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 Yukon Energy Corporation's 2021 General Rate Application

REPLY ARGUMENT OF UTILITIES CONSUMERS' GROUP

October 19, 2021

INTRODUCTION

1. The Yukon Utilities Consumers' Group ("UCG") filed its Final Argument on October 12,2021 regarding Yukon Energy Corporation's (YEC) 2021 General Rates Application.

2. Where specific final arguments of YEC are not referenced in this reply, UCG submits that we stand by our previously submitted final arguments.

REPLY TO YEC ARGUMENT

3. In opening statements YEC proclaims: *"However, in the view of Yukon Energy, its filing, the answers to the many interrogatories, and other evidence submitted (including undertakings) fully address all such concerns, and fully support the reasonableness and necessity of the proposed revenue requirement. Further, no evidence-based contrary position has been tendered by any party."* [1] UCG points out that this is an arrogant premise for the YEC to start out with. The UCG, the CoW and Nathaniel Yee have all filed evidence-based contrary positions (most using YEC's own evidence) to many of YEC's perspectives. As well, both CoW and Nathaniel Yee filed their own evidence.

4. UCG disagrees with YEC's opening position that its Application *"approach for the 2021 GRA allows it to address this serious revenue shortfall while avoiding a material change in bills for Yukon ratepayers. Implementation of this rate strategy will result in a very small change to customer bills, i.e., less than 1% from November 2020 bills."*[2] As referenced in UCG final argument, this rate strategy will most likely be short lived as Rider F will only be dormant until the end of 2021. UCG reiterates that the Board review this Application, without any of these promotions in mind, to determine if the record demonstrates the revenue requirement Yukon Energy has requested is prudent in all aspects.

5. YEC continues: *"In summary, the 2021 GRA revenue and rate requirements address specific growth in capital and operation components needed for cost-effective and reliable service. YEC's challenges since the last GRA have been increased by delays in being able to file the next GRA plus the impacts of COVID-19. Costs have been constrained by available funds and resources – and at the same time YEC has responded as required to unexpected challenges arising from events such as the 2020 sustained cold spell or unexpected failures in hydro or thermal generation facilities."* [3] Regarding the delays in filing, UCG responds that these are very flimsy reasons. Regarding cost being constrained, results in ROR for 2019 and 2020 clearly show a different outcome. This is all while revenues from sales increased significantly. Regarding unexpected challenges, YEC problems with their new LNG facilities have been on-going even though these are relatively new and presumably warrantied equipment. Maybe they should have changed the necessary spark/glow plugs and changed oil as required for maintenance.

6. UCG disagrees with YEC final argument when the state there was no issues, regarding the forecast sales, were raised. As advanced in UCG argument on this section , we have concerns with the

1 YEC Final Argument, August 9, 2018, page 2
2 YEC Final Argument, August 9, 2018, page 3
3 YEC Final Argument, August 9, 2018, page 6

sales forecasting of the YEC.

7. For this section in YEC argument they state: *"<u>AEY provided Yukon Energy with its forecast power purchase estimate at 345.9 GW.h for 2021. Yukon Energy's forecast is 2.4 GW.h, or 0.7% higher, than the AEY estimate provided. </u>The 2021wholesale forecast was prepared based on multi-variate regression assessments of monthly wholesales changes at normal weather conditions.6 It also reflects incremental forecast Micro Generation for 2021 which reduces forecast wholesales. Given that the forecasts are very close,and AEY's forecast is only for business planning purposes, <u>YEC's wholesale sales forecast of 343.5 GW.h for 2021 test year is reasonable and should be approved.</u>"*[4] This information was taken directly from the YEC Application. [5]

   Perhaps the forecast model assessment is robust, but there may still be manual errors made on the inputs OR to the outcome. If Yukon Energy's forecast was 2.4GWhr. higher than the AEY, then the YEC forecast should come in at **348.3GWhr.,** not 343.5GWhr.

   UCG submits this 348.3GWhr. be approved for YEC wholesale sales. As well Table 2.1 in this section of the Application[6] should reflect this number in the chart, including in the final Sales, as well as the increased Revenue gained from this error. As well, Rider J revenues in this chart would be affected by the result of this error. UCG submits this error should be reflected in a revised Table 2.1 as well as this amount decreased from the revenue requirement in the YEC compliance filing.

8. In its argument, YEC states that for Industrial customers, YEC's forecasts are reasonable and should be accepted. UCG submits YEC has all the asymmetrical information regarding loads and in particular mining loads. YEC does not consult with any other stakeholders or customers on this issue before punching their numbers into the forecast model/s.

   UCG submits that by low balling Industrial loads, the YEC can receive a revenue bonus if the loads are considerably higher at year end. Therefore, we request the Board put a place holder, for the benefit of firm rate payers, on increased revenues from sales greater than those forecast for the mines

9. UCG disagrees with the YEC statements: *"No material issues were raised in IRs or at the oral hearing regarding the 2021 test year peak demand forecast; and, consequently, the forecast is reasonable and should be accepted. Based on this forecast, no material issues were raised regarding the forecast single contingency (N-1) dependable capacity shortfall without rented diesels at 25.75 MW in 2021; consequently, this forecast is reasonable and should also be accepted.."* [7]

   UCG submits since industrial customers are forecast to increase their load 220 per cent since the last GRA,[8] then it only follows that during peak times the industrial peak should represent this huge uptake in load. 12MW peak for mines does not appear to be logical.

   Second, UCG submits that peak shaving is a way to reduce peak load. Accordingly YEC should be

4 YEC Final Argument, p. 8
5 YEC 2021 GRA, Sales. Tab 2.p.2-6
6 YEC 2021 GRA, Sales. Tab 2, Table 2.1, p. 2-16
7 YEC Final Argument, p. 11
8 Taken from YEC 2021 GRA, Tab 2. Table 2.1, p. 2-16

directed to be forthcoming with the results of the peak shaving for their new DSM pilot program as well as utilize the clause for all the mining companies; i.e there is a "peak shaving" clause in the Industrial Rate Class, [9] but has never been used.

10. UCG disagrees with the YEC statements: *"Forecast generation for the 2021 test year of 538.7 GWh is based on forecast firm sales plus system losses of 8.8%. The losses percentage is the same as the 2018 approved and also within the range of historical losses for the last three years, from 2017 (at 8.1%) through 2018 and 2019 (each at 9.2%). No material issues have been raised regarding the losses forecast and consequently the forecast generation for 2021 is reasonable and should be accepted*."[10]

    UCG and the Board legal brought up concerns about line losses during the cross examination process; the major reason being that Yukon Energy has spent millions of dollars on new transmission lines with greater voltage (i.e. from 69 to 138 kilovolts), millions on three new substations, replaced capacitors, cables, insulators, new and more efficient conductors, new and more efficient transformers, breaker replacements and other costly infrastructure like STATCOM; all of which increase line loss efficiencies. Yukon Energy gave a vague rationale in their response to this query.

    UCG submits that these million on infrastructure improvements should be reflected in less line loss to the YIS and therefore request the Board professionals review this issue carefully and lower this 8.8% system losses.

11. UCG disagrees with YEC statement: *"No material issues regarding the test year thermal generation forecast were raised in the oral hearing, IRs or other submissions.*" [11]

    UCG submits that thermal generation forecasting is the most controversial and twisted of all of YEC's forecasting methods, notwithstanding that the YEC model used is untested to this day. Even more disturbing is that the Board in review of 2007 Resource plan recommended *In order to properly test the veracity of the load forecasts and to assist in the testing of adjustments to revenue requirements, the Board suggests that YEC and YECL jointly prepare and file, for information purposes, 2-, 5-, 10-, and 15-year load forecasts by rate class every two years. With YECL providing distribution service to most Yukon residential and commercial customers, YECL input in use patterns and customer growth is essential. The utilities are to solicit input from stakeholders and document within the forecasts all assumptions and consultations used in developing these forecasts. Further, the forecasts should include a narrative discussing the sensitivity of the forecast to alternative fuel supplies (for example, growth in home heating options) and the probabilities of those alternatives proceeding)."*[12] UCG submits that this has never been done, including this test year GRA.

    UCG also submits that by not receiving input from other interested parties in determining forecast thermal generation, the YEC has all the asymmetrical information they include in their model. Accordingly, UCG submits that if the YEC wishes to advantage this forecasting, then the Board reduce their risk premium for this test year. Moving forward, UCG asks the Board to remind YEC to use a more collaborative approach when undertaking the forecasting of thermal generation.

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9 Industrial Rate-class RATE SCHEDULE - 39 INDUSTRIAL PRIMARY

10 YEC Final Argument, p.

11 YEC Final Argument, p.12

12 YUB Report to Executive Commissioner - YEC’s 20-Year Resource Plan, January 15, 2007, page ,

12. Regarding labour costs UCG submits in reply to two areas in footnotes:

- First, Mr. Mollard notes at transcript page 248-49, “Well, I think it's important to understand the nature of some of our overtime costs. We will frequently incur overtime when we are in a thermal run scenario. So engines have to run when they need to run. So we typically are running them at peak times in the early mornings and afternoons. We have to pay people to be on staff to look after those units. So if there's thermal runs, you're going to have overtime. That's pretty much unavoidable." [13] UCG notes that YEC has spent millions of dollars on SCADA. Simply put they can flip a switch and turn on LNG and diesel thermal generators anywhere on the YIS or in Whitehorse, as need be. If the generating equipment is properly maintained they don.t need a baby sitter.

- Second, Mr. Mollard: "Mr. Chair, if I could intervene here. We describe in Tab 3 Revenue Requirement with respect to labour that, when we set the labour component of revenue requirement, <u>we first divide up **what we believe** to be the split of labour between capital and O&M, or admin.</u> The number that's in Tab 3 Revenue Requirement is only that component of the labour that is charged to O&M admin. The capital costs run through the projects and are included in revenue requirement when the project is put in service through Tab 5." [14]

UCG submits that "<u>what we believe</u>" is lacking a prudent display of these costs. UCG agrees that labour costs in O&M or admin. are reasonably outlined in Tab 3 coming in at $13.310million, with an increase of $1.378million from the last 2018 actual. <u>No where in this GRA is there a summary and breakdown of labour expense for capital.</u> Accordingly, intervenors and the Board have no idea on what is spent on labour in capital. We ask the Board to remedy this going forward.

UCG submits that the Board take a proactive approach to rate making and direct the YEC to all expenses of 5%, focusing on this labour component. As some of these costs are being driven by YEC management decisions that may not necessarily improve the operational efficiency of YEC, if the YEC wants to make up their return goal, then efficiencies and cost cutting measures will have to be found. This is a start to incentive based regulation. .

UCG also notes that our final argument there are section on **Onerous Costs for Owner, i.e. Internal Labour, Management of Projects and Other Internal Costs** p.20-21; **Administration Labour Costs** p.21-22; and **Resource Planning Costs** p.22; for which we continue to maintain in this reply

13. In regards to Labour Rates and FTE's, UCG has only one comment. Since the YEC is continually increasing the numbers and costs of internal personnel, be it union or administration, UCG asks the Board to direct the YEC to have concrete costs savings from not having to hire outside consultants, to prove at the next GRA.

14. Although UCG agree with the YEC premise that: "Rented Diesels only Feasible Option to address 2021 Capacity Shortfall", we disagree with their "reasons" for this outcome: *"YEC has conducted*

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13 YEC Final Argument, footnote 25, p. 14
14 YEC Final Argument, footnote 25, p. 14

several detailed assessments of more permanent options for addressing the dependable capacity shortfall since diesel rentals were first installed for the 2017/18 winter –including YEC's recent 10 Year Renewable Electricity Plan completed in 2020 and its earlier more detailed assessment of a 20 MW new diesel plant and other options in YEC's 2016 Resource Plan." [15]

UCG submits this issue of N-1 forecast shortfall raised its ugly head long before the 2016 Resource Plan, i.e. the 2012 YEC GRA and again at the LNG Project review in 2014. In both of these proceedings UCG requested that the YEC update,/overhaul all generators, and replace end-of-life diesel generators that were in YEC's profile to accommodate the necessary back-up for N-1 or other failures on the grid. At that time the YEC had sufficient diesels in their portfolio. If they would have started this process immediately at that time, the YEC would not have found themselves in the predicament of rental diesels being the only feasible option for this test year. Instead, the YEC promoted and pursued the Cadillac brand new 20MW diesel facility, which was shot-down by the lack of public license. Accordingly, UCG argues the YEC was not prudent in its management decisions, which is now negatively impacting rate payers. This procrastination on behalf of YEC. giving them short time lines, left them with the rental option.

As well, the YEC are yet again undergoing the twin perils to verify they have prudently evaluated alternatives to rentals (see CoW evidence and argument) and have conducted an appropriate environmental screening test and permit through YESAB (see NY evidence and argument).

15. *UCG disagrees with the YEC final argument statement "Interrogatories and undertakings reviewed details related to the depreciation and amortization rate changes resulting from the depreciation study; however, no major issues were identified on these matters in the oral proceeding. Accordingly, the depreciation and amortization rate changes proposed in the Application are reasonable and should be accepted."* [16]

    UCG submits that the we have raised many issues with this in our final argument, **Depreciation, Amortization, Working Capital and Return on Equity,** for which we have requested the Board to scrutinize and render a fair balance on these issues. [17]

16. UCG disagrees with the YEC final argument; *"Accordingly, the costs for the Appeal of the Board's decision related to DSM were prudently incurred and should be included in rates at this time*."[18]

    UCG submits that the Board in the 2017-18 GRA found that the DSM cost were not prudent and should be borne by the shareholder, therefore it stands to reason that any court proceedings brought forward by the YEC challenging the decision should also be paid for by the shareholder, not recovered from ratepayers.

17. UCG has concerns that ratepayers will not benefit from this Rate Schedule 39 reorganization, but this income will be swept up by Yukon Energy accounting procedures. Accordingly, UCG request the board ensures this new money recuperated from theindustrial rate class is taken off the revenue requirement.

    We also take issue with the statement; *"As a result, all ratepayers will be subsidized during the*

15 YEC Final Argument, p. 24
16 YEC Final Argument, p. 25-26
17 Please refer to UCG Final Argument, p.11-12
18 YEC Final Argument. p. 26

expected mine life and remaining customers will be required to pay residual capital costs for these assets as soon as the mines have closed." [19] UCG notes that evidence shows that it is firm ratepayers that subsidize the mines, not the reverse.

18. UCG has further concerns with rate base, rate of return and return on equity. YEC in argues tthat: *" $0.907 million reflects interest expense increases due to increased mid-year ratebase (with new debt interest set as per Board direction in Order 2018-10 using a formulaic approach based on long-term Canada Bonds benchmark rate of 0.99% as of June 30, 2020, plus 120 basis points);"* [20]

    - First, UCG requests that the Board direct YEC to re-negotiate their past loans with YDC as is done with all mortgages from time to time, and lower the interest rate on these past loans to the mother corporation, YDC, corresponding to the current formulaic amount in this application, that being lowered to 2.19%.

    - Second, UCG argues that the rate base be lowered for the various reasons UCG gave in our Final Argument. [21] UCG submits that there are obvious costs associated with various capital projects that are not prudent, and the Board will lower the rate base accordingly. UCG also notes that the continual rate base escalation does not only impact ratepayers in the test year, but for many years to come.

    - Third, since the YEC maintains a 60/40 debt to equity ratio, it stands to reason that if the equity portion, which depends on rate base, is lowered; then the debt portion will also be lowered to maintain the regulated thickness.

    - Fourth, UCG reiterates that the "risk premium" be lowered for reasons in our Final Argument, [22] regardless of the YEC rationale given in their final argument. UCG has one more issue to ad about YEC stance that the LWRF status quo offers no change in risk. UCG argues that the LWRF must not be served to protect the YEC from adverse management operating decisions. This increases the risk to rate payers and a major reason UCG does not have confidence in the YEC to manage our trust fund.

19. With respect to rate base growth, YEC states in its argument: *"The majority of capital expenditure forecast to be added to rate base in the 2021 test year relates to major projects over $1 million which account for $55.5 million net addition to rate base while projects with costs between $0.1 million and $1.0 million add approximately $15.8 million."* [23]

    UCG submitted many concerns with the big ticket items in our Final Argument for which we stand by (i.e. Mayo-McQuesten Transmission Line and McQuesten Substation, the total Enterprise Management costs, Demand Side Management, Replacement and Rentals of Diesels, continuation of Marsh and Mayo Lake Enhancement, duplication of Aishihik Water License costs. But we also have similar issues with the aggregation of smaller projects of less than $1million, which were not brought in front of the Board for a pre- screening (integrated resource plan) review.

    From UCG's review of the evidence and argument, YEC fails to give the consequences of the rate

19 YEC Final Argument, p. 27
20 YEC Final Argument, p. 28
21 UCG Final Argument p. 12
22 UCG Final Argument p.27
23 YEC Final Argument, p. 29

base increases in the two years preceding the test year, that being $31.154million for 2019 and $36.171million for 2020. [24] UCG does not agree that YEC should be allowed to add rate base in years outside of a GRA without prudence testing. UCG also notes that the total cost of Yukon Energy GRA expenditures on plant and equipment by the end of 2021 is forecast to be $61.767million, [25] which does not match the amount given above in Final Argument, being ($55.5m plus $15.8m) $71.3 million.

UCG reiterates that this rate base growth has become unsustainable for the small rate payer base perspective. Accordingly, projects and project studies must be short listed, tested in a resource plan proceeding with the YEC demonstrating a complete business plan for each project. UCG notes that the Board previously directed the Utilities to follow a business plan protocol. The YUB specifically directed that economic analysis must be completed on projects (including discussion of risks of proceeding or not proceeding and assumptions related to escalation factors, loading, financial measures, term of project and associated ancillary costs) in order to determine the economic impact to ratepayers.[26] UCG submits that this is the essence of a cost / benefits analysis which YEC has determined is not required.

20. UCG submits that it is misleading for the YEC to seek approval for deferred projects while only identifying partial impacts of these investments i.e. Aishihik 3yr Water License and Asset Management Project. As well , the YEC seeks approval for projects which have been on-going for many years, i.e.WH4, Asset Management, Installation of 3 LNG Turbines with infrastructure, WAF Line Refurbishment, Transmission Line Refurbishment Breaker Replacement, and DSM. The total costs of each complete project have never been compiled to give a cost/benefits analysis and a LCOE. In other words, there is no way for the regulator to determine if the project/s were prudent and built in an economic fashion.

Yukon ratepayers are left paying for the long term impacts as is demonstrated in the total amount of Deferred Costs to the end of 2021 of $47.694 million. [27] This is unsustainable for a small ratepayer base in the Yukon.

21. UCG takes issue with YEC argument that "No material issues were raised in IRs or at the oral hearing regarding this project." They repeat this mantra for:
- ***Replace P125 Headgate***

WH2 headgate in 2020. As part of YEC's annual business planning process, team capacity was assessed and upon completion of the assessment it was determined that the replacement and refurbishment of the gates and related infrastructure for units WH1 and WH3 will be deferred to 2022 and 2023 respectively. Planning is currently underway for the replacement of the WH1 headgate which includes revision of the technical specifications based on learnings from the WH2 headgate replacement, as well as preparation and release of an RFP in advance of the 2022 project.

- ***WH2 Uprate***
- ***WH4 Uprate (Servomotor Replacement)***
- ***Aishihik Relicensing – 3 Year Licence Renewal***

Both the UCG and the Board asked several IRs on these issues and UCG made arguments on

24 YEC 2021 GRA, Table 5.1, p.5-31
25 Ibid
26 YUB Order 2013-01, Reasons for Decision
27 YEC Final Argument, Tab 5, p. 5-42

these projects, which we stand by. Regarding the replacing of these three headgates, the YEC was not clear in its application, nor are they clear in this argument above; on which items were to go into ratebase or has all three been added before proven used or useful.

Regarding WH 2 and WH4, UCG was most concerned that these refurbishments took place over several years and several GRAs, therefore the accumulated full costs for each project were not given to determine if they were uprated efficiently or in an economic fashion.

Regarding Aishihik 3 yr. license, UCG is concerned about management decisions that we consider not prudent (see argument) and that there are duplication/overlapping costs with the longer term license still in progress and has been for many years now.

22. In Final argument, YEC notes that Projects included in various appendices are currently in WIP and will remain in WIP at the end of 2021. YEC further claims that costs for these projects will be fully reviewed at a subsequent proceeding when YEC applies to have the costs included in rates. UCG wants to be assured that the Board will not allow YEC to roll any projects, now in WIP, into rate base in the years between this rate case and the next one.

23. Regarding Rate Schedule 39, UCG stands by our final argument.

24. UCG stands by our final argument concerning the Low Water Reserve Fund (LWRF) term sheet for 2019 and that this deficiency amount be taken off the fund balance.

25. UG maintains that a contingency mechanism is not required to address water variance impacts on YEC thermal generation costs and to determine final YEC costs for a fiscal year. UCG submits that the real reason behind the need for the LWRF(or some similar rate stabilizing mechanism) is due to the fact that YEC cannot adequately forecast and control the costs of thermal generation and is not related to the protection of ratepayers from drought risk.

26. UCG also maintains that thermal generation costs (no matter the reason) are within YEC's control since they are the party responsible for establishing operating policies and procedures including fuel procurement practices. The LWRF, and its precursor the DCF, must be designed to protect ratepayers from fossil fuel cost changes due to fluctuations in water availability for hydro generation. That's it. There can be no other "operational risks" to be covered by this contingency mechanism. In other words, the LWRF must not be served to protect the YEC from adverse management operating decisions nor any other unintended uses of this fund.

27. Regarding increasing cap to +/-$16 million, UCG does not see the need for this. First, UCG contends that it becomes to big of a pot or "cash cow" for YEC under its control. Second, the YEC is planning to develop many new projects which will logically help protect ratepayers from adverse weather conditions, i.e. battery storage, new Atlin hydro, Moon Lake and other possible hydro projects, new wind and solar projects, etc.

28. UCG will leave issues such as vegetation costs and RFID to the CoW and the Board staff to hash out the appropriate actions.

29. UCG also asks the Board to reflect on whether the <u>prudent costs</u> of projects that will never be in the "used and useful" category should be placed in a deferral account or into rate base. The Marsh and Mayo Lake Enhancement projects are two likely examples.