YUB-CW-01

Reference: **CW Evidence, page 3, A6**

Issue/sub-issue: **Production Costs**

Quote: In 2013, YECL over-forecast production costs by $311,000 (15.4%).

Preamble: The analysis provided is at the functional level.

Request:

(a) As noted in the preamble, the analysis is not at the account level but at the functional level. Please comment on the analysis if taken to the account level.

Response:

(a) Mr. Bell focused on the functional level as that is the cost of providing the service to customers. Production includes both hydro and thermal generation. The mix of the use of each kind of generation may change from year to year depending on hydro availability. If one wanted to separate hydro from diesel that would be appropriate.

In looking at the split between hydro and diesel, over the three years of actuals, hydro costs are $352,000 (28.4%) lower than approved and diesel is $600,000 (12.3%) lower than forecast. This demonstrates a pattern of over-forecasting.

As such, Mr. Bell suggests that forecast accuracy at the function level for O&M is most appropriate as it allows for annual variations in the mix of inputs to provide service to customers.

YUB-CW-02

Reference: **CW Evidence, pages 3-4, A6**

Issue/sub-issue: **Distribution Costs**

Quote: There are two areas where the historical pattern of costs does not match the forecasts, namely distribution costs per MWh and general costs per MWh.

Preamble: The analysis provided is at the functional level.

Request:

(a) As noted in the preamble, the analysis is not at the account level but at the functional level. Please comment on the analysis if taken to the account level for distribution costs.

Response:

(a) Distribution costs include Supervision, Brushing, Vehicle Depreciation, Maintenance, Services to Outside Parties, Underground Line Maintenance, Meter, and Meter Testing, Transformer Repair and Replacement, and Street Light Maintenance. These are the functions to operate and maintain the distribution system. The level of work within each account may vary from year to year, but the system must be maintained. Further, focusing on one particular account within a function could be seen as cherry picking, and as such, particularly for a smaller utility, such as YECL, focusing on the function level is more appropriate. If this were a larger utility, such as the YECL parent, ATCO Electric, then examining costs on an account by account basis may be appropriate.

YUB-CW-03

Reference: **CW Evidence, pages 3-4, A6**

Issue/sub-issue: **General Costs**

Quote: There are two areas where the historical pattern of costs does not match the forecasts, namely distribution costs per MWh and general costs per MWh.

Preamble: The analysis provided is at the functional level.

Request:

(a) As noted in the preamble, the analysis is not at the account level but at the functional level. Please comment on the analysis if taken to the account level for general costs.

Response:

(a) General costs include Communication, Maintenance Company-Owned Houses and Maintenance Warehouse and Office. The level of work within each account may vary from year to year. Further, focusing on one particular account within a function could be seen as cherry picking, and as such, particularly for a smaller utility, such as YECL, focusing on the function level is more appropriate. If this were a larger utility, such as the YECL parent, ATCO Electric, then examining costs on an account my account basis may be appropriate.

YUB-CW-04

Reference: **CW Evidence, page 5, A8**

Issue/sub-issue: **Capital Additions**

Quote: Therefore the forecast for Net New Extensions in this application should be reduced by 47.7% to account for the systematic forecast error.

Request:

(a) What other possibilities could explain why the Net New Extensions are less than forecast?

(b) Besides using a statistical analysis based on historical outcomes, what other way can the forecast for Net New Extensions be tested?

Response:

(a) There are a number of reasons, why the cost of new extensions could be lower than forecast. This can be due to fewer new extensions, lower costs per extension, or a combination of both. The concern is that there is a consistent pattern of over-forecasting. YECL itself admits that it has over-forecast Net New Extensions by 47.7%. This amounts to $1,166[1] million. YECL indicates the main reason for the lower costs is slower economic growth. While this may be true, the fact is that customers have paid for costs in rates that were not actually incurred.

Further, Mr. Bell notes that, in schedule 2.1, YECL provides actual and approved customers. In 2013, the actual average customers and approved average customers are the same. In 2014 and 2015, the actual average customers are actually higher than the approved customers. This means that there were actually more new customers than approved. This, combined with the fact that the net cost for new extensions is lower than the approved cost adds to the concern that the YECL forecast methodology provides over forecasts.

(b) Mr. Bell's evidence focused on assessing the forecast accuracy of YECL. The best test of forecast accuracy and forecast methodologies is an assessment of how that methodology predicts actual outcomes. As the forecast is intended to produce an estimate that will arrive at just and reasonable rates, there is no better way to assess the forecast accuracy of a utility other than to compare actual and forecast costs. Mr. Bell's evidence assessed the forecast accuracy of YECL and its methodology. In its Application, YECL provides a discussion of how it arrives at its forecast.

[1] CW-YECL-1 (a) - $2,441-$1,275

If the Board wants to assess the forecast costs, it could examine the forecast cost per new extension, and compare that to historic actual costs per new extension. In the end it comes down to the ability of YECL to demonstrate its forecasts are reasonable and produce just and reasonable rates. Mr. Bell has provided clear evidence that the forecast methodology used by YECL has not produced an accurate prediction of actual costs.

YUB-CW-05

Reference: **CW Evidence, page 5, A9**

Issue/sub-issue: **Cost of debt**

Quote: As with production O&M and Net New Extensions, there is a systematic over-forecast for the cost of new debt.

Request:

(a) Besides using a statistical analysis based on historical outcomes, what other way can the forecast for new debt be tested?

Response:

(a) Mr. Bell's evidence focused on assessing the forecast accuracy of YECL. The best test of forecast accuracy and forecast methodologies is an assessment of how that methodology predicts actual outcomes. As the forecast is intended to produce an estimate that will arrive at just and reasonable rates, there is no better way to assess the forecast accuracy of a utility other than to compare actual and forecast costs. Mr. Bell's evidence assessed the forecast accuracy of YECL and its methodology. In its Application, YECL provides a discussion of how it arrives at its forecast.

In the end it comes down to the ability of YECL to demonstrate its forecasts are reasonable and produce just and reasonable rates. Mr. Bell has provided clear evidence that the forecast methodology used by YECL has not produced an accurate prediction of actual costs.