adjust as needed (subject to YUB review and approval).

Approved deferred cost mechanisms that shift cost variance from approved GRA forecasts to ratepayers (typically subject to a future YUB review) currently exist for thermal fuel prices, impacts on thermal fuel generation costs due to water-related changes in hydro generation, RFID related costs for unexpected events or losses, and potentially other specific cost items as approved by the YUB from time to time. In accordance with normal principles established in Canada for utilities, these deferred cost mechanisms apply during non-test years as well as test years. Specific to thermal generation variances, the response to Round 2 interrogatory YUB-YEC-2-1(d) provides a detailed risk-based justification for assigning thermal generation variances to ratepayers. (Emphasis Added)

16. Effectively, YEC is saying that once the forecast is set, it bears the risk of variances except where there is a deferral account. The City notes that, for 2017, based on Board direction, YEC used 2017 actual results rather than any forecast. As such, there is no risk of forecast variances borne by YEC or its shareholders in 2017; the entire risk was borne by customers. In responses to YUB-YEC-1-4, YUB-YEC-1-5, YUB-YEC-1-6, and YUB-YEC-1-7 the Board sought information about variances between forecast and actual results for 2017.
17. The City submits that in the result, YEC essentially has it both ways, since it is allowed to recover actual costs in rates for 2017, as well as a risk premium.

18. The City intends to pursue this concern in future applications and acknowledges the Board’s comments in Order 2018-10 that it will require more extensive and better evidence to seriously consider further reductions in the risk premium, arising from this issue.

**All of which is respectfully submitted this 19<sup>th</sup> day of April, 2019.**

[original signed by ] \_\_\_\_\_  
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