YUKON UTILITIES BOARD

IN THE MATTER OF the *Public Utilities Act*
Revised Statutes of Yukon, 2002 c.186, as amended

and

IN THE MATTER OF a 2023-2024 General Rates Application
by Yukon Energy Corporation

FINAL ARGUMENTS SUBMISSION OF

UTILITIES CONSUMERS' GROUP

March 22, 2024

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Introduction and Overview

1. This submission summarizes positions of UCG for the Yukon Utilities Board's (YUB) consideration. While UCG has attempted to be as thorough as possible, it should not be implicit that UCG agrees with Yukon Energy Corporation's position on any issue for which UCG has not provided specific comment in this argument. Where UCG has not specifically addressed an issue, we believe that the YUB has the benefit of interrogatory answers, record of the proceeding as well as the hearing process to make informed decisions.

2. The Yukon Utilities Consumers' Group Society (UCG) is the only registered intervenor representing ratepayers in this rate application by Yukon Energy. Our main objective is to keep bills for the residential and small business consumers of electrical, telecommunications and city utilities STABLE and AFFORDABLE. This does not mean that bills should not increase but should be small enough increments to be financially feasible for all residential ratepayers.

3. Accordingly, the main anxiety of the UCG for any rate hearing is our ELECTRICAL BILL implications, the bottom line for ratepayers. On the other hand, the bottom line for Yukon Energy is the revenue requirement. We understand that the Utilities need the necessary income to keep their business operating efficiently and with dependability. For this they must have the money to finance their capabilities to keep the lights on. The key here is operating efficiently! We are particularly concerned with the growing bureaucracy within the Yukon Energy organization. This along with their cumulative costs tor consultant organizations duplicates what the ratepayers are paying for.

4. It is far past the time when Yukon Energy becomes an independent corporation, truly representing the Yukon. With the increasing staff of professionals, along with the millions of dollars invested in upgrading their computer systems, YEC should no longer be reliant on outside assistance to run their business. (All you had to do was look at the multitudes of "outsider" representatives at this rate hearing.) Although the YEC persists on using their old cliche "that it is cheaper to hire professional consultants to do a multitude of tasks", UCG sees this as interference with how a public utility should do business. This does not mean that sometimes outside trades may be needed to perform the engineering tasks of developing and constructing a project, but when it comes to the supervision of the company, UCG maintains that this should be done at home in-house.

5. In UCG-1, Yukon Energy confirmed that it did not conduct any customer engagement or consultations during the development of this rate application.[1] UCG questions how Yukon Energy can then retain that this application reflects the priorities of its' customers.

6. UCG submits that not enough information has been provided to adequately justify the proposed rate increases nor to understand the near-term and longer-term costs associated with the proposed capital expenditures related to climate change and energy transition issues and the burden being placed on Yukon ratepayers.

[1] UCG-YEC-1-1

General Background

7. On August 31, 2023, Yukon Energy Corporation (YEC) filed its 2023-2024 General Rates Application requesting approval of rate increases of 3.34% in October 2023, 8.44% in January 2024 and 2.33% in August 2024 associated with forecast net revenue requirements of $80.688 million for 2023 and $89.673 million for 2024.

8. In its Board Order 2023-19 issued September 7, 2023, the YUB noted that considers it to be in the public interest to require a full, transparent, and open public process regarding YEC's application, and given the magnitude of the proposed increase in the revenue requirement for each of the test years, the YUB denied YEC's proposal to limit the number of intervener information requests to 50, including sub-parts. UCG submits that YEC's failed attempt to muzzle the participation of Yukon ratepayers in the review of its application was not in keeping with the transparent and open aspects of regulatory reviews and YEC did not support their position with evidence of such a restriction being implemented in other jurisdictions. UCG submits that YEC should focus on working on becoming a more efficiently run organization rather than look for ways to hide information about their operations.

9. In response to UCG-YEC-1-1, YEC indicated that it did not commence preparation of its 2023 / 2024 General Rate Application until after the Compliance Filing for the 2021 General Rate Application was approved by the YUB on February 7, 2023 and that the application document was completed for filing on August 31, 2023. In essence, a 7-month process.

10. In response to UCG-YEC-1-4(a), YEC states that capital projects are planned and prioritized through a rigorous capital planning process and that all proposed projects are ranked and prioritized to develop a capital program that maximizes the benefit of capital investments and minimizes the operational risks to YEC.

11. UCG submits that YEC must be directed to commence developing its evidence for at capital project justifications and budgets well in advance of the approval of any compliance filing. This should be done every two years, commencing in 2025 with this evidence placed on the record by the fall of 2024.

12. In response to UCG-YEC-1-2, YEC confirmed that did not conduct customer or stakeholder consultations during development of the application prior to its filing. UCG submits that YEC should be directed to undertake customer engagement consultations during the development of their rate applications to ensure the application reflects the true priorities of the customers.

13. In response to UCG-YEC-1-3, YEC states that it is responsible for ensuring the Yukon Integrated System has a supply of safe, reliable, and sustainable electricity to meet Yukoner's needs. However, YEC does not have a comprehensive and formal process in place to determine Yukoners' needs.

14. In response to UCG-YEC-1-21(c), YEC indicated that YEC and ATCO decided to proceed with their own separate load forecasts for 2023 and 2024 rather than arrive at a consistent forecast. UCG submits that if the two utilities cannot determine the appropriate common load forecast, then ATCO's load forecast should be used to determine YEC's wholesale sales levels for 2023 and 2024 since ATCO has the end-user details.

Purpose of Review and Hearing

15. The overall purpose of this review and hearing is to obtain the YUB's approval of the forecast revenue requirements for 2023 and 2024 as well as the proposed rate increases designed to recover those revenue requirements.

16. In UCG's view, taking public interest into account is a balancing of competing interests that must be weighed considering the specific circumstances and facts related to the proposed spending and rate increases. In broad terms, UCG believes that the public interest will be satisfied by an undertaking or action that will result over time in an enhancement of the economic or general welfare of the public. Public interest can be interpreted as the best possible accommodation of conflicting interests.

17. The YUB was created by an act of the Yukon legislature and therefore it follows that in determining the public interest, the YUB must consider the interests of the Yukon amongst others. Public interest and public convenience are referenced several times within the *Public Utilities Act* which governs the YUB and, in turn, YEC. The YUB must exercise judgment as to the specific values of conflicting interests and must decide whether the public interest would be done any disservice if the particular proposal was or was not approved.

18. In UCG's view, the YUB must carefully consider the risks that YEC is downloading to Yukon ratepayers because of its position to place an unsubstantiated urgency on expenditures related to climate change and energy transition. UCG submits that there are far too many uncertainties surrounding the overall short-term and longer-term costs of YEC's undeveloped climate action plan, and it is particularly concerning to see the lack of knowledge of many ongoing costs once the proposed expenditures are undertaken.

19. In UCG's view, legislation makes it crystal clear that all matters relating to or incidental to the production, distribution and transmission of electricity are under the jurisdiction of the YUB and that these are all matters that are to be considered in the light of the general, broad public interest that must be served. UCG submits that it is vital to consider the rate impacts on Yukon ratepayers and, if there is not enough information on the record to clearly understand the short-term and longer-term costs, there is not enough information upon which to allow proposed projects to move forward at this time.

20. UCG submits that YEC did not conduct effective and comprehensive stakeholder consultations with ratepayers, municipalities, and other interested parties on the specifics of its proposed revenue requirements and rate increases prior to submitting the application to the YUB. YEC went through the motions of stakeholder engagement but implemented limited consultations on the financial impact of the proposed rate increases and the potential impacts if actual costs incurred for "urgent" projects turn out to be significantly more than projected.

21. YEC's evidence and testimony confirms that they do not understand the concept of stakeholder engagement nor how this engagement is supposed to form the basis of attributes of a proposed project.

22. UCG submits that YEC's approach to its regulation ignores the fact that consultations are an important part of regulatory effectiveness and appears to require firm direction from the YUB to meaningfully consult affected stakeholders prior to submitting applications to the regulator. Given the widespread acceptance in other jurisdictions of stakeholder consultations as

applications are being developed, UCG submits that this is a normal principle to apply to the Yukon's regulatory processes.

23. UCG submits that the while YUB should not have to direct a regulated utility to consult and inform their applications with views from stakeholders directly impacted by the proposals, the behaviour of the Yukon's utilities over the last several years implies that specific direction from the YUB in this regard is needed. Without consultations, the utilities are encouraging a more confrontational approach to regulatory proceedings than is warranted. This, of course, puts under-resourced intervenors like UCG at a distinct disadvantage.

24. UCG submits that one of the key improvements needed is a comprehensive review of YEC's resource plans and the driving forces behind those plans before getting to the current stage of considering the rate impacts. YEC's practice is to include new resource plans in the evidence submitted within a general rate application as well as updates to previous resource plans. This practice exponentially increases the number of issues that need to be addressed during the review of a general rates application which puts an enormous strain on the limited resources of stakeholders like UCG.

25. UCG submits that these resource plans need to be reviewed on their own in advance and in more detail so that alternatives can be properly identified and evaluated before YEC moves forward with any project. If done properly, this can keep the costs of studies and consultants down. This process would also allow for a reference point for variances to work plans brought forward by YEC for cost recovery.

26. UCG submits that planning for an efficient and effective regulatory review of proposed projects and their impact on utility revenue requirements and rates should include comprehensive stakeholder input, not only in the review stages of a proposed filing, but also during the development of a filing. UCG submits that YEC was negligent in this regard, especially regarding input from ratepayers.

Bill Impacts/Stability and Affordability

27. Yukon Energy rationalizes:
    - that interim rates stabilize rates; and
    - that they are also modifying the rate increases by coordinating the time of these with the elimination of certain riders.

28. First, UCG submits that utilizing interim rates is a very short-term mentality. This simply modifies the rate increase by stretching out the impact of approved rate increases. They do not, however, reduce the impact to ratepayers as it will be accumulated when the process is complete. It is a justification for the utility to start collecting revenues for their compulsive delay in presenting a rate application.

29. Second, the coordination of bill increases with a rider that is to be set to zero or another which will be ending soon is also very short term "smoke and mirrors." When this process is complete, even though the old true up rider will be paid off and taken off our bills, a similar rider for the new YEC True-Up for this application will commence. They must make up the difference somehow in taking off the fuel rider (i.e. adjusting accumulated fuel price differences into the rates), as well as other implications.

30. As soon as the YEC, or ATCO Electric Yukon (AEY0 for that matter, perceive they need more money they will also reapply Rider F without any consultation needed. In April of this year the carbon tax will increase significantly, and we are unaware that Yukon Energy had the foresight to include this in their application.

31. Although Yukon Energy contend that the overall 14.11% rate increase is justifiable, they deny that these rate increases are not reflective to bill increases maintains that the compound bill impact is more than this 14.11%.

32. For example, if a customer had an electricity bill of $100 in September 2023, then under YEC's proposed rate increases, this bill would increase to $103.34 in October 2023 ($100 + 3.34% assuming the same consumption level) and then increase to $112.06 in January 2024 ($103.34 + 8.44%) and then increase to $114.67 in August 2024 ($112.06 + 2.33%). That means that the compound impact of these rate increases is 14.67% ($114.67/100) plus another $0.73 for 5% GST on top of those increases. How in any way is this stabilized rate?

33. In response to UCG-YEC-1-7(b), YEC states that it attempts to keep bills affordable by keeping rate increases within a reasonable range of inflation. UCG submits that a bill increases of nearly 15% over a 10-month period cannot be considered within a reasonable range of inflation.

34. In response to UCG-YEC-1-13(b), YEC indicated that there had not been any survey conducted on the views on the affordability of electricity in the Yukon since 2016. UCG submits that YEC has lost touch with how much of an impact its steady request for higher rates impacts on its customers.

35. To the extent that industrial and or larger commercial loads make up part of YEC's load requirement, UCG submits that the needs of those loads must necessarily be treated separately and apart from YEC's non-industrial load. UCG submits that utility revenue volatility and uncertainty of system load levels created by transient industrial loads in the Yukon are significant issues. The Minto mine leaving us with a debt of over $4 million should be one more wake up call.

Energy Transition

36. YEC states that this application is supporting energy transition and that changes in end-user behaviour is putting increased pressure and strain on the electricity system and require significant and urgent investments in all aspects of the Yukon's electricity system.

37. UCG submits that YEC has not made sufficient arguments to support what they claim is an urgent need to make significant capital investments in the short-term. YEC does not even have an energy transition plan in place as part of this application and YEC is not able to explain what the energy transition will look like in the Yukon and at what pace this will occur.

38. In response to UCG-YEC-1-10(a), YEC stated that there is no uncertainty regarding the need to address climate change issues at this time and YEC repeats that changes in end-user behaviour driven by local and national objectives to reduce GHG emissions are putting increased pressure and strain on the electricity system and require significant and urgent investments in all aspects of the Yukon's electricity system. UCG submits that YEC has not

provided details of the proof that the behaviour of Yukon electricity users is changing significantly.

39. In response to UCG-YEC-1-11(a), YEC stated that it is still developing a Climate Change Adaptation Implementation Plan to better understand, predict and address impacts on YEC's activities and infrastructure due to climate change and extreme weather. UCG submits that a Climate Change Adaptation Implementation Plan should first be in place before asking Yukoners to start paying for system changes that may not be urgent.

Forecasting Issues

40. UCG submits the use of Yukon Energy forecasting methods, such as YECSIM for determining long term average hydro and thermal generation, and the multivariant regression model for wholesale forecasts/wholesale peak demands, as well as others; are onerous, expensive, time consuming and unnecessary.

41. For the YECSIM, Yukon Energy was questioned by Mr. Rondeau on the parameters of this model. From the explanation provided by Mr. Osler YEC first uses the application, Table 2.2 Summary of Energy Balance, for the test years, to give them their premise of Firm Load Generation line 6 of this table minus IPP generation line 26 (Table 2.2 Application pdf 43). According to Mr. Osler, this gives them the start for their YECSIM term sheet (pdf 46 and 47 App.) Example: YEC expected thermal generation for the YEC generation in 2023 at 519.352 GWh.(net of IPP and Fish Lake) and 514.431 for 2024.[2]

42. Now let us look further on how the YEC determines their generation forecast, "based on sales plus 8.8%-line losses".[3] In UCG-19, YEC states:

> (a) The wholesale forecasts for 2023 and 2024 are prepared based on a multi-variate regression assessments of monthly wholesale changes…at normal weather conditions using 20-year historical averages.
>
> - The industrial sales forecasts for Victoria Gold and Hecla(previously Alexco) are based on information by the customers.
> - Residential sales forecasts are based on historical trends. and input from YEC staff…The forecast growth in 2023 and 2024 are consistent with population growth projections by YG and City of Whitehorse.
> - General service sales forecast is based on historical. trends and input from YEC staff…plus separate forecasts for the two large general service customers, Faro mine remediation and Minto mine care and maintenance.[4]

[22] Transcript, Day 1
[3] UCG-YEC-1-19
[4] Ibid

43. If the YEC can forecast LTA generation using common sense, there is no need for the YECSIM using a complicated formulae and equations to get the results for LTA hydro generation and LTA thermal generation.

44. It is confusing to note that the subject experts at YEC have testified in the past that the results of the YECSIM model cannot be tested against actual results. Inconsistent testimony and lack of evidence serves only to muddy any benefit of continuing to use the YECSIM model without testing alternative models.

45. While YEC is convinced that the YECSIM model is the best tool for making predictions of system performance, there is no evidence showing that forecasts made using the YECSIM model are accurate nor is there any evidence that there aren't other forecast models available that produce results that can be tested.

46. When questioned on the testing and Board sanction of this model:

> Mr. Rondeau: And yet you go back to that…the debate we had about the YECSIM several years ago, the Board concluded it had never been tested. So that's why I'm wondering why YEC continues to use this.
> Mr. Osler: All I can say, Mr. Rondeau and Mr. Chairman, is that the concept of testing something is…and I'm not going to get into it, I'm not a modeller. But I have certainly sat through listening to people for a long time on this… but to the best of my knowledge, this is the best method available to them (the YEC) at this time. So, if they could come up with a better method of doing that, I'm sure YEC will come before the Board with it .[5]

47. Accordingly, UCG will give a better method, utilizing water availability in Aishihik, Mayo and the Whitehorse reservoirs. This is a more reliable way of determining hydro generation than the discriminatory modeling long term average forecasting. To do this approach, requires a grasp of the snowpacks for each of these areas to forecast water availability from the spring freshets. The snowpack along with weather normalized forecasts for the rest of each test year gives a much better indication of how much hydro will be available for a particular test year. For this you need a hydrological engineer specialist for which Yukon Energy had for many years. He was then retired when decisions were made to go with modelling. As we again debate this very important issue of forecasting, we now need this specialist person to give evidence. As well, in the "good old days" YEC also hired Acres whose speciality was determining water availability.

48. To test this result, UCG submits using simple long term average hydro generation… meaning just that; add up the last 10 years or so of hydro production on the YIS grid and divide that by the number of years. This does not have to be complicated. There is no need for a model that uses algorithm/s and a polynomial equation developed by an outside consultant. For UCG, it is not only the use of such algorithms and equations, but who controls these algorithms and equations. UCG would also like to point out that using long term average hydro generation any further than when the last hydro facility was built, that being Mayo B as well as the completion of the YIS grid, would skew the outcome, as it would compare apples to oranges. Also, in the last number of years YEC has upgraded all the hydro plants allowing them to produce more energy for a year, changing the LTA scope of hydro generation output. Stretching these out by including multiple prior years (i.e.

[5] Transcript, Day 1. P140

years before upgrades, completion of YIS or addition of Mayo B) of hydro generation will tip a pertinent result.

49. It is 2024 forecast that UCG is most concerned with as 2023 is past and the YEC forecast can now be somewhat cross checked. For 2024, Yukon Energy has lowered the expected YEC generation from 519.352 GWh. in 2023 to 514.341 GWh. for 2024.

50. YEC was cross examined as well by Mr. Rondeau on the reasons why YEC lowered their LTA hydro output for 2024. Referring YUB-7, if one examines the table Total Generation from the last 2021 GRA was 538,726MWh and 534,340MWh for 2024 test year. There was little change in this description through the years in the table. But when one examines Hydro Generation it was approved at 508,463MWh in the 2021 GRA and then downgraded to 460,893MWh for 2024. Thermal generation increases from 30,200MWh in approved 2021 GRA to 56,636MWh. for 2024.[6]

> Mr. Rondeau: Can you tell why this drop in the hydro production in 2024, why you're forecasting this?
> Mr. Epp: The forecasts are based on water conditions that were developed at the time of the GRA, and --but just note that these are forecasted actual generation--or--generation numbers. So these are not the long-term averages, and the revenue requirement is based on long-term average.
> Q. But why would the average increase (should read decrease) so much in 2024 and not 2023…only one year difference in the average, the long term averages.
> Mr. Epp: That's what the YEC's expert, who's our modeller, has forecast.[7]

51. Although the explanation considers the increase in IPP[8], this nowhere comes close to making up the differences for the hydro(major decrease) and thermal (major increase) for the 2024 test year.

52. Yukon Energy failed to give a relevant explanation for why the major changes in hydro and thermal for 2024. It appears that Yukon Energy targets different models and/or expert modellers for different results, one for forecasting Total Generation and one for long term averages, i.e. what revenue requirement is based on.

53. It is also very important to note, that from the quotes above, the YEC can and does use water availability/conditions at the time of preparing a general rate application.

54. YEC when asked in UCG-19 and during cross by Mr. Rondeau, if the YECSIM was ever ratified by ratepayers and their regulator, the Yukon Utilities Board. They never gave an absolute answer, but it can be inferred that the answer was No.

55. To get Sales and Losses, Yukon Energy uses another model called multivariant regression (working backwards) as explained in #17 above. This gives them their forecast for wholesale to AEY. They then add on their sales for their communities, line losses and subtract secondary sales to acquire Sales.

56. In UCG-9 (a) Yukon Energy states:

[6] YUB-YEC-1-7
[7] Transcript, Day 2 p.240 lines 1-15
[8] Ibid

Yukon Energy does not forecast the system peak (demand curve) by end-use or by rate class (residential,commercial).Yukon Energy uses a regression model to forecast total Wholesale peak demands.[9]

57. AEY on the other hand forecasts uses end-use and historic community sales data as well as consultation with the City of Whitehorse, Yukon Government and various local agencies and developers. The retail primary sales forecast is prepared by customer class: Residential Commercial and…[10]

58. From the AEY 2023/24 GRA Yukon Energy in Final argument December 13, 2023, demonstrates major differences in YEC Forecast and AEY Forecast for each test year. For 2024, YEC forecast is 355.9GWh and AEY forecast is 362.6GWh.[11]

59. UCG submits that YEC, in their modelling for wholesale, have underestimated heating growth patterns as well as population growth. The Yukon in general continues to be the fastest population growth in Canada and Whitehorse is continuing its trend of growth, with Whistle Bend lots selling as soon as they are on the market, as well as all infill lots or new lots coming on stream. Most of these new buildings being constructed are utilizing electric heat (with a YG estimate of 50% growth by 2030.[12]

60. UCG submits, the difference in wholesale estimates by YEC and AEY is 6.7GWh and the growth patterns variance is 2.4%.

61. Considering all the above evidence, UCG concludes that using AEY wholesale estimates are more accurate for the 2024 test year and should be used.

Revenue Requirement and Drivers

62. Revenue requirement is how the Utilities rationalize their rate increases for test year periods. Table 3.1 of the Application sets out drivers of this requirement: return on rate base, depreciation and amortization, fuel and purchased power and non-fuel operating and maintenance.

63. In cross examination, UCG questioned the YEC on the escalation of revenue requirements since the last 2021 GRA: an increase from $74.8 million in 2021 to $90.425million in the 2024 test year, a huge jump of $15.625 or 21%.

> Mr. Rondeau: What I would like to note that there appears to be escalation during rate hearing, and I want to know what the principal drivers of this escalation in revenue requirement during rate application would be.
> Mr. Epp: First I'll provide a quick comment that the revenue requirement for YEC I believe would increase every year, not just GRA year.[13]

[9] UCG-YEC-1-9
[10] Board Evidence….
[11] Ibid
[12] YEC
[13] Transcript Day 2, p. 165

> Mr. Epp continues: So, there is escalation (added for 2024), but 2022 exceeded 2021 and that was not a test year. [14]
> Mr. Rondeau: What I would like to try and understand also is how you can increase the revenue requirement in a non-test year?
> Mr. Epp: Okay. Sure. So what that means--that's keeping track of our costs. The rates are based on what was 2021 approved. So the revenue requirement is just showing what our cost were. Those were not passed on to ratepayers.[15]

64. UCG submits that this method of tracking costs for non-test years is not ratepayer friendly. YEC files regulatory schedules and reports for these non-test years to the YUB as well as the audited financial statements for that year, but there is no regulatory review of these.

65. The YEC also increases its' rate base in the records of these non test years as well as a rate of return on these amounts. As the Utilities more often than not over earn in these non-test years, this is just one reason why the regulatory gaming of non-test years is conspicuous. There is lack of regulatory guidance!

66. UCG also notes that these cost increases in non-test years are then passed on in the new general rates application. This along with capital cost escalation and rate base additions during test years are the major causes of escalation in the revenue requirements in the test year periods.

67. For these reasons, UCG submits that the Utilities must be regulated to generate an application, well in advance, every two years. This will not remedy all the regulatory gamesmanship by the Utilities but will go a long way into making regulation more transparent and accountable.

68. Even Yukon Energy, during cross examination agreed with this principle:

> Mr. Rondeau: Wouldn't it just make it easier for everyone if we have set period GRAs, for example, every two years like in some jurisdictions.
> Mr. Epp: I can't speak on behalf of other parties, but we see a lot of benefits in having general rate applications every couple of years.
> Mr. Rondeau: Can you give me a few benefits for the ratepayer?
> Mr. Epp: …I mean costs are going up, so having rates increase smaller increments more regularly…
> Mr. Rondeau: And capital projects coming online a little bit--
> Mr. Epp: Yea, and especially when our capital plan is going from $35 million a year to $85million, its going to mean we're going to need to come forward more often. [16]

69. UCG requested an undertaking demonstrating not only dollar amount but percentiles for yearly changes in the Table 3.1 of the Application. YEC responded with Undertaking #7. Looking at just the revenue requirements since the last 2021 GRA to the forecast 2023/24 GRA demonstrates the escalation from $71,473million to forecast $90.425million, and accumulation of 25% to 2024.[17]

[14] Transcript, Day 2, p. 166
[15] Ibid
[16] Transcript, Day 1, p. 109-110
[17] Undertaking #7

70. UCG submits this is unsustainable from a ratepayer perspective.

71. As well, UCG is concerned that the 2022 non-test year adds to the accumulated revenue requirement for 2024, without any regulatory transparency, oversight or accountability.

72. UCG will now look at the drivers included in the same table 3.1 undertaking. [18]

- **Rate of Return (RoR) /Rate Base**

73. From this table, in footnote 16, the proposed RoR increased an accumulated 6% plus 8% plus 11%, a whopping 25% from the last 2021 GRA to 2024. This is from $71million to $90million.

74. Again, this is unsustainable from the ratepayer perspective, amounts accumulate through the years including obscure, unaccountable, and need we add over-earned non-test years.

75. First and foremost, to curtail this escalation on rate of return we can keep the return amount, at the very most, to the prescribed BCUC amount of 9.65 per cent minus the 5 basis points for OIC resulting in a 9.15 per cent. This is without any risk premium as has been warranted by this same tribunal for the comparator or benchmark company.

76. UCG submits that we should be looking at altering which regulatory body we use as a formula-based comparator. For example, the Northwest Territories just completed a rate hearing and gave Northland a 9.3 per cent for RoR. This company is a more accurate comparator as it is a northern based company that uses weather normalization for its forecasting. Northland was also given a 42.5% equity ratio making it riskier than Yukon Energy. [19]

77. Years of deferral accounts, unrestricted spending for feasibility studies and bankrupt capital projects, such as utilizing Atlin Lake as a reservoir for a hydro facility, relocating rivers to raise the water levels in Aishihik, raising the Southern Lakes capacity, Mayo Lake storage, the Mayo B quandary, to name a few; have bloated the rate base, which in turn has spiralled the YEC yearly return accumulated every year.

78. Eventually, Yukon Energy must be accountable for these types of boondoggles.

79. This can be accomplished in this rate hearing, as at least two of the new major drivers of RoR are the Southern Lakes dogma and the intangible assets requested to be added to the 2024 rate base.

80. The attempt to develop the Southern Lakes storage project, at the bloated costs of $8.784, has been accumulating on the books for more than 10 years much of this for feasibility studies, in-house expenses such as internal engineer and internal costs and management, paternal consultant organizations, AFUDC(accumulated interest), etc.

81. UCG submits the Board send a message that these types of projects (Marsh Lake/Southern Lake project) without first realizing First Nations support and public license should not have even commenced. To keep this project on the books for so many years while continually spending money on a waste pit is unwarranted must not be entirely passed on to the YEC ratepayers. Accordingly, half of this project cost must be paid for by the shareholder as the various Boards of YEC/YDC also have acclaimed responsibility for approving such projects. This may be for past management obligations but must be normalized to stop this type of bleeding.

[18] Undertaking #7

[19] Transcripts, 2023 AEY Rate Hearing, Day 2. P.154. lines 1-19

82. There are several other projects with the same scenario, like the Mayo Lake storage, poor management/lack of vision for the water licencing of Aishihik, necessitating 5-, 10- and 25-year licensing at the same time, inadequate vision for YEC-owned diesel refurbishments and replacements (superseded with pie in the sky new 20MW diesel plant near the Mayo Rd. substation without public license).

83. The intangible assets, such as EAM purchase and implementation, PAMMS asset management framework, EAM enhancement review, Network software tracking shaping, CIS replacement, P&C central event date collection software, SharePoint upgrades, and others with cumulated costs of over $11million[20] are scheduled additions to rate base for these test years.

84. As this is a major driver of rate base in these test years and thus rate of return, UCG submits that all these intangible projects stay in WIP until the next AGM when YEC can clearly demonstrate that they are "used and useful" and therefore accountable to their ratepayers. They have not clearly demonstrated, in this application, that this is working for the benefit of the ratepayer as they continue to hire outside consultants to command the YEC forecasting; documentation and storage of information; and filing of regulatory applications for YUB processes, water board applications, YESAB processes; as well as other duties.

85. The YEC is also attempting to rehash the WH2 Uprate construction and engineering costs as well as the WH4 Servomotor replacement costs at an impact of $7.867million to rate base for these test years. UCG notes that many of these costs are for outside project management costs, owners engineer and internal costs which are unnecessary to perform the duties of a well-paid management and staff at the YEC.

86. The Board already ruled for the denial of the above costs in the last 2021 rate process. UCG submits, that the Board must again send a message to the YEC that if they do not have their ducks in a line when applying to place any project costs into rate base; without following all the directions given by the regulator[21]; they will be denied some or all of these costs and will not be allowed to retroactively apply for them at future rate hearings.

- **COST OF DEBT**

87. UCG submits that cost of debt is connected at the hip to the equity portion described above. Since the corporation retains the capital structure with a 60/40 debt to equity, it receives return both ways. When the company needs to spend money to pay for their inflated capital projects, the rate base accumulates, they generally borrow money (to not only finance these expenses but also to keep their capital structure) from themselves or from their shareholder, the Yukon Development Corporation. For this, as they act as their own financier, the YEC receives a premium bond fund interest rate.

88. This in turn adds to the cost of debt portion on rate of return and thus increases in the final revenue requirement. It is a double edge sword that ratepayers are forced to swallow.

89. UCG notes that this structure lowers the YEC risks of business operations.

[20] 2023/24 YEC Application, p. 5-24
[21] Board Order 2013 -01

- **DEPRCIATION AND AMORTIZATION**

90. This portion of the revenue requirement as described in the same table 3.1, undertaking #7, demonstrates an increase of 26% from the forecast 2023 test year to the forecast 2024 test year: from $11.997 million to $15.161 million.

91. This again is fed by the unsustainable capital projects, deferral accounts and feasibility study costs applied to be added into the rate base.

92. UCG is unaware of any changes made in the way the YEC determines depreciation and amortization for these test years, but we request the Board consultants have a close look at this driver to hold the YEC accountable.

- **FUEL AND PURCHASED POWER**

93. In observing this portion of the revenue requirement, from undertaking #7, UCG notes that 2021 rates over-recovered (approved rate above actual rate) to the tune of $3.215 million, we submit the Board should direct the YEC to reconcile this amount and return it to the ratepayer.

94. YEC's applied for fuel and purchased power costs are $16.272 million and $16.967 million in 2023 and 2024 respectively, including approval to adjust thermal prices used in setting fuel costs to reflect current forecast conditions.

95. UCG submits that this type of regulatory process, with a rider for recovery of fuel costs (Rider F) on top of the revenue requirement fuel costs does not give YEC any incentive to curb fuel expenses. As such, we request the YUB make it clear to the YEC that they are to understand the importance of controlling costs recovered from ratepayers and that they return any over recovered fuel rates and soundly track any variance account with adequate reporting.

96. UCG is also very concerned that the newly accepted IPP program developed by the YTG is no performing to the benefit of the ratepayer as it was supposedly designed to do (i.e. purchased power costs from the current IPP contracts do not reflect a positive to the system savings). In other words, ratepayers are paying for costs associated with these contracts when this should come from YG, the Yukon Development Corporation. It is their policy directive that has artificially raised rates for the consumer.

Low Water Reserve Fund (LWRF)

97. YEC is again requesting approval of changes to the LWRF to update this fund's ability to protect ratepayers from fossil fuel cost changes due to fluctuations in water availability for hydro generation.

98. The YEC's proposed approach using the YECSIM term sheet, a formulaic approach using simulated averages and algorithms along with a …to determine the yearly changes in the fund.

99. In UCG-19 YEC states: *"The long-term averages are based on historical water year records and operational rules for each hydro facility and reservoir, while the actuals are impacted by output from the hydro facilities based on water conditions and operational decisions."*

100. This alone demonstrates that decisions made by the utility affect the outcome of this model.

101. UCG continues to maintain that this simulated model along with manipulated input from out-of-house consultants and lack of clear evidence that management decisions on operating the hydro facilities are to the benefit of ratepayers and reflected in this ratepayer fund.

102. UCG notes that Board Order 1996-7, after a negotiated settlement process, specified how the DCF (now LWRF) is to be used. *"The fund is only to be used for the purposes of stabilizing rates and offsetting diesel (now to include LNG) generation cost estimates and the fund is not to be to be accessed for other reasons, including government subsidy of rates."*

- **NON-FUEL OPERATIONS AND MAINTENANCE COST**

103. From undertaking #7, the table indicates that non-fuel O&M is applied to increase from $28.575 million for the last 2021 GRA to $34,999 million in 2023 and $37.484 million in 2024. That is an accumulated 29% increase.[22]

104. This results in 43 percent of the forecast revenue requirement for 2023 and 41.5 percent in 2024.

105. This is unsustainable in the ratepayer perspective. UCG is primarily concerned with mushrooming labour costs ($2million for 2023 and $3million for 2024), administration ($1.3 million for 2023 and $1 million for 2024), as well as high tech management programming, while continuing to use expensive outside consultants to perform duties that this YEC staff are paid to do; from 2021 GRA to 2023/2024 test years.[23]

106. UCG is very concerned about how the YEC can manipulate the labour expense for maintenance and administration and capitalized labour. Capitalized labour is charged to capital projects rather than O&M expenses, becoming part of the revenue requirement through process of annual depreciation and amortization. Maintenance and administration are charge directly into the revenue requirement. Although the Board crossed on just this, UCG submits that the Board look more closely at this and give ratepayers assurances that this is being documented and accurately accounted for.

107. As stated above UCG would like better accountability from the YEC in how they are increasing FTEs from 100.6 to 119.81 since last GRA, while continuing to utilize their preferred consultant company to do much of their work.

108. UCG submits that the YEC should be prioritizing acquiring a professional hydrologist/engineer on staff who can accurately forecast water availability.

109. Looking specifically at Administration Costs from the 2021 GRA, UCG notes an escalation of $2.5 million to 2023 and $2.8 million for 2024.

110. YEC blames a portion of this to the ever-increasing cost of bolstering their intangible information system projects for network circuits, managed services and software licenses. Since the YEC decided to spend $11 miillion on improving their technology data recording, this administration cost of over a million dollars [24]should now be paid for by the YEC itself, not ratepayer funded. <u>This new information technology should be lowering the costs of administration not increasing this cost</u>.

[22] Undertaking #7 Exhibit
[23] Table 3.3, p. 3.7 YEC 2023/2024 GRA
[24] Table 3.9., p.3-22 YEC 2023/24 GRA

111. Customer Accounting increasing $0.183 million[25] again is questionable, for the same reasons as above, considering the YEC just invested in a new customer billing system, but yet still relies on AEY to administer their billing as stated in the cross. This increase should be nullified.

112. For the increase in Board of Directors cost increase of 66%, since last GRA, UCG does not understand how hiring a new President/CEO should have this major of effect.

113. Contracting administrative duties increase ($0.46 miilion) is yet another nail for the YEC coffin, as contracting out management duties is even more conflicting than other contracting fees paid out to do in-house work.

114. Environmental Management increase ($.284 million) due primarily to the Aishihik water renewal should also be waved as the YEC failed to efficiently plan this new licencing resulting in a duplication of 2, 5 and 25 year licencing.

115. All Resource Planning costs should be waived as this is part and parcel of administrative and staff duties and ratepayers must not pay duplicated costs.

Reserve for Injuries and Damages (RFID)

116. The RFID account addresses uninsured and uninsurable losses as well as the deductible portion of insured losses.

117. To temper the negative balance on this account, the YEC is proposing that the RFID annual appropriation starting in 2023 be increased from $0.616 million/year up to the lesser of (a) a level consistent with the Applications 2024 required rate increase of 14.12% and (b) $1.016 million/year.[26]

118. UCG submits that there has not been enough information put on the record to justify these costs that have been charged to RFID account, so the status quo should remain until the YEC comes forward with enhanced accountability.

Brushing Costs

119. Yukon Energy was directed by the Board in the 2008/2009 GRA to undertake a study into brushing activities including a written brushing policy with conditions attached.

120. UCG has not had the opportunity to review this policy, but we submit that brushing costs have decreased in the transmission field, while increasing in the distribution field, since the last 2021 GRA as described in Table 3.6.1[27] .

121. Since not enough information of brushing costs has been given, UCG question two approaches regarding this cost forecasting for brushing: how YEC determines priorities for forecasting for transmission versus distribution? and what does YEC do with the over charges to ratepayers from over estimating costs in either transmission or distribution brushing?

Staff Cost/Labour Cost

122. This particular concern has been documented above.

[25] Table 3.9., p.3-22 YEC 2023/24 GRA
[26] YEC 2023/24 GRA p. 3-25, lines 24-28
[27] YEC 2023/24GRA, p. 3-19

Capital Costs

123. With the escalation of expensive power plant works (both new as well as their inspection, review and upgrades/overhauls) as well as transmission upgrades in this application, it is fundamental that a prudence review for each individual project is performed to determine if a prudent business plan was followed to construct each with an economic efficiency approach.

124. Since YEC fails continuously in producing clear continuity schedules for each capital project from beginning to end makes prudency tests very problematic:
    - to track for accountability or duplication
    - to track overruns.
    - to determine where contribution funds are specifically allocated; and
    - to determine how total costs compare to original estimates (with relevant reasons).

125. For this application it is not clear how the YEC allocated many of these costs over previous years or how it plans to allocate these costs in these forecast years.

126. UCG has submitted arguments on several projects in earlier comments to appraise.

127. UCG submits that the many of the collective P&E spending on projects since the last GRA totaling $189.933 million[28] is totally unnecessary and unsustainable from the ratepayer perspective.

128. Accordingly, UCG submits the Board track and develop which projects should be denied all costs or a certain per centage of cost and which stay in WIP, until they can be adequately proven to be 'used and useful' for ratepayer benefit, until the next GRA, hopefully in 2025.

129. UCG has already submitted its argument above on four of the major concerns of our organization concerning escalating capital budgets and how this may be curtailed, i.e. deferred costs associated with Southern Lakes Storage, Aishihik Water Relicensing overlap, the Intangible Assets, and WH2 Uprate/WH4 Servomotor.

130. UCG has not had the time to track the DSM programming, at a cost of $2.774 million4[29], and the YEC testing to see if they are producing results beneficial to the ratepayer. As such, we ask either the Board staff take a close look at this or that these costs be delayed until a separate DSM review can take place.

131. UCG is concerned with how Feasibility Studies (mainly paid for through a preferred consultant firm) to the tune of $2.229 million[30] are tracked, as little to no information was given in the application. UCG understands that it is most often prudent to perform the duties of overseeing whether projects would be feasible or not before going forward with them, these duties must be performed in house with the increasing numbers in administration and FTEs as well as very expensive information systems.

132. Accordingly, UCG requests the Board deny these costs be added to rate base for this GRA and have YEC hold these in the WIP until they can prove that they are justified and present a 'used and useful' product for the ratepayer to achieve benefits.

[28] YEC 2023/24GRA, p. 5-2, lines 22-26
[29] YEC 2023/242GRA, p. 5-10, lines 23-25
[30] YEC 2023/242GRA, p. 5-11

133. UCG notes that pages 5-15 to 5-26 need a forensic accountant to follow, so we remain optimistic that the Board staff has such a position.

Diesel Replacement vs. Rental Diesels

134. Ten years to late to finally wake up to the concept of refurbishment and/or replacement of the YEC thermal units. This is now costing ratepayers much more money in this inflationary economy as well as the delay of using our own Yukon diesel gensets to displace rental of diesel units.

135. More than 10 years ago, UCG argued in front of the YUB that all diesels in the Yukon Energy holdings should be first refurbished for better efficiencies, or replaced with new model that are efficient and eco-friendly.

136. The YEC convinced the Board that they needed a new 20MWh plant on the Mayo Road, proximity to the now new over-budgeted sub-station. The Board and YEC soon learned that there was no public license, as many Yukoners turned out to deny any thermal activity. Many of these protestors did not or do not understand the need for back up or the N-1 scenario.

137. Again, YEC and their respective Boards should take some responsibility in the cost now associated with completing these very important projects at an inflamed rate.

138. From NY-2, it appears that all diesel units in the YEC inventory have now been upgraded or replaced. From this chart, UCG is concerned that dependable capacity is being accurately accounted for, i.e. DD2 and DD5 have been downgraded to 0 in the 2024/25 year. MH2 is unlisted as dependable even though it states retirement year is 2050?

139. UCG also observes that for hydro MH2 and WH3 are unlisted as dependable with no reasons given.

140. This must be qualified by the YEC.

141. From the application overhaul costs are listed for rate base additions: WG1-$0.4 million, WG2-$0.4 million, WG3-$0.4 million and DD4-$0.45 million.[31] As limited information is given in the application and as the first three are exactly the same costs, UCG does not understand whether these are forecasted costs or actuals requested to be placed into rate base.

142. From the application major thermal project spending to address capacity planning requirements to go into rate base is <u>forecast cost</u> of:

- approximately $18.176 million for 5MW diesel replacement to be completed and in service in Faro in 2024, and a cost of $0.15 million in 2021 for completed Whitehorse feasibility study; and
- forecast cost of $4.3 million in 2023 for Mayo-Faro Diesel infrastructure.[32]

143. Since both costs are forecasted and estimated, UCG submits they be held in WIP until the true costs are accounted for and updated.

[31] YEC Application p. 5-9

[32] YEC Application p. 5-3

144. From the application, the 5 MW Faro Thermal Replacement Project Forecast Capital Cost of $2.995 million requested to go into 2024 rate base.[33] Again as this is only forecasted, this amount should be placed into WIP until actual costs are finalized.

145. Since UCG is concerned about the same type of request to place forecasted thermal projects costs into rate base, the $15.180 million overall all other thermal replacement costs[34] must be monitored by the Board and if these costs are forecasted then they must be all placed into WIP until finalized.

146. The rental diesel dilemma is not only controversial, but also very expensive. There is no clear evidence provided that with all the money spent on thermal replacement and overhauls is lessening the rental costs.

147. Costs for sight preparation for thermal replacement and diesel rental units were not adequately planned nor managed, resulting in duplication (preparing sight for rental diesels and then reconfigure for replacement diesels the next year) adding extra costs. We request the Board scrutinize this closely and take these duplicated costs out of rate base.

148. The question of the Faro project scope regarding relevant assessment and regulatory permitting, site investigation and preparation assessments is added fuel to the YEC thermal planning. Although it may be controversial from a YUB perspective, it is at the very least a wake-up call for the YEC to take these tasks seriously and do due diligence.

Whitehorse Interconnect Project

149. Since this project is requested to go into rate base at a cost of $11.199 million to support the Whitehorse BESS project and the planned addition of 5MW of replacement thermal generation at the Whitehorse generation station site triggered the need to reconfigure substations.[35] Since this work may be practical to prepare for, it remains unfinished as the BESS is not in-service nor is the Whse. 5MW replacement completed.

150. As such, UCG submits this cost be placed into the WIP until it is proven "used and useful' for the benefit of the ratepayer.

Line Losses and Quality of Service

151. UCG submits that holding the line losses at the 8.6% mark is consistent with a public utility wanting to protect their ratepayer resulting in an increased revenue requirement due to lack of innovation and foresight on this matter.

152. Stating simply that it is not economically practical to improve voltage, frequency and wave forms to their power supply in order to conform to established specifications, is not a good enough answer.

153. Good power quality can be defined as a steady supply voltage that stays within a prescribed range, steady AC frequency close to rated value and smooth voltage curve waveform (which

[33] YEC Application p. 5.1A-11
[34] YEC Application, p.5.1A-11
[35] YEC Application, p 5.1A-15

resembles a sine wave).[36] While "power quality" is a convenient term for many, it is the quality of the voltage-rather than power or electric current-that is described by the term.

154. Accordingly, UCG submits the Board direct Yukon Energy to take a proactive approach to better the power quality and line voltage to decrease line losses.

Minto Debt

155. Since there is some $4 million dollars owed to YEC from the Minto operations, UCG is concerned that this may result in negative repercussions to the firm ratepayers. Even though we are told this debt will not impact ratepayers, this is $4 million dollars that should have been added to the sales of Yukon Energy, thus lowering the revenue requirement.

156. UCG submits that this on-again-off-again mindset of industrial customers, is not as much of a benefit to the regular customers as broadcasted, it is simply a Yukon Government approach for economic development using our public utility.

157. A novel approach may be for Yukon Energy to take a closer look at appropriating the diesels in Minto for their accumulated debt before someone else takes advantage of getting these for dime on the dollar, somewhat akin to our valued Merles gensets disappearance.

Pension Cost

158. UCG does not have the benefit of an accountant to track the YEC pension, so we rely on the Board to scrutinize this.

159. In YUB-55 and during cross by the Board legal, it was revealed that that ratepayers may be paying for overcontribution amounts.

160. UCG submits that any overcontribution for this or any fund operated by the YEC is directly used in lowering the revenue requirement for the test years.

161. UCG is also concerned whether these contributions reflect only unionized workers or the more highly paid administration as well.

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[36] Wikipedia, Electric power quality