

INTHEMATTEROF Yukon Energy Corporation's General Rate

Application for 2017 and 2018

YEC Request for Review and Variance

Board Order 2018-10

Phase 1

COMMENTS OF

UTILITIES CONSUMERS' GROUP

April 17, 2019

INTRODUCTION

1. The Utilities Consumers' Group (“UCG”) participated in all aspects of the Yukon Energy Corporation’s (YEC) 2017 and 2018 General Rates Application.
2. The Yukon Utilities Consumers' Groups' main objective is to protect residential and commercial consumers from unjustifiable utility rates. In December 1993, UCG was formed and registered as a non-profit society in response to a large hike in electricity rates in the fall of 1993, as well as a 4,400 signed petition to the legislature (the largest petition ever tabled in the Yukon).
3. UCG received the YEC Application for Review and Variance of Board Order 2018-10 and the Board Memorandum, specifically regarding the Board rulings on costs associated with Demand Side Management. UCG has the following comments to offer.

UCG ARGUMENT

1. Regulatory Risk

Regulatory risk is the principle a regulator, of a monopoly utility provider, can use to disallow costs or impose financial penalty.

The Yukon's history of regulation has in the past experienced regulatory risk for the power companies and these companies have used this as a basis for requesting higher rate-of-return risk premiums. ¹ During the 93/94 GRA, the Board disallowed millions of dollars including the costs of feasibility and reconnaissance studies in relation to proposed hydro projects.²

This mechanism/principle gives the Board an opportunity to save ratepayers from certain costs by assigning these costs the utility.

Accordingly, regulatory risk can benefit both ratepayers and utility companies. The principle behind this is to promote sound management and thus contribute to lower operating costs and more affordable consumer rates.

By requiring the utility to absorb costs of imprudent decisions, management has an economic incentive to manage the system prudently. UCG submits this is the only

¹ 1996/97 YEC/YECL GRA, p.3-7

² Yukon Utilities Board Decision 1993-8 p.39-43

method in our current system of regulation which promote efficiencies

UCG submits that although the Board may occasionally choose to relax the principle of prudent management, it must rigorously apply the criterion of reasonable managerial skill from costs deriving from such management.

UCG submits that ratepayers must not be required to absorb costs attributable to managerial decisions unreasonably commenced or in the absence of regulatory approval.

Is regulatory pre-approval something new?

At the 1992 Capital Hearing, the companies requested approval of the Board in regard to:

- their water management practices at Aishihik Lake;
- future rate base inclusions;
- prior approval of DSM expenditures;and
- confirmation not to proceed with further license options at Marsh and Aishihik Lake.

This was a formal request for pre-approval of DSM programs, at that time, as well as the other issues mentioned above.

2. UCG Skeptical of YEC/ATCO DSM Programs

This was incontestable, in reviewing UCG position for YEC 2017-18 GRA final argument and reply.³ First, YEC provided limited information related to the various costs it incurred since 2013 nor was there any evidence presented that any of these expenditures had been approved by the YUB. Board Order 2014-06 only approved a specific budget of \$438,000 DSM related activities.

There was also no cost-benefit analysis presented, where all costs for these programs would be included (i.e. DSM share of charette/consultant costs, costs of studies and re-studies for types of programs to be initiated, in-charge offices and personnel (for each utility), consultant costs, managerial costs, to name a few).

In order for ratepayers to understand the full benefits (or if all of these costs were prudently incurred) for such programs, all of these side-costs have to be factored into the performance indicators used to determine the cost-benefit analysis. Placing some of these costs into managerial or labour or consultant regulatory only skews the benefits of

³ UCG Final Argument and Reply Argument, YEC 2017-18 GRA

such programming. Were these DSM costs really the low cost supply option that they were intended to represent? Was the YEC authorized to spend these monies without checking to see if they first had regulatory clearance as they were directed to do?

UCG submits that in our experience and research it is apparent that it is very difficult to achieve revenue neutral demand side management programs with the best of managerial skills and for a crown-owned-corporation with a mentality of entitled cost-plus regulation, this would be non-existent. The largest drawback to DSM is governing behaviour, both for the consumer and for the utility.

The onus is on the YEC or utility to provide clear evidence, beyond any reasonable doubt, that all expenditures are relevant and prudent, including DSM costs.

3. UCG Conclusion

The Board made it clear in Order 2014-06 that “it was not approving the DSM program for the five-year term and that YEC was to make formal application to the board before expanding the DSM program elements beyond that approval or beyond 2015.”⁴

Disregarding this obvious direction, the YEC chose not to seek pre-approval of costs going forward for Demand Side Management before expanding these programs beyond 2015. This is what they are now trying to place into the rate base through a review and variance process.

The Board also concluded/ordered that YEC incurred expenses on DSM projects that did not fall within the three projects which were allowed (i.e. LED lighting, automotive heater timing rebates and low cost energy efficient products) approved by Board Order 2014-06. Streetlight LED retrofits were not specifically identified here and prior direction indicated that to be included in prudent regulatory costs they must be end of life only.⁵ The YEC never clearly identified, clarified nor accounted for whether all their streetlight conversions were end of life or if various conversions were not end-of-life and were treated as capital costs to be assigned to the full customer contribution in aid of construction as they were so directed. Again, all of this despite the Board's direction that they must apply to the Board before expanding DSM program beyond the elements approved in that order.

This was a missed opportunity for the YEC to reduce or eliminate their regulatory risk concerning the DSM and they chose to ignore directions from the Board.

⁴ Order 2014-06, Appendix A: Reasons for Decision, p. 101, pdf page 106

⁵ Order 2017-01

As such, it must not be the ratepayer that suffers the risk of these management decisions.

For all of these reasons, UCG recommends that the Board deny Phase 1 of this review and variance process.

Roger Rondeau
Secretary/Treasurer UCG