In the Matter of:

YUKON ELECTRICAL COMPANY LTD. (“YECL”)
2013 - 2015 GENERAL RATE APPLICATION

REPLY ARGUMENT OF
THE CITY OF WHITEHORSE
(“CW” OR “THE CITY”)

DECEMBER 16, 2012

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Introduction

1. The City of Whitehorse (the City) has reviewed the arguments of Yukon Electrical Company Limited (YECL), the Yukon Conservation Society (YCS), Leading Edge, Yukon Energy Corporation (YEC), and the Utilities Consumer Group (UCG).

2. Following are the comments of the City regarding the Arguments filed. As noted in Argument, the City has pursued a limited number of issues which are of particular importance or interest to the City. Failing to comment on any particular issue does not constitute agreement with any party's position on that issue.

Purchased Power

3. In paragraph 23 of its Argument, YECL states:

> One of the matters that attracted attention in both the Information Request process and at the hearing is Yukon Electrical's capitalization of the incremental purchase power costs incurred for the period during which Fish Lake Unit #1 has been out of service as a result of the catastrophic failure in March 2010. Yukon Electrical respectfully submits that this treatment is reasonable and consistent with the approach directed by the Board in Decision 2009-02 with respect to incremental purchase power costs incurred due to Fish Lake rebuilds in 2008-2009. These costs were incurred as part of the total capital project of rebuilding Fish Lake, which will have enduring benefits for ratepayers for many years to come and Yukon Electrical submits that the capitalization of these costs should be approved as filed.

4. Both the UCG and Leading Edge addressed this issue in argument.[1]

5. YECL cites Decision 2009-02 as support for its position. In Decision 2009-02, the Board stated:

> **The Board acknowledges that enduring benefits will be provided to the facility and ratepayers as a result of the Fish Lake hydro rebuild. Further, the Board notes the capital costs associated with the rebuild**

[1] UCG Argument, paragraphs 123-126. Leading Edge Argument, page 2.

> **are to be amortized over time due to the enduring benefits.** The Board considered the YECL witness response that the incremental purchase costs from WAF related to the rebuild could be capitalized. Therefore, the Board finds it reasonable to amortize the increased power purchase costs directly related to the rebuild project over time.
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> Further, the Board notes LE's argument that indicated that incremental power purchases incurred because of the required rebuilds should be clearly documented. The Board agrees that this is a reasonable approach. Therefore, the Board directs YECL in its refiling to capitalize the forecast purchased power costs associated with the Fish Lake rebuild and to not treat these costs as an expense item in the test years. The Board further directs YECL at the time of its next GRA to provide clear documentation of these incremental power purchases from WAF due to the Fish Lake hydro rebuild.[2] (Emphasis Added)

6. Replacement power as a result of a catastrophic failure is different than the circumstances noted in Decision 2009-02. In Decision 2009-02 the enduring benefit of the rebuild was justification for the capitalization of purchased power. This idea of enduring benefit is consistent with the accounting rules for capitalization, either under IFRS or the preceding Canadian GAAP. In the case of a disastrous failure, there is no such enduring benefit, and as such, the costs should not be capitalized, and should be removed from rate base.

7. The City agrees with UCG and Leading Edge that these purchase power costs should not be capitalized.

Pension Costs

8. In paragraph 40 of its Argument, YECL states:

> In its Response to Undertaking No. 3 filed on November 13, 2013, Yukon Electrical explained its historical practice of including in its revenue requirement the full special payment based on the cost of living adjustment being equal to 100% of the annual increase in CPI to a maximum of 3%. For the reasons outlined in that response, Yukon Electrical respectfully submits that its historical practice is reasonable and appropriate and should continue to be approved by the Board.

[2] Appendix A to Board Order 2009-2 – Reasons for Decision, page 10 of 49 (Footnotes omitted)

9. The City has addressed this issue in its Argument starting in paragraph 5. As noted in the City's Argument, the issue of the appropriate level of annual increases in pension to be included in rates was thoroughly canvassed in Alberta with respect to ATCO Gas & Pipelines Ltd. and ATCO Electric (the "ATCO Utilities"). The level of Cost of Living increases (COLA) was deemed an appropriate tool to mitigate funding increases.[3] Further, the Alberta Utilities Commission found that allowing funding to support an assumption of an increase in annual pension benefits of 50% of CPI to a maximum of 3% was an appropriate level of funding.[4] The Alberta Court of Appeal dismissed the ATCO Utilities' appeal of this decision[5].

10. Based on YECL's own analysis, if the pension funding requirements based on a reduction in COLA result in only $59,600 in special payments being included in revenue requirement. The City recommends that YECL only be allowed to recover special payments equal to 50% of CPI to a maximum of 3%.

11. The City anticipates that YECL will argue in reply that the City's recommendation should not be accepted given YECL's position that this issue was not raised before the hearing (argument which it included in response to Undertaking #3). The City disagrees with this argument and submits that YECL had notice of this issue in advance of the hearing. In particular, the City refers to its request CW-YECL-7[6]. Moreover, as part of the ATCO group of companies, YECL had constructive notice given the recent decisions in Alberta on this issue. Any argument that the City's recommendation should be denied because YECL did not have appropriate notice of this issue should be disregarded.

[3] City Argument, paragraph 14
[4] Ibid, paragraph 16
[5] *Atco Gas and Pipelines Ltd. v Alberta (Utilities Commission),* 2013 ABCA 310
[6] In the preamble to this request, the City stated: "In its application, YECL provides a table that summarizes DB pension costs. In the table, the costs for DB Special Payments increases from $297,000 in 2011 to $638,000 in 2012. The City requires information to assess the level of pension costs to be recovered from customers." The City requested "(a) Please confirm that YECL employees participate in the same DB pension plan as the employees of YECL's parent, ATCO Electric. If not confirmed, please fully explain and provide all plan documents related to the YECL DB plan" and "(b) On line 7 and 8, YECL indicates it has used the same contribution rate for the 2013 test period. Please provide the forecast of DB pension costs included in 2013, 2014, and 2015."

Automated Meter Reading

12. Starting in paragraph 98 of its Argument YECL discusses its Automated Meter Reading (AMR) Program. In its Argument, the City indicated it support for the use of new technology to improve the efficiency of utilities. In the case of this AMR program, there are issues with the Business Case for AMR. These issues include:

    - The options in the business case do not include the proper costs of replacement meters.[7]
    - The business cases do not include an assessment of the cost of including time of use metering.[8]

13. As such, the City maintains it recommendation that the current business case is not complete, and the AMR program should be denied until a complete business case is provided.

Lease of LNG Assets from ATCO Gas

14. Starting in paragraph 104 of its Argument YECL discusses its Watson Lake Bi-Fuel Proposal. As noted in its argument, the City is not concerned with the use of LNG as a fuel source.[9] The concerns of the City focus on the arrangement between YECL and an affiliate, ATCO Gas. The City's concerns include:

    - Despite the fact that YECL has admitted that owning an asset is less expensive than leasing, there is no potential for YECL to purchase the LNG facility if the pilot is successful.[10]

[7] Ibid, paragraph 36 and 37
[8] Ibid, paragraph 42
[9] Ibid, paragraph 32
[10] Ibid, paragraph 27

- The lease price includes inflation, but YECL has confirmed that the price is based on hard assets.[11] As such, there is no need for any inflationary increases in the price.
- If the pilot is successful, the use of the lease option for the pilot should not be considered a precedent for any future facilities.
- The equipment is being leased from ATCO Gas, a regulated utility in Alberta, yet the return imbedded in the price is higher than a regulated rate of return.[12] As such, the lease price is too high.
- As the LNG project has been delayed into 2014, any costs related to 2013, and the portion of 2014 where the facility is not in use should be removed from the forecast.

15. YECL has provided no evidence to the contrary. As a result, any approval of the lease option should be for the pilot only, any inflationary increases in the lease price should be zero, there should be a purchase option on the lease, and the rate of return embedded in the lease price should be limited to 8.75%.[13]

Other Recommendations

16. The City maintains the following additional recommendations for the reasons set out in Argument (which the City will not repeat in reply):
    a. YECL should be directed to more thoroughly assess time of use rates and be directed to file a business case assessing time of use rates in a future GRA;
    b. the forecast cost of new long term debt should be limited to 4.761% for 2014 and 2015;
    c. the Board should decline to approve the board order and legislative changes deferral account; and

[11] Ibid, paragraph 28
[12] Ibid, paragraph 30
[13] Ibid, paragraph 33

d. both YEC and YECL should be directed to give deferral treatment to all DSM costs for each utility's respective test period.

All of which is respectfully submitted this 16th day of December, 2013.

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