Yukon Utilities Board
Board Order 2024-13

Appendix A: Reasons for Decision

September 13, 2024

1. Introduction and Background

1. The Board received an application, dated August 5, 2024, from YEC pursuant to Board Order 2024-05, issued July 12, 2024.[1] The application explained YEC's submissions regarding its compliance with the directions in Board Order 2024-05.

2. As part of YEC's compliance filing, YEC sought final approvals:

    - for Rider J (Rate Adjustment Rider): set at 55.40 per cent for retail non-industrial customers and 51.75 per cent for industrial customers effective October 1, 2024, applicable to all YEC and AEY firm retail and industrial rates, including fixed Rider F and fixed charge payments for major industrial rates (all AEY recoveries from this rider would flow through to YEC).
    - for Rider J1 (Temporary Rate Adjustment Rider): set at 9.45 per cent, to be in effect for an estimated 27-month period, from October 1, 2024 to December 31, 2026, applicable to all YEC and AEY firm retail and industrial rates including fixed Rider F and fixed charge payments for major industrial rates (all AEY recoveries from Rider J1 would flow through to YEC), to collect the remaining 2023 and 2024 net revenue shortfall as well as required Rider F adjustments for 2023 and January-September 2024. Effective January 1, 2027 (or at such month end when the $15.805 million shortfall has been recovered), Rider J1 would be set to zero per cent.
    - for final Rate Schedule 39 Fixed Charge of $70,352.53 effective January 1, 2023 and $68,969.80 effective January 1, 2024 as provided in Table 1.1-4 a) ii) of this Compliance Filing.
    - to collect Rate Schedule 39 Fixed Charge true-up of $83,976.90 required for 2023 and the first nine months of 2024 from specific industrial customers, Hecla Yukon and VGC Group, as set out in Table 1.1-4a, with recovery of $60,704.90 from VGC Group and $23,271.90 from Hecla Yukon, including pre-2023/24 GRA Rider J [before GST]. These true-up amounts will be recovered based on a payment schedule to be arranged with each customer. They will not be subject to new Rider J or Rider J1 charges.
    - of the average blended fuel price of $0.2022/kWh for thermal generation based on approved LNG fuel cost of $0.1906/kWh and diesel fuel cost of $0.3069/kWh and fuel mix of 90 per cent LNG and 10 per cent diesel as proposed in the Application and required by OIC 2019/25, section 3(2).
    - of the IPP Deferral Account as provided in Appendix 2.1 to this Compliance Filing.

[1] An erratum was issued regarding that decision on July 26, 2024.

- of the amended LWRF Term Sheet to use the lowest short-term borrowing rate available to YEC through its line of credit to be applied as interest to the balance in the LWRF as provided in Appendix 2.2 to this Compliance Filing.

3. YEC requested Board approvals and a final Order be issued before mid-September 2024 so that final rates may be set effective October 1, 2024.

4. YEC indicated that no changes have been made to the 2024 test year forecasts to reflect revenue, load, and fuel cost changes resulting from Victoria Gold heap leach failure in June 2024. However, due to the significance of the Victoria Gold load change, YEC anticipated that the true-up shortfall recovery would be significantly impacted if Victoria Gold is restored as an industrial customer with higher loads, or if it ceases operation entirely with no buy power purchases from the grid. It added that, in the event of material changes to the Victoria Gold related load in 2025 or 2026, YEC would provide an update to the Board regarding the status of Victoria Gold and the status of the collection of the true-up shortfall for the Board's further direction.

5. For this proceeding, the Board issued Board Order 2024-12, dated August 12, 2024, setting a process whereby interveners were given the opportunity to provide comments on YEC's 2023-2024 GRA Compliance Filing by August 19, 2024, and YEC was given the opportunity to reply to intervener comments by August 26, 2024. The Board amended that process through amended Board Order 2024-12A, issued August 21, 2024, whereby the Board issued information requests (IRs) to YEC by August 26, 2024. YEC IR responses were due by September 3, 2024, amended intervener comments were due September 6, 2024, and YEC reply comments were due by September 12, 2024.

6. Initial intervener comments were received from the Utilities Consumers' Group (UCG) on August 19, 2024.

7. IRs were sent to YEC from the Board on August 26, 2024. YEC responded to the IRs on August 29, 2024.

8. The UCG refiled its comments from August 19, 2024 on September 6, 2024. In addition to the refiled comments, the UCG filed a Notice of Motion and added that it had no response to the information responses provided by YEC on the Board IRs. YEC submitted a reply to the amended UCG submission on September 9, 2024.

9. The record for this proceeding closed on September 9, 2024.

10. In reaching the determinations contained within this Board Order, the Board has considered all relevant materials comprising the record of this proceeding. Accordingly, references in these reasons for decision to specific parts of the record are intended to assist the reader in understanding the Board's reasoning related to a

particular matter and should not be taken as an indication that the Board did not consider all relevant portions of the record with respect to that matter.

2. UCG Motion

11. As noted above, the UCG provided a Notice of Motion with its comments on YEC's compliance filing in its September 6, 2024 submission. In its submission, the UCG stated that:

> There was absolutely no mention of how this regulatory decision would affect the upcoming rates nor impacts on ratepayer bills, i.e. interested parties were not informed on these possible impacts to our rates until Yukon Energy released its compliance report.

The UCG added that there was no process to include a review and variance of an order on the matter of increased rates and requested that the Board

> opens the procedure to properly explain and inform how the proposed compliance will affect ratepayer rates/bills and how these rates were determined in contrast to the original application by Yukon Energy, before any final rates are implemented.

YEC responded on September 9, 2024, addressing the concerns raised by UCG and explaining bill impacts and stating the correct cumulative rate increase is 14.08 per cent and not 30 per cent.

12. A compliance filing is the process to determine final rates after a decision has been rendered on a General Rate Application (GRA). The GRA process, and not the compliance process, is the means to test the prudency of costs requested by a regulated utility to provide regulated utility services over a period time known as the test period. In this case, the test period is two years covering the years 2023 and 2024. The Board refers the UCG to the process that it established for the GRA and the hearing held to test the prudency of the GRA and subsequent argument and reply argument. Each element of the revenue requirement submitted by YEC in its rate application was carefully scrutinized and reviewed during the public process. The UCG should be well aware of the process for this GRA as it participated from the outset of the proceeding. The Board's findings on the GRA were set out in Board Order 2024-05 and Appendix A to Board Order 2024-05: Reasons for Decision Errata[2] . As the purpose of this compliance filing is to determine the final rates that result from the Board's decision, the Board finds the UCG motion is without basis or merit and dismisses the UCG motion without further process.

[2] The responses also refer to the errata to Board Order 2024-05.

3. Discussion of Compliance Filing

13. In its compliance filing, YEC responded to the 29 directions issued by the Board in Appendix A to Board Order 2024-05: Reasons for Decision Errata.[3] There were eight additional directions in Appendix A of that Board Order that pertained to future rate applications.

14. Of the 29 Board directions addressed in YEC's compliance filing, additional information was required with respect to YEC's response to directions 9 and 10. These two directions addressed certain aspects of YEC's depreciation expense practices and are discussed in the section below.

4. Board Direction 9 and Board Direction 10

15. Paragraphs 188-191 of Board Order 2024-05 Appendix A Errata, states:

> 188. The Board has examined YEC's forecast depreciation expense calculations and generally finds them to be reasonable subject to the following concerns. Specifically, in YEC's Tab 7 schedules, namely Schedule 3A – Calculation of Depreciation Expense and Schedule 3B – Calculation of Amortization Expense for Deferred Costs and Intangibles, for each of 2023 and 2024, the Board observes on Schedule 3A, there are generally no working formulae contained in the column of the schedule where the forecast depreciation expense is shown. In Schedule 3B, there are often formulae, but the calculations do not appear to reflect any amortization of deferred costs or intangibles on current year additions.
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> 189. In order to provide parties and the Board with more fulsome and detailed information respecting the calculation of YEC's forecast 2023-2024 depreciation expense, in its compliance filing, YEC is directed to file a revised Schedule 3A, in which it will insert a column indicating the depreciation rate being used, and to include working formulae in the column of the schedule where the forecast depreciation expense is being calculated, including the forecast depreciation expense on current year additions. Further, YEC is directed to file a revised Schedule 3B to include working formulae in the column of the schedule where the forecast amortization expense is being calculated, to ensure the calculation of the forecast depreciation expense on current year additions.[93] [Directive #9]
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> 190. In addition to the directions in the preceding paragraph, the Board directs YEC to recalculate its Schedule 3A and Schedule 3B depreciation expense, among other things, based on the incorporation of any Board-directed changes to dates and costs that impact each of forecast capital

[3] The responses also refer to the errata to Board Order 2024-05.

expenditures and capital additions, and any other direction that may result in a change to YEC's depreciation or amortization expense calculation. [Directive #10]

191. Accordingly, subject to the directions in the above paragraphs, and any Board findings and directions made elsewhere in this Board Order, YEC's proposed depreciation expense for the years 2023 and 2024 is approved as reasonable.

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[93] In its response in YEC's 2021 GRA, in Exhibit B-5, YUB-YEC-1-109(b), PDF pages 506-514, that "... YEC calculates depreciation in accordance with international Financial Reporting Standards. Each asset is depreciation monthly based on its costs. For forecast depreciation, the methodology is the same as it provides the most accurate forecast. As stated in part (a), this forecast is system generated. Our understanding is this is not a change from previously approved YEC depreciation expense calculation methodology."

16. At issue in the quoted paragraphs was YEC's presentation of its forecast depreciation expense calculations and the noted absence of formulae, depreciation rate being used, and apparent lack of depreciation expense on current year forecast capital additions. The Board considered that including such detail would provide transparency and enhance all parties' understanding of the depreciation expense component of YEC's revenue requirement calculation.[4]

17. The Board notes that in its responses to the IRs, YEC provided updated calculations and submitted: (1) that its regulatory accounting practices should be maintained at the status quo, or (2) that the Board should alternatively accept YEC's proposal to adopt AEY's method of calculating its depreciation expense in its next GRA.

18. The Board considers that the assertions made by YEC with respect to AEY's depreciation expense calculations, and the adoption thereof, are outside the scope of this compliance filing. Accordingly, the Board has considered the rationale for maintaining YEC's regulatory accounting practices at the status quo and the updated calculations filed in the compliance filing (first the submission of Appendix 2.4 - Schedule 3A Depreciation Expense, followed by YEC's response to YUB-YEC-1-2 Attachment 1 - 2023-24 GRA Tab 7 schedules, Schedules 3A and 3B).

[4] YEC's depreciation expense calculation consists of Schedule 3A (for each of 2023 and 2024) for all capital assets excluding deferred capital assets and Schedule 3B (for each of 2023 and 2024) for all deferred capital assets. Deferred capital assets shown on Schedule 3B are considered to be amortized, notwithstanding the amortization costs are a component of depreciation expense.

4.1 YEC's Appendix 2.4 recalculation of depreciation expense:

19. In response to Direction 9, YEC submitted Appendix 2.4 - Schedule 3A Depreciation Expense[5] which illustrated a significant increase to forecast depreciation expense in 2023 and 2024 of $2.3 million and $2.2 million, respectively. YEC stated the increase in depreciation expense was due to the Appendix 2.4 calculation not taking into account any assets that were fully depreciated. Appendix 2.4, columns A-F included the depreciation rate (by way of average service life) and formulae as directed. However, the calculation did not take into account depreciation expense on any current year forecast capital additions.

4.2. YEC's rationale for not depreciating current year forecast capital additions appears inconsistent with its determination of return on rate base

20. Typically, the return of (through depreciation expense) and the return on (through return on rate base) a utility's investment in capital assets should commence once the asset is complete and available to provide utility service. For forecast revenue requirement purposes, a new asset is assumed to be capitalized at the mid-point of a given test year and therefore provides for a half-year of depreciation expense and a half-year of return on rate base. This practical application of the mid-year convention serves to avoid any requirement for the utility to estimate exact dates of asset capitalization as it impacts depreciation expense and return calculations given the inherent assumption that capitalization occurs at the mid-point of the year.

21. Board IR YUB-YEC-1-3 (c)(d) sought clarity on whether YEC has aligned its current depreciation expense method (to not depreciate current year forecast capital additions until the year following capitalization) with its return on rate base calculation. If so, it would mean that YEC would not earn a return on any capital additions to rate base until the year following capitalization.

22. YEC's response to part (c) indicated that it:

> … has not used the same method to avoid uncertainties regarding monthly timing for forecast capital additions and to reduce the impact on ratepayers.[6]

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5 Appendix 2.4 consisted of Schedule 3A (for each of 2023 and 2024) only and did not include similar calculations for Schedule 3B.

6 2023-24 GRA Compliance Filing IR responses, YUB-YEC-1-3, PDF page 54.

23. YEC went on to say, in response to part (d), that its:

> … forecast return on capital for GRA purposes is based on the mid-year rate base approach. In the case of new capital additions during a year, half of the capital addition is included as part of the rate base. Inclusion of mid-year depreciation calculations for new assets results in higher overall revenue requirements, i.e., the added depreciation more than offsets the small reduction in mid-year rate base and return on capital (see YUB-YEC-1-2, response to "c-d" where this is shown in the table provided).
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> …
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> YEC assumed no depreciation on new additions during the year as the timing of forecast new asset additions is normally not known.[7]

24. In the Board's view, YEC's rationale for including current-year capital additions on a mid-year basis for determining its return on rate base but not following the same practice for depreciation expense purposes is inconsistent. There is no more or no less uncertainty regarding the timing of forecast capital additions as it impacts revenue requirement for depreciation expense calculations or return on rate base calculations. In this regard, the Board understands that the approach used by YEC in its GRA and Compliance Filing to not use the mid-year convention for depreciation expense calculations is to reduce the rate impact on ratepayers. YEC's distinct treatment of the mid-year convention, as it affects return on rate base and depreciation expense, is an issue that the Board will investigate in greater detail at the time of YEC's next GRA. However, the Board will accept this practice and YEC's forecast depreciation expense as provided in its compliance filing for this proceeding only, notwithstanding the noted difference.

5. Summary of Board Approvals

25. Based on the foregoing and the Board's review of the compliance filing, the directions given YEC, all submissions provided, and the reasonableness of the calculations in the submitted schedules and tables, the Board:

- Approves Rider J be set at 55.40 per cent for retail non-industrial customers and 51.75 per cent for industrial customers effective October 1, 2024.
- Approves Rider J1 be set at 9.45 per cent, to be in effect for an estimated 27-month period, from October 1, 2024 to December 31, 2026, applicable to all YEC and AEY firm retail and industrial rates including fixed Rider F and fixed charge payments for major industrial rates.

[7] 2023-24 GRA Compliance Filing IR responses, YUB-YEC-1-3, PDF pages 54-55.

- Approves final Rate Schedule 39 Fixed Charge of $70,352.53, effective January 1, 2023, and $68,969.80, effective January 1, 2024, as provided in Table 1.1-4 a) ii) of the Compliance Filing.
- Approves YEC to collect Rate Schedule 39 Fixed Charge true-up of $83,976.90 required for 2023 and the first nine months of 2024 from specific industrial customers, Hecla Yukon and VGC Group, with recovery of $60,704.90 from VGC Group and $23,271.90 from Hecla Yukon. These true-up amounts will be recovered based on a payment schedule to be arranged with each customer and will not be subject to new Rider J or Rider J1 charges.
- Approves the average blended fuel price of $0.2022/kWh for thermal generation based on approved LNG fuel cost of $0.1906/kWh and diesel fuel cost of $0.3069/kWh and fuel mix of 90 per cent LNG and 10 per cent diesel proposed as determination of average blended fuel price per kWh for thermal generation is required by OIC 2019/25, section 3(2).
- Approves the IPP Deferral Account as provided in the compliance filing in accordance with the directions from Board Order 2024-05.
- Approves the LWRF term sheet changes as filed in this compliance filing that are in accordance with the direction from Board Order 2024-05.

26. YEC is to provide an acknowledgement filing of the applicable rate schedules that reflect the determinations of this decision, to the Board within 5 business days of the issuance of this decision.