Appendix A to Board Order 2015-06
Reasons for Decision

1. INTRODUCTION AND BACKGROUND

The Yukon Utilities Board (Board) received an application dated April 7, 2015 from Yukon Energy Corporation (YEC). The application was filed in response to Board directions in Board Order 2015-01, issued February 6, 2015, regarding revisions or amendments to the Diesel Contingency Fund (DCF) and to the portions of Rate Schedule 42 that relate to the Energy Reconciliation Adjustment (ERA) (Compliance Application).

On page 14 of Appendix A to Board Order 2015-01, the Board stated:

> Therefore, although the Board has noted the other parties concerns regarding the YECSIM model, and is aware that the YECSIM model has not been tested before the Board, the Board accepts the DCF as proposed by YEC because it is a fund for customers to smooth rate impacts for those occasions when hydro generation is less than LTA or to build up the fund when hydro generation is greater than LTA. The Board approves the DCF as proposed by YEC. However, the Board directs that the DCF fund is to be used only for variations from LTA water availability. Any application to utilize the fund in some other fashion will require the closing of the fund, the refunding of any balances to customers, and the direction for YEC to use short-term forecasts for its hydro generation for future GRAs. [footnotes omitted]

On page 15 of Appendix A to Board Order 2015-01, the Board stated:

> YEC is to reflect the result of this decision in its compliance filing to this decision. In the compliance filing, YEC is to provide an updated balance for the DCF and include any actions to be undertaken regarding that balance if necessary.
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> To summarize, secondary sales or diesel being “on the margin” are not hurdles to be overcome before the DCF is applied. The Board accepts there is sufficient load on the system for diesel to form part of baseload generation and therefore to apply the DCF.
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> Whatever model YEC uses to determine LTA hydro generation, DCF calculations or other forecast process, that model and its results, or other forecast process must be made available for testing by the Board and interveners.
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> The DCF is to be used for variations in LTA hydro availability. Any application of the DCF outside of this intended use may result in the cessation of the DCF, the dispensation of any balance in the DCF, and the use of short-term forecasts for hydro generation in future GRAs.

> The DCF will have a cap of +/- $8 million as proposed by YEC. If the balance in the DCF falls out of the +/- $8 million range, YEC shall make an application to the Board to dispense with the balance that is outside of that range within 60 days of the outside-the-range occurrence.

Regarding the ERA, the Board stated on page 23 of Appendix A to Board Order 2015-01 the following:

> For the ERA, the Board interprets costs narrowly; to be clear, the costs are for actual diesel generation costs, not forecast or derived costs from the YECSIM model.
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> Based on the above interpretation of Section 7 of OIC 1995/90, the Board has the following concerns regarding the YECSIM model:
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> (1) The Board is of the view that the results of the YECSIM model cannot be verified;
> (2) The YECSIM model is a planning tool and not a billing engine; and
> (3) Operational decisions of YEC can affect variables such as losses and in turn affect diesel generation requirements.
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> For the above reasons, the Board does not accept the ERA as proposed by YEC.
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> …
>
> The Board is also of the view that the ERA does not need to be linked to the DCF to comply with O.I.C. 1995/90. The ERA, as determined by the Board, is a comparison of forecast and actual values and therefore the DCF calculation does not need to be completed before ERA amounts are determined.
>
> In its compliance filing to this decision, YEC is to provide a revised ERA that is based on actual diesel costs. That is, if actual diesel costs are higher than the levels of diesel contained in YEC's latest approved forecast, then those costs which are attributable to YECL's wholesale purchases that are in excess of those in the last approved forecast will become billable to YECL. The converse is also true: a credit applies when diesel costs are lower and that reduction in cost relates to YECL wholesale loads being less than forecast. Further, in the event ERA costs are billable to YECL, YEC must provide those charges to YECL within 30 days of the close of the year to which those charges relate. [footnotes omitted]

2. DISCUSSION

2.1 DIESEL CONTINGENCY FUND (DCF)

In its Compliance Application regarding the DCF, YEC stated the following:

1. The Board does not now consider diesel being "on the margin" a necessary criteria for invoking the DCF.
2. The Board approved a DCF fund cap of +/-$8 million as proposed by YEC.
3. The Board accepted the results from YEC's YECSIM model to provide long-term average (LTA) water availability forecasts for the hydro zone that were used in the determination of DCF amounts.
4. YEC provided updated balances for the DCF for each of the years 2012, 2013 and 2014.
5. YEC proposed a rider (Rider E) to dispense with the DCF balance in excess of the approved +$8 million dollar cap, effective May 1, 2015 and to run for 12 months. YEC requested that all future DCF rate riders commence on the same date April 1.
6. YEC requested a change from the Board direction requiring quarterly reporting of the DCF balances. YEC proposed the following:

    > Quarterly reports regarding the DCF calculations and DCF balance updates will be provided based on interim determinations prior to a fiscal year end and will only be used as placeholders. The quarterly DCF calculations will be based on forecast loads for the year at the time of calculation as the DCF table calculates the expected diesel amount based on annual load, not quarterly. Only year-end determinations will in fact have ongoing relevance for accounting and rate riders.[1]
7. As forecast load for 2014 is expected to be less than 400 GW.h, YEC provided an updated Table 1.1-1 Expected Diesel Generation to include load levels at 390 GW.h and 395 GW.h.

2.1.1 Views of the Parties

2.1.1.1 Yukon Electrical Company Limited (YECL)

YECL's comments were limited to the ERA. YECL did not make any direct comments relating to the DCF.

2.1.1.2 Utilities Consumers' Group

The UCG submitted that the "… YEC Compliance filing for 2014 for DCF calculations as $1.342 is an inaccurate measurement". In addition, the UCG accused YEC of "… unilaterally changing the goal posts as per Board Order 2013-01 in their Table 1.1-1 to their advantage". The UCG also stated that "… all Industrial Primary customers be excluded from any DCF rider rebate…"[2]. Finally, UCG requested that Rider E, the DCF rebate Rider, should be dispensed over a two-year period instead of the one-year period as submitted by YEC in its application.

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[1] YEC Compliance Filing, April 7, 2015, page 3.
[2] UCG submission, May 21, 2015, page 2.

2.1.1.3 Yukon Energy Corporation

YEC provided the following responses to the UCG submissions. In relation to the Rider E rebate period, YEC noted that UCG provided no justification or explanation for its request for a two-year rebate period. Furthermore, "As explained in the Compliance Filing, the proposed approach recognizes the direction to provide rebates where applicable at the end of each year, and simply seeks to avoid multiple DCF riders applying at any one time".[3]

Regarding the exclusion of Industrial Primary customers from the DCF rider rebate, YEC stated "… each customer class has paid into the DCF and charging Industrial Primary customers rates based on DCF charges without affording them the same benefits that all other customer classes paying into the account receive would be rate discrimination"[4]. Respecting the 2014 DCF calculations used in the compliance filing, YEC stated '… it is unclear on what basis UCG is arguing that the DCF calculations are "inaccurate …"'[5]. YEC added "UCG appears to argue that YEC should determine its thermal generation savings for the DCF in 2014 based on the last GRA forecast amounts without any modifications to reflect long-term average (LTA) generation at actual grid loads for 2014"[6].

2.1.1.4 Views of the Board

The Board is not persuaded by YEC's submissions that the following direction from Board Order 2015-01 dated February 6, 2015 should be changed:

> 2. YEC is to commence quarterly reports regarding the balance in the DCF account effective March 31, 2015.

In Appendix A to Board Order 2015-01, the Board refers to YEC's DCF proposal for reporting which states:

> 4. Incorporates changes to reporting (reporting to be done on a quarterly basis with a narrative section indicating what if any action is required for the DCF (replenish or refund). Furthermore, the quarterly reports are to include working spreadsheets detailing the calculations and annual filings will allow parties the opportunity to provide comments). [7]

The Board approved the DCF as proposed by YEC including the DCF cap of +/- $8 million.[8] In Appendix A to Board Order 2015-01, YEC was not directed to make any changes to the quarterly reports proposed by YEC. Therefore, the Board does not approve the change to the quarterly reports requested by YEC.

[3] YEC Reply, June 3, 2015, page 5.
[4] YEC Reply, June 3, 2015, page 5.
[5] YEC Reply, June 3, 2015, page 5.
[6] YEC Reply, June 3, 2015, page 6.
[7] Appendix A to Board Order 2015- 01, page 3.
[8] Appendix A to Board Order 2015-01, page 15.

Subject to the above regarding the quarterly reports and the Board's directions in the ERA section of this decision that affect the DCF, the Board accepts the submissions from YEC in its compliance filing and finds that YEC has complied with the directions regarding the DCF in Board Order 2015-01.

2.2 ENERGY RECONCILATION ADJUSTMENT (ERA)

In the cover letter to its April 7, 2015 submission, YEC stated:

> As noted in the Compliance Filing, YEC has sought to implement the directions of the Board to assign costs (or credits) to AEY that are attributable to AEY's wholesale purchases that are in excess of (or less than) the wholesale forecast approved for YEC's last GRA in years when AEY's variance from this approved forecast is in the same direction as YEC's variance of actual diesel costs from the last approved forecast. However, as outlined in Appendix B, the ERA determination is dependent on confirmation of the definition of "actual diesel costs" for the purposes of the ERA. To ensure that the ERA determination did not yield unacceptable results, Yukon Energy has incorporated into its calculations the definition for "actual fuel costs" set out in Section 2.1.1.4 of Order 2015-01.

On page B-1 of its Compliance Application, YEC provided two references for YEC's "actual diesel costs". The first definition is from section 2.1.1.4 of Appendix A to Board Order 2015-01, which pertains to DCF determinations and for those purposes, refers to costs of diesel generation under LTA hydro and wind generation conditions. The second definition is from section 2.2.1.4 of Appendix A to Board Order 2015-01, which pertains to ERA determinations and for ERA purposes, looks at actual diesel generation costs before DCF charges or credits are considered.

YEC argued that the second definition resulted in two potential outcomes which it deemed "perverse". The first outcome could occur under drought conditions (where water availability is less than LTA) where double accounting of DCF related diesel costs would occur, i.e., YEC would receive payments from both the DCF and the ERA (from YECL) for the same added costs for actual diesel generation being higher than LTA. YEC pointed out that if YECL sought recovery of those ERA costs from ratepayers, then effectively, ratepayers would be charged twice for the same costs.

The second outcome could be under high water conditions (where water availability is greater than LTA). In this case, YEC claimed it would be unable to recover the diesel costs, as based on LTA calculations, when YECL wholesales are greater than the GRA forecast.

At page B-4 of the application, YEC provided four steps for determining potential ERA charges:

1. Determine YEC's "actual diesel costs" for the year.
2. Determine if YEC's "actual diesel costs" are higher than "the levels of diesel" contained in YEC's latest approved forecast (or are lower than in the latest approved forecast).
3. Determine if AEY's wholesale purchases varied from the last approved forecast, and if this variance was in the same direction as YEC's actual diesel cost variance from the last approved forecast.
4. If an ERA is determined to be potentially applicable [based on test in #3], then determine those actual diesel cost increase or decreases of YEC that are "attributable to" (or that "relates to") the variance in AEY wholesale purchase from the last approved forecast (per #3).

YEC concluded by noting that if DCF determinations needed to be made to finalize the ERA for any given year, then it would not be possible to provide the ERA to YECL within 30 days of year end. Therefore, YEC proposed that the ERA be determined concurrent with the DCF within 60 days of year end.

In response to an information request from the Board (YUB-YEC-1-001), YEC stated that it would be harmed if a definition of "actual diesel costs" other than the first definition noted above was used.

2.2.1 Views of the Parties

2.2.1.1 Yukon Electrical Company Limited

YECL stated[9]:

> Based on its review of the aforementioned material, AEY [YECL] submits that YEC's Compliance Filing does not comply with the Board's specific directions regarding the ERA in Board Order 2015-01 and instead appears to challenge the Board's directions in an attempt to explain why they should not be followed. Further to this, it appears the ERA calculations in YEC's Compliance Filing do not materially vary from those presented by YEC in its January 31, 2014 DCF-ERA submission, in spite of the Board's very clear statement in Board Order 2015-01 rejecting YEC's proposal regarding the ERA:
>
>> *For the above reasons, the Board does not accept the ERA as proposed by YEC.* [footnote omitted]

…

> Further to the above, AEY [YECL]submits that YEC continues in its Compliance Filing to tie the ERA to the DCF calculation and to base the ERA amounts it

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[9] YECL submission, May 21, 2015, pages 1-2.

> proposes to charge to AEY [YECL] on costs derived from the YECSIM model. This approach is in direct contradiction to the Board's specific directions in Board Order 2015-01:
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> *The Board is also of the view that the ERA does not need to be linked to the DCF to comply with O.I.C. 1995/90. The ERA, as determined by the Board, is a comparison of forecast and actual values and therefore the DCF calculation does not need to be completed before ERA amounts are determined.*
>
> *For the ERA, the Board interprets costs narrowly; to be clear, the costs are for actual diesel generation costs, not forecast or derived costs from the YECSIM model.* [footnotes omitted]

YECL further added:

> AEY [YECL] submits that YEC has not complied with the directions from Board Order 2015-01 by failing to provide a revised ERA that is based on actual diesel costs, with actual being defined as real, verified diesel costs instead of derived costs from the YECSIM Model[10].

2.2.1.2 Utilities Consumers' Group

In UCG's submission of May 21, 2015, they did not provide any specific comments with respect to the ERA.

2.2.1.3 Yukon Energy Corporation

YEC responded to YECL's comments as follows:

- More particularly, AEY completely ignores the material unacceptable results arising from the interpretation of the Board's Order. It chooses instead to take an overly rigid view of the Board's Order and the compliance process without embarking upon any useful engagement of the issues identified by Yukon Energy and tested by the Board's IRs[11].

YEC pointed to its responses to the Board's information request to argue that:

- Actual diesel costs for YEC are LTA diesel costs for the grid load incurred; there is no double counting when considering the DCF and ERA; and
- YEC would be harmed if the ERA was discontinued with the existence of the DCF.

[10] YECL submission, May 21, 2015, page 2.
[11] YEC June 3, 2015 response, page 2.

- Incremental LTA diesel generation from incremental grid load is reflected in the DCF calculation, and YEC does not collect from its retail and major industrial customers all incremental diesel costs caused by sales to these customer classes above GRA approved forecasts.
- Further, the fact that actual diesel generation is less than expected (LTA) diesel at GRA load forecast has no relevance as to the actual diesel costs YEC incurs on its income statement for diesel generation at the grid load actually incurred, and determining the ERA based on LTA diesel generation will eliminate "patently unacceptable" impacts (as defined in the Compliance Filing analysis) to all stakeholders under drought water conditions[12].

YEC added that the responses to the Board's information requests addressed concerns regarding the verification of the YECSIM model stating "…actual diesel costs incurred by YEC on its income statement for LTA diesel as determined by YECSIM-derived tables approved by the Board are fully verifiable, and provide a clear basis for determination of ERA billing charges"[13]. [footnote omitted]

YEC contended that as the DCF and ERA are based on LTA diesel, the ERA would not be affected by changes in water levels or by YEC operational decisions; whereas an ERA based on actual diesel consumption is affected by water levels and operating decisions. Also, the impact of Rate Schedule 42 (ERA) on YECL can be fully considered at any future YECL GRA.

2.2.1.4 Views of the Board

Contrary to the submissions of YEC, the Board was cognizant that the definition of "actual costs" for ERA purposes was different from that used for the DCF. On page 23 of Appendix A to Board Order 2015-01, the Board stated:

> For the ERA, the Board interprets costs narrowly; to be clear, the costs are for actual diesel generation costs, not forecast or derived costs from the YECSIM model. [underlining added]
>
> And
>
> In its compliance filing to this decision, YEC is to provide a revised ERA that is based on actual diesel costs. That is, if actual diesel costs are higher than the levels of diesel contained in YEC's latest approved forecast, then those costs which are attributable to YECL's wholesale purchases that are in excess of those in the last approved forecast will become billable to YECL. [underlining added]

[12] YEC June 3, 2015 response, pages 2-3.
[13] YEC June 3, 2015 response, page 4.

The Board observes that in its June 3, 2015 submission (page 4) YEC stated:

> Yukon Energy submits that its responses to the Board's clarifying questions in effect also address other concerns noted by AEY and the Board regarding the YECSIM model verifiability or use as a "billing engine". The actual diesel costs incurred by YEC on its income statement for LTA diesel as determined by YECSIM-derived tables approved by the Board are fully verifiable, and provide a clear basis for determination of ERA billing charges. [footnote omitted]

The Board considers that the above statement of YEC does not address the Board's concerns regarding the verifiability of YECSIM. YECL has previously noted that "… due to its proprietary nature, YECSIM cannot be independently tested or retrospectively verified …"[14]. In addition, the concerns expressed that YECSIM has not been fully tested before the Board still stand. The Board finds that: (a) YEC has not shown that the YECSIM is verifiable for purposes of the ERA; and (b) the YECSIM has not been tested in this compliance proceeding.

Therefore, the Board is not persuaded that the definition of "actual costs" for ERA purposes as provided in Appendix A to Board Order 2015-01 should be changed. Further, as long as actual diesel generation costs are recovered, the criteria in section 7 of OIC 1995/90, are met. By utilizing the Board's definition of actual costs, the Board is of the view that the "perverse outcome" as described by YEC in Appendix B to its application, during high-water years, will not occur because YEC will recover its actual diesel generation costs. To address any "perverse outcome" which can occur during drought periods, that is, where rate payers could be charged twice (once through the DCF and a second time through the ERA), the Board directs YEC to amend Rate Schedule 42 to reflect that during drought periods, when diesel generation costs are recovered through the DCF, YEC cannot invoke the ERA.

2.3 PURCHASE POWER FLOW-THROUGH DEFERRAL ACCOUNT

Although this item was brought up by YECL, it is not part of the compliance filing. The Board provided its views of the Purchase Power Flow-Through Deferral Account in Board Order 2015-01.

2.4 YEC REQUESTED APPROVALS

In its application, YEC requested the following approvals:

1. Approval of Revised DCF Term Sheet as set out in Attachment 1, including Table 1-1, as the basis for DCF calculations for the years 2012, 2013 and 2014 (and any future year until otherwise required to accommodate material load

[14] YEC/YECL Application to Revise the DCF and Related Amendments to Rate Schedule 42 Pertaining to the Energy Reconciliation Adjustment proceeding; YECL Final Argument, paragraph 30.

shape or renewable generation changes), including provision for lower load YEC Grid Load levels at 390 GW.h and 395 GW.h.

2. Approval of DCF amounts as provided in Table A1 of Appendix A for 2012 and 2013 as final and for 2014 as preliminary.
3. Approval of a DCF Rider rate schedule as set out in Attachment 2, applied to consumption on or after the effective date of May 1, 2015, and until or on March 31, 2016, with a rebate of 0.43 cents/kW.h for all firm kW.h retail and major industrial sales in Yukon of YEC and AEY.
4. In any future year when the balance in the DCF (after provision for any existing rate rider impacts) falls outside of the +/- $8 million range at fiscal year-end, approval for YEC to file an application to the Board within 60 days of the fiscal year end for a rate rider to deal with the balance in the DCF that is outside of that range.
5. Approval of ERA charges as per Table B3 of Appendix B for 2012, 2013 and 2014 as final, and approval that in future years the ERA be determined concurrent with the DCF within 60 days of year end, and that the Board be provided with a copy of such determinations.

The Board approves the Revised DCF Term Sheet as set out in Attachment 1 of YEC's April 7, 2015 Compliance Application.

The Board approves the DCF amounts as provided in Table A1 of Appendix A for 2012 and 2013 as final and for 2014 as preliminary.

The Board approves a DCF Rider rate schedule (Rider E) as shown in response to YUB-YEC-1-006, Table 1, applied to consumption effective September 1, 2015 and until or on March 31, 2016, with a rebate of 0.68 cents/kW.h for all firm kW.h retail and major industrial sales in Yukon of YEC and YECL.

The Board does not approve the ERA charges as per Table B3 of Appendix B for 2012, 2013 and 2014. Based on the Board determinations in section 2.2.1.4 of this decision, no ERA charges are applicable for the 2012-2014 fiscal periods. YEC is to amend Rate Schedule 42 as directed by the Board in section 2.2.1.4 of this decision. YEC may apply to the Board for revisions and further testing of the ERA and DCF at the time of its next GRA.