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Our File No.: 12276-92

December 16, 2013

VIA EMAIL

Yukon Public Utilities Board
Box 31728
Whitehorse, YK Y1A 6L3

Attention: Ms. Giuseppa Bentivegna, Board Counsel

Dear Ms. Bentivegna:

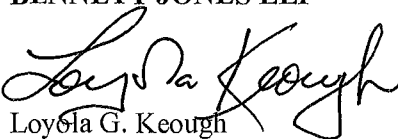
**Re: Yukon Electrical Company Limited 2013-2015 General Rate Application
Reply Argument**

Pursuant to the Board's Schedule, please find attached the Reply Argument of the Yukon Electrical Company Limited.

Should you have any questions or concerns, please do not hesitate to contact the undersigned.

Yours truly,

BENNETT JONES LLP


Loyola G. Keough

cc: Interested Parties

YUKON UTILITIES BOARD

IN THE MATTER OF the *Public Utilities Act*, R.S.Y. 2002, c. 186;

AND IN THE MATTER OF an application by the
Yukon Electrical Company Limited
seeking approval of its 2013-2015 General Rate Application.

REPLY ARGUMENT OF THE YUKON ELECTRICAL COMPANY LIMITED

1. INTRODUCTION

1. Having reviewed the Arguments filed by the City of Whitehorse (the "City"), Yukon Energy Corporation ("YEC"), Leading Edge Projects Inc. ("LE"), the Yukon Conservation Society ("YCS"), and the Utilities Consumers Group ("UCG") (together the "Intervenors"), the Yukon Electrical Company Limited ("Yukon Electrical") respectfully submits the following arguments in reply. Where capitalized terms are used herein but are not defined, they bear the meaning attributed to them in Yukon Electrical's Argument. Yukon Electrical's silence on any issues raised in argument by the Intervenors should not be taken as its agreement therewith. To the contrary, unless expressly stated, the positions advanced by Yukon Electrical in its Application, Responses to Information Requests, Updates Filing, oral testimony and Argument remain its views on the matters before the Board in this proceeding.

2. Yukon Electrical notes that it anticipated many of the arguments that have been advanced by the Intervenors in their respective Arguments and does not intend to repeat the submissions it has already made on those points. Instead, Yukon Electrical will focus on providing its reply to new matters raised in argument that merit response. Yukon Electrical will generally follow the same format adopted in its Application and Argument, with the additional issues raised by parties addressed under the appropriate heading. Overall, as outlined in further detail below, Yukon Electrical respectfully submits that the record demonstrates that it has provided comprehensive support for, and justification of, all approvals requested as part of its Application.

3. A number of the Intervenors have, in their Arguments, requested arbitrary caps on, or reductions to, certain components of Yukon Electrical's forecast Revenue Requirement over the

Test Period. Yukon Electrical submits that these requests are without any evidentiary support and should be rejected by the Board. Indeed, in a number of cases, were the Board to heed these baseless caps or reductions at a time when Yukon Electrical is facing significant cost pressures, Yukon Electrical submits that it would be left in a position where it would be unable to continue to provide safe and reliable electricity service. The UCG, in particular, appears to be urging the Board to ignore all of the evidence filed by Yukon Electrical and to limit components of its Revenue Requirement to averages of past actuals notwithstanding the detailed explanations provided by Yukon Electrical in support of its requested increases in the Test Years. In a number of cases, the UCG's position simply ignores the regulatory compact, which entitles a utility to a reasonable opportunity to recover its reasonable and prudent costs, including return, in exchange for providing safe and reliable service at fair and reasonable rates.

4. Before addressing specific Intervener arguments that merit response, Yukon Electrical considers it necessary to address some areas of grave concern to it. In particular, Yukon Electrical was extremely disappointed in the UCG's written submissions, which were replete with inflammatory and offensive commentary that has no place in this process. Indeed, such commentary is an abuse of this process and warrants admonishment by the Board. Accusations of incompetence, incomplete responses, and the likening of Yukon Electrical's forecasting process to "fictitious guesses" is not only wholly inappropriate, but it is simply not borne out by the record before the Board in this proceeding. Yukon Electrical respectfully submits that it has gone out of its way to provide comprehensive support for its Application and to provide helpful and complete responses to the questions asked of it.

5. Yukon Electrical also notes that there are numerous instances of assertions made in argument by the Interveners that are without any foundation in evidence. While some of these instances are highlighted in further detail below, Yukon Electrical respectfully asks that the Board exercise caution in reviewing the Arguments filed by the Interveners and to be careful to separate legitimate argument from baseless assertions. It bears reiterating that the only evidence before the Board in this proceeding is that put forward by Yukon Electrical in its Application, Responses to Information Requests, Updates Filing, oral testimony and Responses to Undertakings. All of this evidence comprises the totality of the record and the Board must take all such evidence into account in determining the various issues before it. Yukon Electrical's evidence is to be distinguished from the unsupported and unsubstantiated statements made by Interveners both on the hearing transcript and in argument, which cannot

be relied upon by the Board as a basis for arriving at any decision regarding the matters to be adjudicated upon in this GRA.

6. Yukon Electrical does not intend to further address the issue of the timing of its filing of this Application, except to submit that there is no evidence before the Board as to what the practice may be in other jurisdictions or the underlying rationale that may support the conclusions reached in other jurisdictions as to the timing of filing of applications. In particular, there is no evidence before the Board as to the underlying statutory framework in Ontario upon which the Ontario regulator reached the conclusions in the decisions cited by the UCG. Yukon Electrical does not agree with the suggestion that its Application was filed late or that its Application results in any impermissible retroactive ratemaking.¹ As Yukon Electrical outlined in its Argument, this Board has the authority under s. 29 of the *PUA*, and indeed it has been its historical practice, to approve full recovery of the final revenue requirement determined by the Board in the year in which the Application is filed. This continued practice of the Board is reflected in decisions as recent as Board Order 2013-01 in respect of YEC's 2012-2013 GRA.² Yukon Electrical submits that it would be unfair and unreasonable for the Board to deviate from its previous practice without due notice to the utilities.

7. Similarly, Yukon Electrical does not intend to further address the issue of Performance-Based Regulation and its feasibility in the Yukon except to highlight that there is absolutely no evidence on the record to support the UCG's assertions that there would or should be a considerable reduction in regulatory costs if it were implemented. The experience of Yukon Electrical's parent, ATCO Electric, has been quite the opposite of that assertion as the process began in 2010 and is not yet done at this point in time.³ Furthermore, as stated during the hearing, the manner in which cost of service regulation has historically operated in the Yukon demonstrates that a number of the efficiencies attributed to Performance-Based Regulation are already being achieved. These efficiencies include Yukon Electrical having only four test years between 1996 and 2012⁴ and its average 2008-2012 actual Return on Equity being 9.968% as compared to the BCUC GCOC Benchmark average for the same period, including the awarded 0.46% risk premium, of 9.68%.⁵

¹ 1T163, lines 1-3.

² UCG-YECL-1(a) and WL-YECL-1(b).

³ 2T361, lines 15-17.

⁴ 2T360, lines 5-9.

⁵ YUB-YECL-32(b).

8. In paragraph 44 of its Argument, UCG states that there are various factors making it difficult to ensure that Yukon Electrical is carrying on operations in an efficient manner and that PBR can alleviate this issue by incorporating a formula that provides for both ratepayer protection together with a productivity dividend and a financial incentive on the part of Yukon Electrical to become more efficient. With respect, the fact that Yukon Electrical has only had four test years between 1996 and 2012 is strong evidence that Yukon Electrical has been and continues to be strongly incented to be as efficient as possible in the delivery of safe and reliable electric service. As stated during the hearing and in Argument, Yukon Electrical's position remains that Performance-Based Regulation is solution looking for a problem that simply is not present in the Yukon.

9. In response to the UCG's response that Yukon Electrical should be directed to develop and implement a policy to address bill mitigation (p. 67), Yukon Electrical respectfully submits that it has addressed this matter when it stated its policy is to limit the instantaneous rate impacts of a rate change to 10%.⁶ Further to this, and as detailed in Undertaking #10 as well as UCG-YECL-5(d), bill mitigation is not required as bill increases have been and are forecast to occur at levels below the threshold as follows:

- a. July 2013 9.8% combined Yukon Electrical and YEC rate changes
- b. July 2014 5.2% combined Yukon Electrical and YEC rate changes
- c. January 2015 1.7% Yukon Electrical rate change only
- d. July 2015 -5.1% Yukon Electrical rate change only

10. Further to the above, Yukon Electrical recognizes the Yukon government may end its Interim Electrical Relief (IER) in 2014. This has, however, not been the past practice of successive Yukon governments since the 1990's when previous rebate programs were scheduled to end.⁷ Yukon Electrical respectfully submits it is the Yukon government that will need to assess the potential for rate shock when it reviews the future of the IER in 2014.

⁶ UCG-YECL-5(c).

⁷ 1T179, lines 5-10.

2. SALES AND REVENUE

Reply to YEC Suggestion that Whitehorse Copper Tailings (“WHCT”) Forecast Sales be Removed from the Forecast, that the Original as Opposed to the Updated Forecast be Approved

11. Yukon Electrical respectfully submits that YEC’s submissions in respect of Yukon Electrical’s sales forecast must be reviewed with caution as YEC is inappropriately referencing many numbers that have no evidentiary support and cannot be relied upon by the Board for purposes of rendering its decision on these issues. In addition, YEC uses these unsupported numbers in a confusing manner to suggest that the Board direct Yukon Electrical to:

- remove WHCT sales forecast for the test years;
- retain the remaining non-industrial forecast as per the original filing; or
- if the Board decides to accept the Updated Forecast, it is proposed that the residential and commercial sales reductions to the original forecast be limited to no more than 50% of Yukon Electrical’s proposed reductions to the original forecast.

Noticeably absent from its Argument is any rationale or justification in support of YEC’s proposed 50% reduction in the Updated Forecast.

12. By way of example of YEC’s unsubstantiated assertions, YEC’s Argument (p. 19) states that “...actual results to date in 2013 support an updated 2013 weather normalized forecast requirement for non-industrial customers that is 5 to 7 GWh higher than the YECL Update.” There is, of course, no evidence on the record to support this statement and Yukon Electrical states that it should be wholly disregarded by the Board. The YEC is not a stranger to YUB proceedings and well knows that it is entirely inappropriate to attempt to introduce evidence through argument. Yukon Electrical’s concerns are reviewed in greater detail below.

13. YEC’s calculations, in part, are based on its approved 2012-2013 GRA forecasts. Given YEC’s GRA was filed on April 27, 2012, it is reasonable to conclude information used to determine its sales forecast is well over 18 months old. This is clearly not the latest and best information available for forecasting Yukon Electrical’s sales at this point in time. On page 20 of its Argument, referring to its “approved GRA” forecast, YEC states its 2013 wholesale sales forecast to Yukon Electrical is 307.2 GWh. YEC then removes from its sales forecast WHCT sales of 5.1 GWh and adds Fish Lake generation of 4.88 GWh to determine its adjusted sales

forecast of non-industrial weather-normalized grid supply of approximately 307.0 GWh. As indicated on Schedule 3.2 of Yukon Electrical's Application, 2013 Fish Lake generation forecast is 4.4 GWh which is 0.5 GWh lower than what YEC is claiming to be its Fish Lake generation forecast.

14. YEC then makes reference to non-disclosed 2013 nine months actual wholesale sales and implies that its sales to Yukon Electrical, once its approved sales forecast for the remaining 3 months is added, would total 304.3 GWh. Yukon Electrical is unable to comment on the accuracy or validity of this figure since no evidence has been provided to support this. YEC then goes on to add 4 GWh to 6 GWh for a weather normalization adjustment, but has not provided the data and method of normalization nor has it explained why there would be a range. This is a clear example of YEC attempting to introduce evidence through argument.

15. Based on Yukon Electrical's actual weather normalized⁸ purchase power invoices from YEC in the first nine months of 2013 and the updated purchase power forecast for the remaining three months in 2013, Yukon Electrical's total purchase power, excluding purchases related to WHCT, is forecast to be 304 GWh on a normalized basis.⁹

16. As detailed in Yukon Electrical's Update, sales on a normalized basis in the first nine months of 2013 came in 8.4 GWh (3.5 GWh Residential + 4.9 GWh Commercial) lower than originally forecast. It is Yukon Electrical's position that this decrease is attributed to a decrease in use-per-customer (UPC) from that originally forecast.

17. Incorporating the January-September reduction in UPC as well as well as the increases in the year-to-date customer additions for residential and commercial, Yukon Electrical has provided an updated energy sales forecast for 2013 of 309.9 GWh. This update is 7.7 GWh lower than original forecast of 317.6 GWh. This decrease was then incorporated into the 2014 and 2015 updated sales forecasts which were reduced 7.9 GWh and 8.1 GWh, respectively. The year over year percent increase in the sales forecast for 2014 and 2015 remains at 1.9% per year which is consistent with the original forecast.

18. Given the above noted difficulties in determining the validity and or accuracy of the YEC numbers included in its Argument, Yukon Electrical respectfully submits that its updated sales forecast represents the best information available on the record for each of the three test years.

⁸ Based on a weather normalization adjustment of 3.5 GWh, (See Attachment 1, YECL Update: the difference between actual and normalized residential and commercial sales of 3.3 GWh + 6.2% losses).

⁹ Revised Schedule 3.1, line 2: 305.1 GWh less 1.1 GWh for WHCT.

Since Yukon Electrical has applied for a three year test period, it is of added importance that the best information available on the record should be used for purposes of determining its sales forecast.

19. Further to this issue, Yukon Electrical notes the Board has previously concluded that it may consider the best available information that is on the record when it ordered the use of Yukon Electrical's actual 2008 long term debt rate as opposed to the original forecast.¹⁰ Yukon Electrical respectfully submits the Board should apply this principle consistently.

Reply to UCG on Sales and Revenue

20. Based on the Argument submitted by the UCG (p. 16), it appears that they have not read the Application nor have they been following the proceeding. These concerns arise from the following statement:

The weather normalization process may have a big impact on the determination of test year sales used in a rate proceeding because electricity service and revenues are weather-dependent. At the very least, YECL should have sought input from stakeholders and other utilities on products that may be more representative of climate normals and current climate trends.

With due respect, Yukon Electrical has been using a consistent weather-normalization sales forecasting methodology since the preparation of the 2008-2009 GRA sales forecast and has explained throughout its Application and various interrogatory responses that weather normalization has been utilized in the preparation of its sales forecast for 2013, 2014 and 2015. In fact, under Section 11, Attachment 1, Yukon Electrical submitted its Study on Canadian Energy Forecasting Methodologies, which included discussions on weather normalization. Yukon Electrical respectfully requests the UCG's recommendations in this area be dismissed.

Reply to YEC Alternative Approach to WHCT Deferral Account, LE and UCG

21. YEC's Argument (p. 15) recommends the current circumstances of WHCT are best addressed by a deferral account that, in its opinion, is exactly similar to an earlier deferral account that was approved by the Board relating to Rate Schedule 34. While Yukon Electrical agrees with YEC that this approach fully protects both Yukon Electrical and all other ratepayers, and allows for facilitation of the WHCT load connection if and when this is feasible, Yukon Electrical notes the best information available to it at this time from WHCT is that it will begin to take service in the spring of 2014. Yukon Electrical acknowledges, however, that even

¹⁰ Board Order 2009-02, p.32-33.

with this latest update, there is still significant uncertainty as to the exact timing of the start-up and the ultimate load.

22. Yukon Electrical notes that LE's Argument (p. 2) recommends the approval of the deferral for WHCT as requested.

23. UCG's Argument (p. 18) submits that the impact of any forecast error during the test period of 2013-2015 will be minimal so there is no need for a deferral account to protect Yukon Electrical from its own forecast. Yukon Electrical respectfully submits this requested deferral account meets the deferral account criteria detailed in its Application and will protect both Yukon Electrical and ratepayers from variances up or down from forecast that could have a significant impact.¹¹

3. PURCHASE POWER

Reply to LE Suggestion that Board Increase Fish Lake Long Term Average Generation Forecast to 9.2 GWh

24. At the outset, it bears noting that YEC expressly agrees that Yukon Electrical's forecast of 8.73 GWh is reasonable and appropriate. LE, on the other hand, suggests that the forecast should be increased to 9.2 GWh. As noted in YUB-YECL-37(d) and shown in Attachment 1 (page 15 of 15), only two decades (the 1960s and 1970s) in the last five had average generational output that exceeds the 8.73GWh. The 30-year average (1980-2009) is 7.71GWh. Indeed Yukon Electrical is of the view that the historical board approved 8.73GWh is high. As further outlined in YUB-YECL-37(d), Yukon Electrical does not have any actual experience with the new equipment installed in 2013 at Fish Lake. It is not yet clear what the efficiency gain will be and it is subject to operational flows. Yukon Electrical submits that the best forecast available for purposes of this Application is to remain at the Board-approved output of 8.73GWh rather than decreasing the expected output at the Fish Lake facility to better match the historical average and then offsetting it with potential efficiency gains.

Reply to YEC, UCG and LE Suggestions for Different Treatment of Incremental Purchase Power When Fish Lake Down

25. As detailed in at p.9 of its Argument, Yukon Electrical is requesting to capitalize the incremental purchased 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

¹¹ YEC-YECL-6(d).

respectfully submits that this approach is reasonable and consistent with the prior Board direction in Board Order 2009-02 and that the costs were incurred as part of the total capital project of rebuilding Fish Lake Unit #1 which will have enduring benefits for ratepayers for many years to come.

26. LE's Argument (p. 2) takes the position that most, if not all, of the purchased power cost should be charged to the reserve for injuries and damages (the "RID"). More specifically, LE recommends: (1) that the Board approves not more than the purchase power cost incurred in 2013 for inclusion in the capital cost of Fish Lake Unit 1 replacement, and (2) that the Board order Yukon Electrical to calculate the purchase power cost for the three year period of March 2010 (the date of the catastrophic failure) to December 31, 2012 and to recover this amount from the RID or to be absorbed by Yukon Electrical. Alternatively, should the Board so choose, LE suggests that the entire purchase power cost from March 2010 to the December 2013 in service date should be recovered from the RID.

27. During the hearing,¹² Yukon Electrical acknowledged that charging the additional purchased power to the RID was certainly an option to consider. This option was not chosen due to Board Order 2009-02 and its direction to capitalize incremental purchased power. If the RID option had been chosen, the additional purchased power would have been added to the RID (rate base) and amortized over a shorter or long period of time as compared to the capitalize and depreciate option chosen by Yukon Electrical. The effect would be the same in the long run, but the proposed option reduces the rate impact in the test years.

28. In UCG's Argument (p.20), it submits that the incremental purchased power should not be capitalized. In support of this recommendation, the UCG appears to reference there being no evidence on the record of this proceeding relating to generation costs associated with the Carmacks-Stewart transmission line project ("CSTP") being incurred by Yukon Electrical and capitalized as part of YEC's capital project. In response, Yukon Electrical submits that Board Order 2013-01 directs YEC to include its own, as well as third party, generation costs in the determination of total costs associated with its capital projects. Yukon Electrical respectfully submits that the same should hold true for Yukon Electrical. The applicable paragraphs from Board Order 2013-01 are as follows:

314. YEC acknowledges that it includes diesel generation and other associated cost requirements in its capital project budgets. YEC further submitted that costs

¹² 3T405, lines 24-25.

related to expected Aishihik plant shutdowns were included in budgeted amounts for the Aishihik Third Turbine project. YEC stated that it had received YECL invoices that requested reimbursement of costs for impacts related to YEC's Haines Junction bypass and CSTP projects. YEC added that it was not aware of any formal request for compensation prior to the commencement of these projects. In summary, YEC submitted that there were no grounds for payment of these claims as the invoices were received after the project budgets had been set. Also, these costs should be justified by YECL before the Board and should be included in YECL's revenue requirements. YECL replied these were planned outages and as a supplier of electricity in Yukon, YEC "cannot simply abandon its obligations for maintaining supply during extended planned outages that it causes.

315. YEC disagreed with YECL and voiced concerns regarding the feasibility of each utility charging the other for such costs. YEC submitted that if the Board sees merit in ensuring that such costs be recovered, the Board should direct YECL to set up a deferral account in order to test the costs.

Views of the Board

316. The Board notes that the invoices relate to a YEC planned outage in respect of one of its major projects. As part of YEC's feasibility study work leading up to the decision, whether or not the project is given the go-ahead, the Board considers that YEC would investigate and determine all costs that relate to such projects. The Board finds that it is YEC's obligation to forecast all future costs, including all third party costs, such as YECL utility costs that relate to YEC's proposed capital projects. The Board directs YEC to consult with YECL to determine costs that are to be incurred by YECL as a result of YEC's proposed capital project costs. The Board further directs YEC to include such costs in future GRAs for Board and intervener review.

29. As detailed in Business Case 2 of its Application, as well as in YEC-YECL-17, Yukon Electrical respectfully submits that it has diligently and prudently gone about the task of rebuilding Fish Lake Unit #1. A finding that Yukon Electrical should absorb any portion of the costs of the incremental purchase power that it has proposed to be capitalized as part of this Application would not only be unfair, but it imports a finding that Yukon Electrical has been imprudent in its rebuilding of Fish Lake Unit #1 and there is quite simply no evidence to support such a conclusion. Accordingly, Yukon Electrical's proposed capitalization of these costs should be approved as filed.¹³

Reply to YEC Suggestion that Purchase Power Flow Through Out of Scope

30. Yukon Electrical respectfully submits that the purchase power flow through deferral continues to meet the criteria for a deferral account and should be approved by the Board. This deferral is necessary and appropriate irrespective of the ultimate outcome of the DCF process, and should not be considered out of scope in this proceeding.

¹³ 2T206-2T208.

4. FUEL COSTS

Reply to UCG Suggestion that Fuel Price Flow Through for LNG Cannot be Approved Without Amendment of OIC

31. As detailed in its Argument (p. 11-12), Yukon Electrical is requesting a continuation of its previously approved Fuel Price Flow Through deferral account. The only exception to this status quo request is that Yukon Electrical is requesting a change in the methodology for calculating the deferral for fuel used in Watson Lake as a result of the conversion of the diesel units in Watson Lake to bi-fuel (diesel and LNG) beginning in 2014. Three parties, UCG, YEC, and LE provided comments on this request as part of their respective arguments.

32. UCG's argument in this area (p. 21) focuses on its position the Board cannot approve the proposed Fuel Price Flow Through deferral account and the proposed methodology for calculating the deferral for fuel used in Watson Lake without changing the Fuel Adjustment Rider & Deferred Fuel Price Variance Policy and without having Section 8 of the Rate Policy Directive Order in Council 1995/90 changed to account for LNG. Yukon Electrical disagrees with the UCG's submissions in this regard, which appear to reflect a misunderstanding of the express wording of that provision.

33. As detailed in its Application (p. 1-5), Yukon Electrical submits the Fuel Price Flow Through deferral account meets the standard criteria for the establishment of a deferral account as diesel and LNG fuel costs are not under the control of Yukon Electrical and are not reasonably forecastable; or an error in forecasting could produce a loss or a gain of a substantial magnitude. These criteria continue to be met regardless of whether Yukon Electrical generates electricity in Watson Lake exclusively with diesel or a combination of diesel and LNG. Yukon Electrical recognizes that Section 8 of Rate Policy Directive Order in Council (OIC) 1995/90 provides for fuel price adjustments and sets out that the Board must permit Yukon Electrical and YEC to adjust their rates to retail customers, major industrial customers, and isolated industrial customers to reflect fluctuations in the prices for diesel fuel, without the requirement for specific application to and approval by the Board (emphasis added). As explained in UCG-YECL-19(c), Yukon Electrical has not made any specific request to the Yukon government to change this directive and, accordingly, it recognizes that it must apply for, and receive the approval of the YUB for any deferral amounts relating to Watson Lake once bi-fuel generation begins in 2014. In other words, that Yukon Electrical is entitled to flow through diesel fuel costs without Board Approval does not mean that it is somehow prevented from flowing through LNG costs with the Board's approval. There is no need for an amendment to

facilitate this and Yukon Electrical is respectfully requesting the Board's approval of its proposed Fuel Price Flow Through deferral account as part of this Application.

34. In UCG-YECL-19(b), Yukon Electrical states that it is premature at this time to make application to the Board regarding changing the Fuel Adjustment Rider & Deferral Price Variance Policy for the inclusion of LNG, as this Application contains all the necessary information for the review and testing of Yukon Electrical's proposed Fuel Price Flow Through deferral account and the requested changes relating to the burning of diesel as well as LNG in Watson Lake. Once the Board has ruled on this requested deferral as part of this Application, Yukon Electrical and YEC can file an updated policy that reflects the decision of the Board.

35. In YEC's Argument (p. 10), it states that it agrees in principle that the existing fuel price flow through deferral account should be adjusted to accommodate the use of LNG. YEC then goes on to recommend that the Board secure examples of how Yukon Electrical will in practice provide for LNG costs in the Fuel Price Through deferral account and in future Rider F determinations so as to ensure that all fuel price cost savings from LNG use in Watson Lake are fully passed on to ratepayers. In response, Yukon Electrical submits that it has already provided examples of the deferral calculation, including the conversion of LNG to equivalent diesel litres on page 4-4 of its Application as well as in response to YEC-YECL-9(b) Attachment 1 and 2. In addition, Yukon Electrical will make application to and seek Board approval for all Watson Lake Fuel Price Flow Through deferral account amounts as part of future applications. This process will ensure that all fuel price cost savings from LNG use in Watson Lake are fully passed on to ratepayers.

36. In its Argument (p. 3), LE appears to support the need for the amended Fuel Price Flow Through methodology calculation using the equivalent to diesel calculation detailed on page 4-4 of Yukon Electrical's Application. This support is predicated on the Board approving the underlying bi-fuel project in Watson Lake.

37. In summary, Yukon Electrical respectfully submits that continued use of the previously approved fuel price flow through deferral with the proposed modifications to address bi-fuel operations at Watson Lake is reasonable and appropriate and should be approved as filed. No amendments to the Section 8 of Rate Policy Directive Order in Council (OIC) 1995/90 are necessary to facilitate this approval and Yukon Electrical submits that it has already provided examples of the mechanics of the conversion calculation.

5. OPERATIONS AND MAINTENANCE EXPENSE

Reply to LE Concerns About Labour Costs Escalating and Suggestion that Board Disallow Proposed Customer Service Representative and at Least One Other Position

38. In its Argument (p. 3), LE expresses a concern that Yukon Electrical's labour costs are escalating beyond sales and customer growth. Yukon Electrical understands this concern but respectfully submits the labour complement increases that have already been implemented in 2010-2012, as well as those forecast for 2013-2015, are needed to address increased capital, operational and customer needs, as detailed in its Argument (p 12-14). Further to this issue, it is important for the Board to understand the 2010-2012 complement additions were not in Yukon Electrical's approved revenue requirement. As such, Yukon Electrical would not have proceeded with these additions, and the associated reduction in earnings, unless it was absolutely convinced the additions were required to meet capital, operational and customer needs. Needless to say, Yukon Electrical continues to submit these additions are required to provide safe and reliable electric service.

39. Yukon Electrical fully addressed labour inflation in its Argument (p. 13) and does not propose to provide additional comment.

40. In reply to the suggestion that the Customer Service Representative is not needed, it should be noted that LE-YECL-2(b) Attachment 1 shows the actual number of capital projects in 2012 was 433. This is still demonstrating an increase from the 313 capital projects in 2009. Although there *may* be an economic downturn in the forecast years, there will be hundreds of capital projects required with the majority involving customer engagement. The Customer Service Representative will work directly with customers to ensure their project is designed, built and reviewed in accordance with the Terms and Conditions. Also, as detailed by Mr. Massie, this position is needed to address customer feedback and concerns regarding not having a single point of contact for capital projects and projects falling through the cracks.¹⁴

41. In respect of the Engineering Tech 1 Civil, as described on page 1-10 of the Application, this position is primarily focused on capital projects. Also, as indicated in WL-YECL-5(j), this position has the lead responsibility for the Fish Lake Hydro system in scheduling and managing each infrastructure project to completion. The position also ensures all water management reporting, ongoing monitoring and the necessary reports are completed and given to the proper

¹⁴ 3T587-3T589.

regulatory body. In short, the Engineering Tech 1 Civil has the responsibility to ensure the Fish Lake Hydro system complies with the water use license.

42. In respect of the Environmental Technician, as described on page 1-12 of the Application and further detailed in YUB-YECL-22(q), this position will be required due to increased regulatory standards and reporting for diesel emissions, increased Fish Lake Hydro system monitoring and mandated ongoing ecological and 12 biological studies, and environmental permits for projects. The Environmental Technician will be responsible for environmental reporting requirements throughout Yukon Electrical's business, not just Fish Lake Hydro system.

43. Regarding LE's concern that the number of additions in the financial and accounting area of the company is more than necessary, Yukon Electrical submits this concern is unsubstantiated and that Yukon Electrical's staffing remains modest for a company that has close to \$200 million of assets, has the reporting requirements of a publically traded company and operates with little to no help from third party regulatory consultants except legal. In 2011, it was determined that Yukon Electrical's historical practice of operating with one financial professional who handled both financial and regulatory matters, the Supervisor, Financial Services, was unsustainable. Even after the staff additions that took place in 2012, Yukon Electrical still only has a 0.5 FTE Manager, a Supervisor, Financial Services, and a Corporate Accountant as opposed to having a Chief Financial Officer, a controller and other financial manager positions which are found in the organization chart of other utilities.¹⁵ As detailed in its Argument (p. 17), Yukon Electrical respectfully submits it has demonstrated the need and reasonableness of these positions.

44. With regard to LE's suggestion that if the Board is not comfortable specifying which positions should be cut the Board should order a vacancy rate of 4 FTEs (or higher), Yukon Electrical respectfully submits there is no evidentiary support for this recommendation. Yukon Electrical's Application includes a vacancy rate of 3.4% (approximately 2 FTEs) that is based on a five year historical average. This approach is consistent with the methodology approved in Board Order 2009-2 which Yukon Electrical respectfully submits is reasonable.¹⁶

45. In summary, there is no evidentiary support for LE's suggestion that the CSR and at least one other position should be disallowed. Yukon Electrical respectfully submits that the

¹⁵ 3T530, lines 2-15.

¹⁶ Application p.1-7 and YUB-YECL-19.

totality of the evidence on the record demonstrates the need for the additional positions created in the 2010-2012 non-test years as well as those that are planned to be added during the 2013-15 test period.

Reply to City's Suggestion that Defined Benefit Contributions be Limited to a Cost of Living Adjustment of 50% of CPI to a Maximum of 3%

46. 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.

47. In its Argument (p. 2-8), the City outlines a series of pension-related proceedings and Alberta Utilities Commission (AUC) decisions that have taken place in Alberta relating to the pension plan of Yukon Electrical's parent, Canadian Utilities. The City ultimately recommends that the Board only allow an assumption of a 50% CPI provision to a maximum of 3% for the calculation of defined benefit pension funding for the test period, which is consistent with the Alberta findings for defined benefit pension funding with respect to the regulated ATCO Utilities.

48. While Yukon Electrical acknowledges that the material put on the record by the City at this very late stage in Argument is a representation of what occurred in 2010 and 2011, Yukon Electrical respectfully submits that it does not provide the full story of what has and continues to occur in Alberta. In addition, the City's argument completely ignores the Mercer (Canada) Limited Total Compensation Review ("Mercer Review") evidence filed by Yukon Electrical as part of its Response to Undertaking No. 3, which supports Yukon Electrical continuing to include defined benefit payments based on COLA equal to 100% of the annual increase in the CPI to a maximum of 3% as being reasonable and prudent.

49. The City's position also ignores the defined benefit pension plans of other comparable Yukon employers, such as the Yukon Government, which has a fully indexed defined benefit plan, and YEC, which has a fully indexed defined benefit plan up to a maximum of 3%. In the case of YEC, Yukon Electrical notes Board Order 2013-01 approved a revenue requirement that included pension funding based on COLA equal to 100% of the annual increase in the CPI to a maximum of 3%.

50. Further to the above, and to provide additional context, it is important for the Yukon Utilities Board to understand the ATCO Utilities have filed a Leave to Appeal on November 19, 2013 with the Supreme Court of Canada relating to AUC Decision 2011-391. This leave to appeal raises the important question of how utility costs are to be reviewed by the regulator to determine whether they are prudent. As of the date of this Reply, this leave to appeal continues to be before the Supreme Court. In addition to the leave, the ATCO Utilities have also filed a 2013 defined benefit pension application with the Alberta Utilities Board on December 6, 2013. This application includes additional evidence from that which was filed by the ATCO Utilities in 2010 and 2011, including the above noted Mercer Review.

51. The Mercer Review includes an analysis of salary, short term and long term incentives, pension, savings, benefits and perquisites. This type of study is also referred to as a total compensation review. The purpose of the review is to provide an independent market-based assessment of the ATCO Utilities', including Yukon Electrical, total remuneration levels.

52. The AUC confirmed at para. 122 in Decision 2010-189, that "the COLA provision should be evaluated as part of the overall compensation available from a competitive employer who must also balance its long term pension funding obligations as a regulated utility in a prudent manner." The focus of the Mercer Review is total remuneration as a whole rather than on each individual element. This provides a more accurate assessment of the competitiveness of the ATCO Utilities' total remuneration against its labour market competitors. It is inappropriate to compare individual elements of total remuneration on an isolated basis.

53. This determination is consistent with AUC Decision 2009-151(AltaLink), where the Commission held at para. 96 that "its focus should be on total compensation and not on the details of the individual components. Total compensation includes consideration of employee pension and benefits in addition to base pay, STIP, LTIP, and perquisites."

54. Based on the foregoing, Yukon Electrical submits that it is reasonable for it to be able to fully recover 100% of its pension costs based on the enabling legislation and long established regulatory principles regarding recovery of prudently incurred costs. It is a basic concept that for private ownership of utilities to be sustainable and serve customers well over the long term, they must have a reasonable opportunity to recover all of their prudently incurred costs. The potential denial of substantial real costs for an indefinite future will cause significant material harm to Yukon Electrical.

55. In AUC Decision 2010-189, paragraph 122 established that overall compensation provides the proper context for assessing pension costs. Based on the Mercer Review evidence filed in this proceeding, the ATCO Utilities' total target remuneration, including Yukon Electrical and including defined benefit pension payments based on COLA equal to 100% of the annual increase in the CPI to a maximum of 3%, is below the median compared to labour market competitors (Undertaking #3 – Attachment 1 pg. 2).

56. As clearly demonstrated by the Mercer Review evidence filed in this proceeding, restricting defined benefit pension cost recovery to 50% of COLA costs deprives Yukon Electrical of any opportunity to recover its prudently incurred costs. COLA at 50% of CPI results in both pension cost and overall compensation being below the median of the ATCO Utilities' comparators. This result is neither fair nor appropriate and results in rates that are unjust and unreasonable. There is simply no support for this arbitrary action. To the contrary, recovery of the full COLA is supported by the evidence filed herein. Therefore, as supported by the evidence in this Application, Yukon Electrical is requesting cost recovery of the full COLA in accordance with the calculations determined in the annual defined benefit actuarial valuations.

Reply to YEC Suggestion that Pension Deferral Account Request Be Denied

57. The only other party that commented on pension-related matters in its Argument was YEC. On p. 17 of its Argument, YEC recommends that the deferral account requested by Yukon Electrical not be approved. Yukon Electrical addressed this matter in detail in its Argument and does not propose to provide additional comment other than to state that YEC's reference to the AUC denying a similar deferral request in AUC Decision 2013-358 is incorrect. As per paragraph 42 of Yukon Electrical's Argument and page 99 of AUC Decision 2013-358, this matter has not yet been finally resolved by the AUC. That being said, the AUC did state that costs related to an updated actuarial defined benefit pension plan valuation are outside the control of ATCO Electric and are therefore not able to be reasonably forecast, and that forecasting differences could result in a material gain or loss. Yukon Electrical submits the evidence included in this Application is consistent with these views and confirms need for the requested deferral account. Accordingly, Yukon Electrical respectfully submits that its proposed defined benefit pension plan deferral is reasonable and appropriate and should be approved by the Board as filed.

Reply to City's Comments Regarding the Lease Arrangement Related to the Watson Lake Bi-Fuel Project

58. While Yukon Electrical fully addressed in its Argument (p.39-40) its justification for entering into a lease agreement to bundle all of its equipment and service needs related to the Watson Lake Bi-Fuel Project, a number of matters brought up by the City require further comment as part of this Reply. On p.10 of its Argument, the City recommends that, as a result in the delay of the project, the costs included in 2013 revenue requirement should be removed and the 2014 revenue requirement adjusted. Yukon Electrical notes that it has, in fact, already adjusted its 2013 and 2014 revenue requirements to account for the delay in the project. These adjustments were presented as part of the Updates filing filed on October 31, 2013.

59. The City suggests in its Argument (p.11) that inflationary increases over the twenty year term of the lease should only apply to the services provided, not to the lease of the storage and vaporization equipment. As outlined in response to UCG-YECL-21(h), the lease agreement with ATCO Gas is based on fair value market; it provides Yukon Electrical with all of the equipment, services and expertise required for the project is a single, bundled lease arrangement. Based on other equipment Yukon Electrical is leasing from third party suppliers, lease arrangements for assets commonly include some sort of escalation. It would be contrary to Yukon Electrical's experience for a fair market value asset lease to have consistent lease payments over an extended number of years. As well, Yukon Electrical notes that, for the test period, the amount of the lease payments included in revenue requirement is constant at \$22,000 per month, so the issue of inflation of the lease payments has no bearing on the test period.

60. The City also suggests on p. 11 of its Argument that ATCO Gas' rate of return for the lease arrangement should be 8.75%, the approved rate of return for utilities in Alberta. Yukon Electrical submits that, as the lease is based on fair market value, the utility rate of return for Alberta is not an appropriate measure against which to assess the prudence of the lease arrangement. The equipment being leased and the services being provided are separate from ATCO Gas' regulated utility operations, so the AUC-approved rate of return is not relevant. In addition, as discussed in Yukon Electrical's Argument (p.40), the structure of the lease agreement has already proven itself to be very beneficial to Yukon ratepayers. ATCO Gas has purchased the equipment, but lease payments will not begin until the service is actually being provided in 2014. As a result, the delay in the start of project has had a negative impact on the return being earned by ATCO Gas, reducing it from the 10% return established when the lease arrangement was agreed to.

61. The City submits on p.11 of its Argument that the lease should include an option for Yukon Electrical to purchase the equipment following the expiry of the initial term of the lease. Yukon Electrical notes that the lease arrangement, filed as UCG-YECL-21(g) Attachment 15, includes both a termination clause, allowing the lease to be terminated with twelve months' notice, as well as a purchase option, which states:

At the request of Yukon Electrical, ATCO Gas will by mutual agreement transfer ownership of all ATCO Gas equipment on-site and terminate the services agreement.

Yukon Electrical submits that the structure of the lease arrangement as written provides the flexibility required for Yukon Electrical to make prudent and cost-effective decisions in the future related to bi-fuel operations in Watson Lake. If the pilot project is successful, Yukon Electrical will assess which of the various alternatives available is the best at that time, which will include purchasing the equipment from ATCO Gas or another supplier, sourcing the services separately or developing the expertise in-house, or continuing to lease from either ATCO Gas or another supplier.

62. For all of the reasons outlined above, Yukon Electrical respectfully submits that the City's recommendations regarding the lease arrangement with ATCO Gas be rejected.

Reply to UCG Suggestion that Only 27%-30% of Labour Costs be Capitalized in the Test Years and that the Board Direct Yukon Electrical to Reduce O&M Costs per Customer by 10% in Each of the Test Years

63. Despite the UCG's inflammatory statement in its Argument that the percentage of labour capitalized in the test years is "arbitrarily set" and a "fictitious number that appears too high to be reasonable (p.22)," Yukon Electrical respectfully submits that its allocation of labour between operations and maintenance expenses and capital is reasonable and consistent with past practice. As outlined in the Application, labour costs are distributed to operations and maintenance accounts or capital accounts depending on the nature of the work being performed by the staff. The UCG's suggestion that capitalizing 27%-30% of labour would be more appropriate without any evidence as to where that number comes from or why it would be appropriate for Yukon Electrical in the test period is, itself, arbitrary.

64. As well, the UCG's suggestion that historical trends should be utilized to forecast the labour to be capitalized is illogical. The amount of capital work being completed by Yukon Electrical staff is significantly higher in the test period than it has been in the past, so it is to be expected that the percentage of labour being capitalized should be somewhat higher.

Using historical trends to calculate the percentage of labour to capitalize would, if anything, overstate the amount of labour allocated to operations and maintenance expenses and improperly increase the amount being paid by customers for O&M labour in the test period.

65. Finally, the UCG's suggestion that the percentage of labour being capitalized should be compared to other utilities and a formal industry standard determined is yet another example where UCG is looking to spend ratepayer dollars on an expert to solve a problem that doesn't exist. Yukon Electrical's allocation of actual labour is already audited by its external auditors on an annual basis to ensure that it is appropriate. The amount of labour being capitalized by Yukon Electrical is based on the exact circumstances of its own labour complement, so a benchmarking exercise would be of no value.

66. Similarly, the UCG recommends an arbitrary 10% reduction in O&M costs per customer in each of the test years (p.22), despite the detailed explanations provided by Yukon Electrical in support of its requested increases in the Test Years. Yukon Electrical submits that this request is without evidentiary support and should be rejected by the Board.

Reply to UCG Suggestion that 50% of Costs Associated with IFRS Transition be Paid by Yukon Electrical's Parent

67. With regard to Yukon Electrical's transition to IFRS in 2011, the UCG has once again failed to examine the evidence already on the record while asking that Yukon Electrical be directed to provide further information.

68. The UCG suggests (p. 25) that the Board should require Yukon Electrical, as part of its compliance filing, to specifically identify financial differences and any resulting revenue requirement impacts that arise from the adoption of IFRS requirements. In fact, this exact information can be found in Section 1, Attachment 2 of the Application, where Yukon Electrical has provided a schedule of items that are treated differently between IFRS and regulatory accounting. Each item discussed outlines the impact of the transition to IFRS for that item on the Application, and a review of all of the items outlined in the schedule reveals that Yukon Electrical's transition to IFRS for financial reporting purposes has had no impact on this Application. That is the point of Yukon Electrical maintaining two sets of financial records – the calculation of revenue requirement continues to be in accordance with prior Board direction while allowing Yukon Electrical to report in IFRS for audited financial statement purposes.¹⁷

¹⁷ 3T531-3T532.

69. On page 25 of its Argument, the UCG states it is especially interested in how Yukon Electrical intends to address the impact of the requirement to treat 3rd party contributions as deferred income. This information can be found on Section 1, Attachment 2, Page 5 of 6 of the Application, where Yukon Electrical explains in detail that the change in treatment of customer contributions for IFRS is a disclosure difference only, which has no impact on the Application.

70. The UCG suggests (p. 24) that the Board should determine whether or not Yukon Electrical will be allowed to use deferral and variance accounts for rate making in appropriate circumstances and whether or not these accounts are recognized under IFRS. Yukon Electrical respectfully submits that, while the Board has full authority to order how items are recorded for the purposes of determining revenue requirement, the treatment of items such as deferral accounts under IFRS for financial statement purposes is not something that can be mandated by the Board. Under IFRS, deferral accounts and other regulatory balances are required to be written off. This has been agreed to by Yukon Electrical's management and external auditors and is consistent with how other utilities in Canada have treated deferral and other regulatory accounts upon transition to IFRS.¹⁸

71. The UCG (p. 24) also suggests that the Board should also be involved in order to determine the effects of the adoption of IFRS on regulatory accounting and rate making, to identify necessary changes to the Board's filing and reporting requirements and rate setting methodologies. As discussed above, there have been no effects of the adoption of IFRS on the calculation of revenue requirement in Yukon Electrical's Application. Unless directed otherwise by the Board, Yukon Electrical will continue to calculate revenue requirement in the same manner and meet the same filing and reporting requirements as prior to the transition to IFRS for financial statement purposes.

72. The UCG submits (p. 24) that the Board must carefully consider the potential impacts and costs related to IFRS including the one-time administrative cost to switch-over to IFRS-based reporting. As Yukon Electrical testified to in the hearing, there were no one-time costs incurred by Yukon Electrical related to the implementation of IFRS,¹⁹ so this suggestion is not relevant. The effort and costs of transitioning to IFRS were borne by ATCO affiliates and this is one of the many benefits to Yukon Electrical and to ratepayers of being a subsidiary of a large, publicly traded company. The savings to Yukon Electrical related to not having to independently transition to IFRS are not insignificant. This can be easily demonstrated by the costs approved

¹⁸ WL-YECL-7(a).

¹⁹ 3T529, lines 8-13.

by the Board in Board Order 2013-01 for IFRS conversion for YEC as part of its 2012-2013 GRA, which totaled \$565,769 for 2011 and prior.²⁰

73. Regarding Yukon Electrical's forecast annual costs for the test years of \$44,500, \$46,000 and \$47,500 for ongoing IFRS-related work, Yukon Electrical respectfully submits they are prudently incurred costs that are a result of being a subsidiary of a publicly traded company. UCG's submission that Yukon Electrical's parent company "prematurely" directed Yukon Electrical to adopt IFRS is not based on any evidence or any knowledge of the facts and circumstances that lead ATCO to transition to IFRS in 2011. UCG also submits that at least 50% this amount should be paid for by Yukon Electrical's parent company because no detail has been provided on what work will incur these costs. This is not supported by the evidence in this Application, as the responses to WL-YECL-5(f) and WL-YECL-5(g) detail the additional work that is being done as a result of IFRS, including maintaining two sets of records.

74. As the transition to IFRS has had no impact on the calculation of Yukon Electrical's revenue requirement for the test years 2013-2015, the rate mitigation or smoothing mechanisms suggested by UCG's to reduce rate impacts related to the adoption of IFRS are unnecessary.

Reply to YEC etc. Suggestion that the Board Orders and Legislated Changes Deferral Not Be Approved

75. Both the City (p.18) and YEC (p.17) recommended in their Arguments that Yukon Electrical's request for the ability to flow-through (dollar for dollar) any costs related to Board Orders or legislative changes be denied. Yukon Electrical submits that changes to revenue requirement resulting from Board Orders or Legislative Changes are not susceptible to forecast and not within Yukon Electrical's control, and as such meet the standard criteria for establishment of a deferral account. Items could arise within a short period of time that would not allow Yukon Electrical sufficient time to defer the cost implications to a future GRA, especially given the three year test period being requested and Yukon Electrical's track record from 1996 to 2012 of managing to stay out for several years between test periods. Yukon Electrical submits that it has justified the need for this deferral account and that it should be approved as filed.

²⁰ Yukon Energy Corporation Approval of Revenue Requirements for 2012 and 2013, March 25, 2013 at para. 393. The \$565,769 of IFRS-related costs are included in the \$3.02 million of Feasibility costs approved for Year-end 2011.

Reply to UCG Suggestion that Board Engage Independent Expert to Assist in the Benchmarking of Yukon Electrical and YEC's Cost Components

76. In its Argument (p.7), the UCG recommends that the Board engage an independent expert to assist in the benchmarking of the cost components of Yukon Electrical and YEC operations to other utilities within North America. UCG asserts that the Board and interveners require this information to assess performance relative to industry standards and to assist in the important task of adjudicating the prudence of utility decision-making. Yukon Electrical respectfully submits that engaging in such a benchmarking exercise would add additional administrative burden and needless expense to ratepayers with little to no value. The Board already engages technical experts with knowledge and experience related to utility revenue requirement issues to assist them in reviewing the evidence provided by the utilities in order to assess reasonableness and prudence. As well, the specific nature of the Yukon Interconnected System is unique in that there are a relatively small number of customers, a high degree of isolation, and a large geographic area with a harsh environment. Yukon Electrical respectfully submits that finding comparable utilities that operate in an environment with characteristics similar to the challenges faced by Yukon Electrical and YEC would be difficult, if not impossible. In short, it is likely that such an exercise would not yield useful results, and in any event, this action is not required for the Board to fulfill its mandate.

Reply to UCG Suggestion that Ratepayers be Credited Back Regulatory Costs that Have Not Yet Been Determined

77. In its Argument (p. 40), the UCG states that it cannot explain why Yukon Electrical has over-collected for costs that it is currently incurring related to its 2013-2015 revenue requirements and the follow-up Phase II application. Based on this statement, Yukon Electrical can only assume that the UCG does not understand the mechanics of the rate case reserve. Costs for General Rate Applications are forecast in the related test period in an attempt to ensure that ratepayers in the test period are paying for the costs in the correct period. However, since Yukon Electrical remained on 2009 rates for the period 2010-2012, the \$150,000 annual rate case provision approved by the Board in Board Order 2009-2 continued to be collected from customers for that period. That is, by Yukon Electrical not filing for a General Rate Application in that period, costs that would otherwise have been incurred for regulatory proceedings were, in fact, not incurred. These savings in costs as a result of Yukon Electrical not filing a GRA resulted in the build-up of a credit balance in the rate case reserve.

78. The UCG also recommends (p.40) that ratepayers should be credited back with any recoveries that Yukon Electrical has made on regulatory costs that have not yet been determined for the current GRA. Yukon Electrical fails to see how this suggestion achieves what the UCG agrees is the intent of the reserve, that costs should be recovered from those that cause the costs to be incurred, as it would cause customers in the future (post-2015) to pay for the costs of the Phase I and Phase II proceedings that took place in 2013-2015.

79. No argument has been put forth regarding Yukon Electrical's forecast rate case costs for the test period. Therefore, Yukon Electrical respectfully submits that UCG's recommendations be denied and the rate case reserve approved as filed.

6. TAXES OTHER THAN INCOME

Reply to UCG Suggestion that No Increase in Property Taxes be Granted

80. This is yet another frustrating example where it is apparent that while accusing Yukon Electrical of not having provided evidence, the UCG has simply failed to read the record. Yukon Electrical provided evidence indicating that property taxes will actually increase during the test period in response to UCG-YECL-22(c), where actual property taxes for 2013 totaling \$273,254 were detailed. This is an increase of \$23,254 over the actual property taxes for 2012 of \$250,000 disclosed in the Application. As stated in the response to UCG-YECL-22(c), when compared to Yukon Electrical's forecast property taxes of \$257,000 for 2013, \$265,000 for 2014 and \$273,000 for 2015, Yukon Electrical anticipates that property taxes for the test period will actually be greater than the original forecast. Therefore, Yukon Electrical respectfully submits that the UCG's recommendation that Yukon Electrical should not be granted any increase to property taxes for the test years should be rejected.

7. DEPRECIATION

Reply to YEC and UCG Suggestion to Deny Reinstatement of Net Negative Salvage

81. In its Argument (p. 18-22), Yukon Electrical dealt extensively with an identified material and growing deficiency of over \$12 million in its net negative salvage reserve and the need to send the correct price signal to today's customers as opposed to a distorted "pay as you go" price signal to tomorrow's customers. Yukon Electrical also identified a number of significant changes that have occurred since Board Order 2009-02 that support an end to the Board ordered pause in the collection of net salvage in depreciation rates. In its Argument (p. 6), YEC

recommends that the pause in collecting net negative salvage should continue. In the case of UCG, it also recommends the pause should continue (p. 28) but also states in its Argument (p. 25) "While UCG does not have any evidence to challenge the asset service lives and depreciation determined by the methods used by Gannett Fleming, UCG challenges whether a one-time acceptance of the results is warranted versus a phased-in approach given the significant change and associated rate impacts." This statement by the UCG suggests that it is in agreement with Yukon Electrical's recommended net salvage parameters but that they should be phased in.

82. As stated in Yukon Electrical's Argument (p. 18), the rates used to calculate depreciation expense over the Test Period are based on the independent depreciation study conducted by Mr. Larry Kennedy of Gannett Fleming Canada ULC ("Gannett Fleming") and included in the Application as Section 7, Attachment 1 (the "Depreciation Study"). In addition, Mr. Kennedy also prepared a second independent report addressing the use of net salvage estimates in the calculation of depreciation rates and it is included in the Application as Section 7, Attachment 2 (the "Net Salvage Report").

83. No evidence was presented by any of the intervener groups. As stated by UCG (p. 25, para. 165) "(w)hile UCG does not have any evidence to challenge the asset service lives and depreciation determined by the methods used by Gannett Fleming..." With no intervener evidence or Argument submitted in respect of Yukon Electrical's life parameters (i.e. Iowa curves and average service lives), Yukon Electrical respectfully submits that the life parameters submitted in Yukon Electrical's application be approved as filed.

84. In its Argument (p. 5), YEC states Yukon Electrical has not established any material change in circumstances since 2009 that would warrant re-examining this issue. With due respect, it is Yukon Electrical's position that the record of this Application clearly shows there have been material changes in circumstances.

85. The first change identified by Yukon Electrical is that sending the right price signal to customers has taken on added importance as a result of diesel generation once again being on the margin. It is Yukon Electrical's position that sending the right price signal can and should be dealt with as part of a Phase I overall revenue requirement and is not exclusively an exercise limited to Phase II deliberations on revenue to cost ratios for each rate class or the design of escalating energy blocks.

86. In reply to YEC's statement "sending price signals are generally not relevant to revenue requirement proceedings, and in any case should not supersede whether these costs are considered just and reasonable" (p. 5), Yukon Electrical respectfully submits no party has put evidence on the record that the reinstatement of net negative salvage would result in costs that are not just and reasonable.

87. The second change identified by Yukon Electrical is the material and growing deficiency of over \$12 million in its net negative salvage reserve. This fact, and the shift of costs from today's to tomorrow's customers, appears to have largely been ignored by interveners. Yukon Electrical respectfully submits that not addressing the end of the pause in net negative salvage will result in an increasingly large burden being placed on future ratepayers and result in significant issues of intergenerational inequity.

88. The third change identified by Yukon Electrical is that the BCUC has recently recognized the impropriety of burdening future ratepayers with the costs of retiring assets used by today's ratepayers. As a result of the BCUC change, regulators in British Columbia, Newfoundland, Ontario and Quebec have all approved differing practices regarding the collection of net salvage estimates by crown-owned utilities as opposed to investor owned-utilities. Mr. Kennedy in his Net Salvage Report (Section 7, Attachment 2, p. 18-21), has specifically addressed this issue and summarized it by stating "(f)urthermore, I believe that Canadian regulatory practice over the period since the issuance of YUB Order 2009-2 demonstrates an increased tolerance of allowing crown-owned utilities to follow differing practices with regard to net salvage than investor-owned utilities within the same jurisdiction." Yukon Electrical respectfully submits there is nothing preventing this Board from approving different approaches to this significant issue for Yukon Electrical and YEC.

89. On page 5 of its Argument, YEC states "YECL has not demonstrated they would be harmed by not having this fund re-activated." It is ironic that YEC would choose to make this statement as Yukon Electrical has demonstrated the opposite (p. 22 of Argument); namely this request results in a reduction to Yukon Electrical's rate base and, as a result, a lower return on rate base as compared to the status quo of not collecting for net salvage in its depreciation rates.

90. In its Argument (p. 28), the UCG states the following: "UCG submits that a net negative salvage allowance recovers costs the utility will incur upon retirement of plant. UCG submits that YECL's proposal does not take into account that net negative salvage costs need to be

recovered over a term consistent with the expected plant retirement date.” This statement appears to suggest UCG does not understand Yukon Electrical’s evidence. Mr. Kennedy was very clear in his evidence (Section 7, Attachment 1, p. 7) “(t)he depreciation accrual rates and accrued depreciation were calculated using the straight line method, the whole life basis and the equal life group (ELG) procedure. Any variances in the booked accumulated depreciation balances, and the calculated accumulated depreciation requirements are trued-up over the composite remaining life of each account. The calculation was based on the attained ages and estimated service life and net salvage characteristics for each depreciable group of assets (emphasis added).” Yukon Electrical respectfully submits that negative net salvage costs are indeed recovered over the service life of each asset and consistent with the expected plant retirement dates.

91. Also on page 28 of its Argument, UCG comments that “Gannett Fleming refused to provide additional detail related to their recommendation in a current Enbridge Gas Distribution rates application to the Ontario Energy Board (EB-2012-0459)” and then submits that the Board should take information that may be provided in an anticipated December 11, 2013 information request response into account. Yukon Electrical submits that this recommendation by the UCG is wholly inappropriate as no party in this proceeding has entered the anticipated Enbridge Gas information request into the evidentiary record of this proceeding. Secondly, for the anticipated information request response to be appropriately considered, it would require the knowledge of any and all factual differences between the circumstances (both historic and current) of Yukon Electrical and Enbridge Gas Distribution and potential differences arising from the lives associated with a natural gas distribution utility as compared to a northern based electric distribution and generation utility.

92. In its Argument (p.4) LE posed the question “Are ratepayers essentially going to be paying twice in the short term – for the present removal and restoration costs as they are incurred plus the future costs too?” Yukon Electrical can categorically confirm that customers will not pay twice for eventual removal and site restoration costs. As stated in Mr. Kennedy’s filed evidence (Section 7, Attachment 1, page 10) “Depreciation, as used in accounting, is a method of distributing fixed capital costs, less net salvage, over a period of time by allocating annual amounts to expense. Each annual amount of such depreciation expense is part of that year’s total cost of providing electric distribution service. Normally, the period of time over which the fixed capital cost is allocated to the cost of service is equal to the period of time over which an item renders service, that is, the item’s service life. The most prevalent method of allocation

is to distribute an equal amount of cost to each year of service life. This method is known as the straight-line method of depreciation.” Yukon Electrical accumulates the annual costs for future removal in its accumulated depreciation account and then upon removal will charge the associated removal costs to its accumulated depreciation account.

Reply to YEC and UCG Suggestion that Deferral on Depreciation Parameters Should Not Be Approved

93. In their respective Arguments, YEC (p. 17) and UCG (p. 29) recommend that the deferral on depreciation parameters not be approved. Yukon Electrical fully addressed its request for this deferral as part of its Argument (p. 22-23) and has no further comment.

8. RETURN ON RATE BASE

Reply to YEC, UCG and LE Suggestion that Equity Ratio Not be Increased and the UCG Suggestion that that Risk Premium of 0.46% be Denied

94. On pages 23-27 of its Argument, Yukon Electrical fully summarized the key aspects of its position as well as the evidence supporting the continuation of its Return on Equity (“ROE”) including a 0.46% risk premium in excess of the British Columbia Utilities Commission (“BCUC”) Generic Cost of Capital (“GCOC”) benchmark as well as increasing its equity ratio from 40% to 44%. In their respective Arguments, YEC, UCG and LE recommend that Yukon Electrical’s Equity ratio should be set at 40% (p. 9), 38.5% (p. 35) and 40% (p. 5), respectively. In its Argument (p.7), YEC states that the use of the BCUC benchmark ROE of 8.75% and applying a risk premium of 0.46% for the test years follows past Yukon Electrical applications and past Board direction and in this regard has no concern regarding applying this benchmark for determining the ROE for Yukon Electrical in the test years. The UCG (p. 35) appears to suggest a risk premium from the BCUC benchmark is reasonable but it is unclear as to the quantum.

95. YEC’s position (p. 9) is the Yukon Utilities Board has rejected the stand-alone principle and concludes that this undermines reliance on the BCUC GCOC for determining equity ratios in the Yukon. It is Yukon Electrical’s position that respect for the stand-alone principle is a critical factor that allows for a fair and reasonable assessment of its business risk and the requested ROE and equity ratio. The BCUC endorsed the need to respect the stand-alone principle and reaffirmed the long history and importance of it in Canadian utility regulation, stating that there is no reason to deviate from this principle even in the context of small utilities or projects whether or not they are part of a larger utility. (Argument p. 26) Yukon Electrical

respectfully submits that now is an appropriate time for the Board to revisit its previous rejection of the stand-alone principle in Board Order 2009-02. Should the Board continue to reject this principle, Yukon Electrical respectfully requests clarification as to the reasons.²¹

96. In its Argument (p. 33), the UCG questions Yukon Electrical's position that it would have difficulty raising debt capital on a stand-alone basis by stating it is largely speculative and there is no independent evidence from an expert in business risk and financial markets to the effect. With respect, Yukon Electrical has provided evidence. In WL-YECL-17(b), Yukon Electrical has calculated its Interest Coverage and FFO Interest Coverage credit metrics based on its requested ROE of 9.21% and equity ratio of 44%. The results are consistent with the ratios calculated in NWTPUB Decision 24-2008 and Decision 25-2008 when the NWT Board approved common equity ratios of 43.5% and 44% for Northland (Yellowknife) and Northland (NWT), respectively. The credit metrics results are also consistent with the evidence provided by Ms. McShane in her expert testimony.²²

97. On page 32 of its Argument, the UCG recognizes the BCUC is holding a hearing this year that is dealing with the capital structure for the smaller utilities that it regulates other than the benchmark utility, Fortis Energy Inc. Yukon Electrical highlighted this matter in its Application as well as in YUB-YECL-33. In YUB-YECL-33(b), Yukon Electrical provides a table that shows the various BC utilities, including their relative sizes and requested capital structures and ROE premiums. Yukon Electrical respectfully submits its requested ROE, equity ratio and risk premium are all wholly consistent with the approach being taken in British Columbia and that in no way can Yukon Electrical be legitimately accused of "cherry picking" aspects of the BCUC approach.

98. On page 35 of its Argument, UCG submits that Yukon Electrical has been consistently achieving earnings well in excess of the allowed return on equity. It then goes on to say that it is time to eliminate the unnecessary risk premium and introduce an earnings sharing mechanism so that ratepayers will get their over-payment back. With respect, and as detailed earlier in this Reply, Yukon Electrical's average 2008-2012 actual Return on Equity was 9.968% as compared to the BCUC GCOC Benchmark average for the same period, including the

²¹ Normal Principles to Apply – Section 3 of OIC 1995/90 states: "Except to the extent otherwise stated by this Directive or Act, the Board must review and approve rates in accordance with principles established in Canada for utilities, including those principles established by regulatory authorities of the Government of Canada or of a province regulating hydro and non-hydro electric utilities."

²² YUB-YECL-33(b) Attachment 1, p. 32-35.

awarded 0.46% risk premium, of 9.68%. Yukon Electrical submits these facts demonstrate the UCG's recommendation should be rejected.

Reply to YEC and UCG Request that AAM Deferral be Denied

99. Contrary to the YEC's suggestion that there is no prior precedent in the Yukon for the approval of a deferral to flow through any changes arising from the operation of the AAM in British Columbia, as outlined in its Argument (p.11), Yukon Electrical submits that its ROE deferral account is consistent with the approach taken by this Board in Board Order 2009-02, where it held that Yukon Electrical's ROE for 2009 should be whatever the BCUC benchmark ROE was to be for 2009.²³ At the time of Yukon Electrical's Compliance Filing, the Board approved an ROE for Yukon Electrical of 8.93% based on the BCUC benchmark ROE, which had been adjusted down to 8.47% for 2009 as a result of the operation of the then-in-place AAM.²⁴ Yukon Electrical's proposed ROE deferral simply allows for its ROE to move in tandem with any adjustments to ROE occurring in its benchmark jurisdiction. Yukon Electrical submits that this is a reasonable and appropriate approach and also notes that its proposed ROE deferral account is part of what has enabled Yukon Electrical to apply for a three-year test period in this Application.²⁵

Reply to LE, City and UCG Suggestions Respecting Debt Rates

100. Three parties made recommendations on Yukon Electrical's forecasted long term debt rates. LE (p. 5) suggests the increases from 2013 to 2015 seem high and requests the Board staff with the appropriate expertise carefully considers this matter in making their decision. The City (p. 16) submits the increases in the forecast cost of new long term debt be 4.761% for 2014 and 2015. These rates are consistent with Yukon Electrical's actual 2013 long term debt rate of 4.761%. The UCG (p. 36) submits that any debt costs should be based on the range of 3.8% and 4.2% and debt costs contained with the application lowered accordingly. The UCG also submits that a deferral account should be established to track differences between forecast and issued debt interest rates and that variances may be trued up with customer rates in the subsequent General Rate Application.

101. The City's recommendation appears to be predicated on a perceived history of over forecasting interest rates for new long term debt by ATCO Electric since 2009 and a perception

²³ Board Order 2009-02, p. 29.

²⁴ 2T279, line 16 to 2T280, line 8.

²⁵ 2T264, lines 12-17.

that this over forecasting is embedded in Yukon Electrical's 2013-2015 GRA forecasted rates of 4.35%, 5.05% and 5.80%, respectively. Yukon Electrical respectfully submits the record and evidence of this proceeding demonstrate otherwise.

102. In CW-YECL-11(c), Yukon Electrical addresses the issue of why actual long term debt rates came in lower than forecast for ATCO Electric in the time period 2010-2012; namely, the impact of central bank stimulus activities. As a result of these activities and general market uncertainty, Government of Canada Bond Rates unexpectedly dropped to historic lows. The externally prepared forecasts relied upon by ATCO and Yukon Electrical for the 2013-2015 test period for purposes of this Application, including BMO Capital Markets, TD Economics, RBC Economics and Consensus Forecasts (WL-YECL-19(c)), all take into consideration central bank stimulus activities and expectations for how those activities will gradually recede over time, which will result in interest rates increasing to more "normal" levels.

103. Further to the above, Yukon Electrical's actual 2013 long term debt rate of 4.761%, as compared to the original application forecast of 4.35%, is recent evidence of interest rates beginning to rise to more normal levels. It is also evidence that debt rates were actually higher, not lower, than the original forecast for 2013. For 2014 and 2015, based on the evidence included in WL-YECL-18(c), it is also clear that Canadian financial institutions are expecting long term debt rates to continue to increase throughout 2014. For 2015, this trend is expected to continue per Consensus Forecast.

104. In response to UCG stating that any debt costs should be based on the range of 3.8% and 4.2%, Yukon Electrical respectfully submits UCG has submitted no evidence to support this recommendation and that it should be denied.

Reply to UCG Suggestion that Deferral be Established to Track Differences Between Forecast and Issued Debt Rates

105. Contrary to the suggestion from counsel for the UCG, Yukon Electrical does not consider that a long term debt rate deferral account is necessary or appropriate as Yukon Electrical has demonstrated an ability to forecast debt rates in the Yukon and, where there have been variances between forecast and actual debt rates, the amounts at issue have been immaterial.²⁶

²⁶ 2T258, lines 9-16; 2T259, lines 3-6.

9. CAPITAL ADDITIONS

106. At the outset, Yukon Electrical submits that it has, in this Application, gone out of its way to provide comprehensive support for its capital additions over the period from 2008-2015, many of which are required in response to increasing electricity demand and infrastructure at end-of-life. The UCG's suggestion that any project proposed to be included in a utility's rate base must include a business case is impractical and unreasonable. Yukon Electrical submits that the record in this proceeding was already unprecedentedly voluminous and regulatory efficiency demands that there be a reasonable threshold for detailed business cases. As outlined in its Argument, Yukon Electrical provided detailed Business Cases in respect of all capital projects in excess of \$500,000 and project descriptions for all projects over \$100,000, which covered 83% of all its capital expenditures over the period from 2008-2015.²⁷ Yukon Electrical submits that this is a reasonable and appropriate threshold that balances the interests of providing parties with sufficient detail to test the reasonableness of Yukon Electrical's forecasts, while avoiding the expenditure of unnecessary resources on an excessive record.

Reply to UCG, YCS and City Recommendation that AMR Project Not be Approved

107. The need and benefits of the proposed AMR project were addressed by Yukon Electrical in its Argument (p. 35-37). Even though Yukon Electrical believes the long term cost savings and other benefits are compelling, several interveners are questioning the need for this project.

108. The YCS indicates that "avoided snow shoveling" is the only benefit to the project that it sees for Yukon ratepayers (p.6). This completely ignores the other benefits to the project outlined by Yukon Electrical in its Argument, including: long term cost savings over the life of the project; more accurate meter reads on a consistent timeline, which ensures customer bills are as accurate as possible based on the tiered rate structure to provide accurate price signals to customers; and improved safety for employees and customers as a result of decreased vehicle incidents and personal injury incidents (slips and falls, dog bites). The project is also based on proven technology that can be integrated with the billing system in a cost-effective manner to provide tangible benefits to ratepayers.

109. The YCS also makes several other statements about AMR in its Argument that are not supported by evidence and are, in fact, contrary to the evidence Yukon Electrical has provided. The YCS states that the payback period is 30 years (p.5). The economic analysis provided in

²⁷ YUB-YECL-61.

Business Case #27 in the Application clearly shows cost savings in 9 years and cumulative savings of \$2.2 million over 25 years.

110. The YCS states that Yukon ratepayers should not be stuck paying for obsolete meters (p.5) if metering requirements should change in the future. As stated by Mr. Massie, if time of use rates should happen to be implemented at some time in the future, the TWACS AMR meters Yukon Electrical is proposing to install could be absorbed into ATCO Electric's existing AMR system and Yukon Electrical would receive credit for the meters.²⁸ The fact is the current approach of manually reading meters, which generates safety concerns and billing accuracy issues, is what is obsolete.

111. On page 5 of its Argument, the YCS also states that it "needs to know if these meters will complement or prevent important and significant demand-side and load management programs to shift loads..." This was answered in Yukon Electrical's response to Undertaking #23, which outlines that the TWACS AMR meters Yukon Electrical is proposing support Load Control Transponders (LCTs) which can provide control over customer equipment beyond-the-meter.

112. The City claims that the business case provided by Yukon Electrical to support the AMR project is not comprehensive (p. 14). Yukon Electrical respectfully disagrees with this statement and submits that the business case provided is comprehensive, thorough and includes multiple considerations and inputs that were fully tested prior to finalizing the business case. Yukon Electrical based its business case on the model utilized by Northland Utilities (Yellowknife) Limited when its AMR project for the City of Yellowknife was approved by the Northwest Territories Public Utilities Board (filed as UCG-YECL-125(j) Attachment 1). In addition, Yukon Electrical was able to discuss the business case with the employees of Northland Utilities (Yellowknife) who implemented AMR in Yellowknife to draw upon the learnings they gathered from their on-time, on-budget implementation and to ensure that the assumptions made in Yukon Electrical's business case were reasonable.

113. The City seems to be confused by the different number of meters to be installed in the two scenarios in Business Case #27 for AMR and Conventional meters. As stated in the response to Undertaking #8, AMR digital meters and conventional digital meters have similar life expectancies, as well as similar testing intervals. Therefore, Yukon Electrical did not factor

²⁸ 3T427, lines 3-18.

replacements in either business case, which does not impact the validity of the analysis as the intent of the business case is to compare the relative costs of the two options. Also, the City is failing to take into account the large number of mechanical meters in service. As indicated in Business Case #27, page 5 of 7, Measurement Canada has implemented new regulations for mechanical meters that take effect on January 1, 2014. At this time, Yukon Electrical has approximately 8,239 mechanical meters in service. These new regulations and Yukon Electrical's forecast of mandatory meter changes is what has resulted in the 1,850 residential meters that will be required to be replaced from year 0 through 5 (and commercial meters). The new replacement meters, whether AMR or conventional digital, would have similar life expectancies and testing intervals.

114. Furthermore, regarding time of use rates, Yukon Electrical clearly outlined its position regarding time of use during the oral hearing. Time of use was examined by Yukon Electrical and found to provide little to no benefit based on the load characteristics of the Whitehorse Distribution System. As there was no discernible benefit to ratepayers and no directive to move to time of use rates, Yukon Electrical did not invest the significant time, effort and dollars to study time of use rates further.²⁹ As well, preliminary estimates to implement a new technology fully capable of time of use rates and integrate it with the billing system would be significantly more expensive than the proposed AMR project, mitigating any cost benefits of time of use rates to ratepayers. As AMR has clear benefits now for ratepayers and expandability for load management, Yukon Electrical respectfully submits the proposed project should be approved as filed.

Reply to UCG, YCS, LE Recommendation that Watson Lake Bi-Fuel Project Not be Approved

115. While Yukon Electrical full addressed the future benefits of the Watson Lake Bi-Fuel Project in its Argument (p. 39-40), a number of matters brought up by interveners require further comment as part of this Reply. The YCS suggests in its Argument (p.4) that the Watson Lake Bi-Fuel Project should not be approved as it defers and obstructs the development of renewable energy solutions. With respect, there is simply no evidence in support of this assertion. In fact, the evidence clearly demonstrates that Yukon Electrical is pursuing a broad range of technologies to provide energy alternatives for ratepayers. A number of these initiatives are outlined in YCS-YECL-4-2 and include wind power, solar photo voltaic, hydroelectric and geothermal energy. These are all technologies that can reduce the consumption of fossil fuel

²⁹ 1T140, lines 14-20.

and that have different challenges to be economically viable. The bi-fuel project uses technology that provides firm capacity and is available now to provide savings to ratepayers. Energy displacement technologies (non-firm capacity) such as wind and solar can be utilized with diesel and bi-fuel systems to reduce fuel requirements if the financial challenges can be overcome. However, the need will remain to provide firm capacity to deliver electricity when the wind is not blowing or the sun is not shining. A firm backup supply of electricity provided by the existing generating facility is anticipated to be required for the renewable options that are being investigated. Based on these realities, Yukon Electrical respectfully submits the Watson Lake Bi-Fuel Project is needed and will be complementary to the renewable options that are being investigated.

116. In specific reply to LE's suggestion that any environmental benefits associated with this project are arguable at best (p. 8), Yukon Electrical disagrees. Environmental benefits have been recognized through the YESAB review process as viable for the bi-fuel project. As outlined in YCS-YECL-2-1, the reduction of the following emissions will result from the bi-fuel project; particulate matter, important to people with compromised lung function, and NOx and SOx, contributors to smog and acid rain.

117. LE also suggests in its Argument (p. 8-9) that the projected cost savings related to the bi-fuel project are optimistic. Yukon Electrical respectfully submits that LE has provided no evidence to contradict the forecast LNG and diesel cost information provided by Yukon Electrical in YUB-YECL-42(a). Yukon Electrical's projected cost savings of \$1.7 million by 2023 are based on forecast information from a respected industry expert, Sproule, that shows long term cost savings for the use of LNG as compared to diesel. As LE has provided no evidence to substantiate its claims that the environmental or cost benefits associated with the bi-fuel project will not be realized, Yukon Electrical respectfully submits that the project is needed and will result in material savings as well as meaningful reductions of particular matter.

Reply to YEC Suggestion that Carcross/Tagish Standby Unit Not Be Approved Until There Has Been Consultation with YEC (and UCG Suggestion that it be Rejected)

118. YEC suggests in its Argument that as primary generator and transmitter on the grid, prior to establishing any new thermal units at locations on the grid where no such units currently exist, there is a need for Yukon Electrical to consult with YEC in order that options and potential future plans and requirements for the grid can be fully considered and the Board can be advised accordingly. With respect, Yukon Electrical has consulted with YEC in respect of this project

and finds this submission puzzling. As outlined in its response to UCG-YECL-2(a) at p. 3 of 4, Yukon Electrical “reviewed its plan for the Carcross Standby Generator with Yukon Energy and provided an update on the project to the Yukon Government.” Plans to progress with the project were discussed with YEC and the Yukon Government in January 2013 and neither party expressed any concerns about the project at that time. Accordingly, YEC’s submissions on this point are contradicted by the evidence and should be rejected.

119. Yukon Electrical provided outage indices in YUB-YECL-46(d)(i) which show that the communities of Carcross and Tagish, on average, experience a higher incidence and duration of outages than other communities served by Yukon Electrical including Haines Junction, which has standby generating capability. The indices also indicate that reliability of supply can vary significantly over time. Secondly, six other Yukon communities connected to the Yukon Interconnected system have standby generating capability. This project complies with prudent power system planning to meet an “N-1” criteria, as outlined in Business Case #12 and Yukon Energy Corporation’s 20 year resource plan (YUB-YECL-46). Also, it is evident from the community by way of petition filed as part of Business Case #12 and the letters of support for the project filed by Carcross Area Property Owners Association, the South Klondike Local Advisory Council, and the Museum of Yukon Natural History that residents, businesses and emergency responders in the Carcross and Tagish areas consider that a standby unit is essential. Therefore, Yukon Electrical submits that the need for this project has been demonstrated and it should be approved as filed.

Reply to UCG Suggestion that all Significant Capital Projects be Designated by the Yukon Government as Regulated Projects pursuant to Part 3 of the Public Utilities Act

120. In its Argument, (p. 41), the UCG submits that any project that approaches a \$1,000,000 threshold should be reviewed as part of a significantly more comprehensive review process than is afforded within a General Rate Application. The UCG then goes on to say that if the Board is not prepared to ensure projects that approach \$1,000,000 are given the attention of a Part 3 review, “Yukon ratepayers will continue to pay for the self-serving decision-making practices of the utilities”.

121. Yukon Electrical respectfully submits a statement such as this is neither helpful nor justified based on the evidence filed in this Application. Based on the extensive evidence filed and addressed as part of this Application’s process, Yukon Electrical respectfully submits there is no merit to the suggestion that capital incurred or forecast by Yukon Electrical has been done

for “self-serving decision-making practices”. To the contrary, Yukon Electrical has diligently detailed the need and prudence of its capital projects as part of the record of this Application.

122. With regard to the suggestion that the Watson Lake Bi-Fuel project (p. 41) and Fish Lake Unit #1 (p. 43) projects be reviewed pursuant to Part 3 of the Public Utilities Act, the Yukon government has not designated any of Yukon Electrical's forecasted 2013-2015 capital, including Watson Lake Bi-fuel or Fish Lake Unit #1, as regulated projects pursuant to Part 3 of the Public Utilities Act. As such, the UCG's recommendation is clearly outside the scope of this proceeding. That being said, it is important to recognize that Yukon Electrical has already provided a large amount of evidence on the record as part of this General Rate Application for the Watson Lake Bi-fuel project (Argument 37-40 and Reply below) and Fish Lake Unit #1 (Argument 40-41 and Reply below). Yukon Electrical respectfully submits a General Rate Application is the appropriate place and process to test projects such as these and the introduction of a Part 3 process would create needless duplication and regulatory inefficiencies.

Reply to UCG Suggestion that all Deferred Study Costs be Removed From Rate Base

123. Yukon Electrical respectfully submits that its deferred study costs are modest and were reasonably incurred. With regard to the Kluane Wind Study totalling \$20,000, which considered the feasibility of using wind to generate renewable power in the communities of Burwash Landing and Destruction Bay, Yukon Electrical respectfully submits that it incurred these costs reasonably and the study will have enduring benefits for ratepayers.³⁰ In particular, this study is important to Yukon Electrical's consideration of energy alternatives that interveners such as YCS and LE have been promoting for some time. Further, Yukon Electrical notes that deferred charges for similar study purposes were applied for by YEC in its 2012-2013 GRA and approved by this Board in Board Order 2013-01.³¹ With regard to the study costs associated with the Watson Lake Bi-Fuel Project, Yukon Electrical respectfully submits that that project has already received approval through the YESAB process and will bring real benefits to ratepayers. The study costs associated therewith were reasonably incurred and should be approved as filed.

³⁰ 2T268, line 14 to 2T269, line 1

³¹ Yukon Energy Corporation Approval of Revenue Requirements for 2012 and 2013, March 25, 2013 at para. 375

Reply to UCG Suggestion that Miscellaneous O/H Services, Miscellaneous New U/G Services, Transportation Equipment and Right-of-Way Widening be Limited to the Average of Net Expenditures Over the Last Five Years

124. The UCG recommends in its Argument (p.42) limiting the forecasts of miscellaneous overhead services and miscellaneous new underground services to an average of the past five years. In support of this recommendation, the UCG attempts to provide an analysis showing the actual amounts in these categories for the period of 2008-2012. However, the numbers provided by the UCG on p.42 of its Argument are very misleading. As explained by Mr. Massie in his testimony,³² the miscellaneous overhead and underground services categories include those projects under \$25,000. For years prior to the test period, where the actual projects completed are known, only the new extension projects less than \$25,000 are reported as "miscellaneous" projects; projects with values greater than \$25,000 are separately identified in Section 9 of the Application. For the test years, where there is less certainty regarding the specific new extension projects that will be completed, a greater amount is forecast in the "miscellaneous" categories. Therefore, attempting to compare the miscellaneous overhead services and new underground services amounts reported for the period 2008-2012 to the amounts forecast for the test period 2013-2015 is not an "apples to apples" comparison. Yukon Electrical's response to Undertaking #6 is a better representation of the actual and forecast amounts for overhead and underground new extension projects, as it incorporates all projects regardless of dollar value and includes customer contributions. This analysis shows that Yukon Electrical's forecasts of both miscellaneous overhead and miscellaneous underground services for the test period are reasonable as compared to prior period actual amounts.

125. As well, using a five-year average to forecast new extensions ignores the other factors used to forecast new extensions, which include Yukon Electrical's knowledge of areas of development with its service area.

126. With regard to transportation equipment, the UCG recommends (p.46) that any transportation equipment additions not justified as part of a business case be disallowed and further recommends that forecast transportation equipment additions be limited to the average of the last five years. This is yet another example of the UCG failing to read the record. Yukon Electrical provided an extensive amount of detailed evidence regarding forecast transportation equipment additions, including business cases for all additions for the period

³² 4T627, line 5 to 4T628, line 13.

2013-2015 and the details of Yukon Electrical's vehicle replacement policy, in response to YUB-YECL-72. As well, Mr. Massie detailed in his testimony³³ that the existing pieces of transportation equipment are of varying vintages and mechanical conditions, which results in nonlinear replacement timelines and costs. The forecast for transportation equipment in the test years is based on specific existing equipment which will be reaching the end of life. The UCG's suggestion to use a five year average would necessitate disregarding all of the detailed information supporting the need for the forecast transportation equipment additions that Yukon Electrical has placed on the record, which the UCG has not challenged, in support of an oversimplified and unsupported forecast.

127. The UCG also recommends (p.49) that amounts spent to widen rights of way that are not justified as part of a business case be disallowed and that the forecast for the right of way widening program be limited to a five-year average of actual amounts spent. Yukon Electrical submits that, while a business case for the right of way program was not filed as it is made of many smaller projects that are well below the \$500,000 threshold for providing a business case, a large amount of evidence has been included on the record regarding the need for the program and the prudence of the amounts spent on right of way widening from 2008-2012. In response to CW-YECL-12(d), Yukon Electrical addresses the need:

Yukon Electrical is conducting the Right of Way Widening program to allow for safer power line access for maintenance and emergencies, to reduce the potential for wild fires resulting from contact with power lines and to improve customer reliability and safety by having less tree contacts with the distribution system.

The locations in which right of way widening has been or is forecast to be carried out for each year from 2008-2015 are identified on pages 9-8, 9-15, 9-21, 9-30, 9-39, 9-47, 9-57 and 9-63 of the Application.

128. Accordingly, Yukon Electrical respectfully submits that the UCG's suggestion to limit the forecasts of miscellaneous overhead services, miscellaneous underground services, transportation equipment and right of way widening to a 5-year average is arbitrary and has no evidentiary support, and as a result should be rejected.

³³ 1T110, lines 2-18.

Reply to UCG Suggestion that any Components of the Fish Lake Unit #1 Capital Program, the Meter Replacement Program, and the Whitehorse Service Storage Complex Project that Were Not Included in a Business Case Should Not Be Added to Rate Base

129. As noted above, Yukon Electrical submits that its business case threshold of \$500,000 is reasonable and strikes an appropriate balance between regulatory efficiency and adequate detail with which to test its forecast. As outlined in its Argument, Yukon Electrical submits that its approach of having different business cases for different components of large capital programs is entirely appropriate when there are separate projects being undertaken at different locations, on different timelines and that are being completed independently.³⁴

130. In respect of Fish Lake, while some capital costs were not the subject of detailed business cases as they were not in excess of \$500,000, in YEC-YECL-17(g), Yukon Electrical provided a life cycle cost analysis of the total expenditures over the future expected life of the facility (capital and future operating expenditures). This life cycle analysis included all actual and forecast costs from 2008 through to 2052 and resulted in a levelized cost of energy ("LCOE") of 12¢/kWh.³⁵ Moreover, as explained in its Argument, if this analysis is carried back further in time, there would be an associated decrease in the LCOE as significant capital expenditures were not required in previous decades. As outlined in its response to YUB-YECL-37(b), a LCOE of 12¢/kWh compares favorably with other small hydro projects referenced by Yukon Energy in its 20-Year Resource Plan and demonstrates the economic viability of the Fish Lake capital projects included in this Application. In view of the foregoing, Yukon Electrical submits that the totality of the evidence clearly demonstrates that all components of the Fish Lake Unit #1 capital program are reasonable and appropriate. The UCG's position is without merit and should be rejected.

131. Regarding the \$1.6 Million in total expenditures for the "Meter Replacement Project," the UCG has attempted to depict the total amount spent on meter additions and replacements from 2008-2015 as a single "project" when in reality these are costs for thousands of individual meters over that time period. As outlined in the Application, meters are required to be replaced if they fail, if they are obsolete or at end of life as identified by Measurement Canada, or to accommodate load growth associated with customer requests for new service. The quantum of dollars varies from year to year depending on the number of meters required to be replaced.

³⁴ YEC-YECL-17(f).

³⁵ YEC-YECL-17(g) and Attachment 1.

Meter replacements are not discretionary and these expenditures are required for Yukon Electrical to meet its obligation to provide metered service connections.

132. With regard to the Whitehorse Service Storage Complex, where the UCG has attempted to characterize several projects in 2013 and 2015 as one project that Yukon Electrical has deliberately divided into parts in an attempt to avoid providing a business case, Yukon Electrical submits that that is simply not the case. As outlined in the Application, each of these three projects is based on different needs and drivers:

- Whitehorse Service Complex Pole Storage – Environmental requirement to get poles off of ground;
- Whitehorse Service Complex Parking Lot Expansion and Improvements – Proper drainage and safety of employees and customers; and
- Whitehorse Service Complex Yard Extension – Additional space for inventory and requisite spacing to allow large construction vehicles adequate room to maneuver.

As well, the decision to carry out each project was made independent of the other projects. In fact, the only thing these projects have in common is that they happen to relate to the same facility. Grouping them together for the purpose of making a decision of whether or not to proceed with them would be wholly inappropriate.

133. Additionally, Yukon Electrical submits that the criteria regarding whether or not a capital project should be added to rate base, as the UCG itself states in its Argument, are that the expenditures are prudent and the results are used and useful. The UCG has not presented any evidence that these criteria are not met for Meter Additions and Replacements from 2008-2015 or for any of the projects related to the Whitehorse Service Complex. As a result, Yukon Electrical respectfully submits that the UCG's recommendation that these amounts should not be added to rate base should be rejected

Reply to UCG Suggestion that CIS Billing System Conversion Project Should Not be Added to Rate Base

134. This is another frustrating example where it is apparent that while accusing Yukon Electrical of not having provided adequate information, the UCG has simply failed to read the record. The need for the new billing system was approved by the Board in Board Order 2009-2 based on the fact that the old billing system was rapidly becoming obsolete and that past economies of scale for the operations of that system had been lost which would result in future cost increases in costs. Nowhere did Yukon Electrical state that the new billing system

would result in cost savings, only that cost increases would be less for the new system than would occur if the legacy system remained in place, and the need for the project was not approved solely based on cost savings as UCG seems to believe. The UCG also misquotes Yukon Electrical's testimony in its Argument by stating that "YECL testified that the cost savings identified as part of the business case in the 2008-2009 GRA were achieved." The witness for Yukon Electrical actually testified that the costs that Yukon Electrical has been incurring, both on a capital basis as well as an operation and maintenance basis, i.e. the billing charges have occurred exactly as forecast.³⁶

135. As well, total costs for the new billing system of \$1,488,000 (\$480,000 in 2007 and \$1,008,000 in 2008) were approved by the Board in Board Order 2009-2. The actual costs for the project, as outlined in the Application, were \$1,515,000 (\$480,000 in 2007 and \$1,035,000 in 2008). Yukon Electrical respectfully submits this variance of \$27,000 or 1.8% from the original forecast is reasonable and there should be no associated disallowance of these prudently incurred costs.

136. Yukon Electrical respectfully submits that the need for this project and the project costs were already approved in Board Order 2009-2. As a result, the UCG's suggestion that the project should not be added to rate base should be rejected.

Reply to UCG's Suggestion That Actual Costs Incurred for Various Projects Beyond the Forecasted Amounts from Yukon Electrical's 2008-2009 GRA Should Not Be Included in Rate Base

137. The UCG suggests in its Argument (p.9) that, for several projects, the difference between the amount forecast as part of Yukon Electrical's 2008-2009 GRA and the actual project costs should be disallowed. The specific projects the UCG identifies, which have been cherry-picked to include only projects where the actual costs were higher than the forecast, include: the Hamilton Boulevard Extension (Streetlighting) project; the Fish Lake Unit #1 – Generator End-of-Life Rebuild project; the project to connect Pelly Crossing to the Yukon Interconnected System; the Oracle HRxcellence HR Management project; the Ketz Court Live Front Transformers Replacement project; and the 5L628 Squanga Road Rebuild project. Yukon Electrical submits that actual project costs vary from forecast for many reasons, many of which are out of the control of Yukon Electrical. Detailed explanations for why the actual costs for each of the projects forecast in the 2008-2009 test period, including the projects

³⁶ 2T333, lines 10-13.

identified by the UCG, varied from the original forecast were provided by Yukon Electrical in response to WL-YECL-21(k). Yukon Electrical respectfully submits that the UCG has not provided any evidence that the identified projects are not used and useful nor that the actual project costs were not prudently incurred, so the UCG's recommendation that the full cost of these projects not be included in rate base should be rejected.

Reply to UCG's Suggestion That the Unspent Budgets on Other Projects Should Be Removed From Rate Base

138. The UCG suggests (p.54) that amounts related to "Other Projects" for 2008-2009 be disallowed to the extent that the actual amounts reported as "Other Projects" are lower than originally forecast as part of the 2008-2009 GRA. Yukon Electrical submits that this recommendation does not make any sense and should be rejected for several reasons. Firstly, it is not the forecast amounts but the actual amounts spent on specific projects, as detailed in Section 9 of the Application, that are being requested to be added to rate base. Also, as explained by Mr. Grattan and Mr. Massie in their testimony,³⁷ amounts that are forecast as "Other Projects" are subsequently able to be broken down into greater detail when actual amounts are reported. Looking only at the variance for "Other Projects" does not provide an accurate picture of variance in the actual amounts spent for capital additions as compared to the forecast.

Reply to Suggestion By the City that DSM Costs be Given Deferral Treatment During the Test Period

139. As outlined on pages 1-5 and 1-6 of the Application, Yukon Electrical uses two standard criteria when requesting approval for the establishment of a deferral account:

- (a) Costs are not under the control of the company and are not reasonably forecastable; or
- (b) An error in forecasting could produce a loss or gain of a substantial magnitude.

Yukon Electrical considers that the DSM costs are under its control; therefore, Yukon Electrical does not consider that DSM-related costs meet the criteria for establishment of a deferral account and has not proposed a deferral account.

140. The UCG also recommends in its Argument (p.62) that Yukon Electrical's costs for DSM which are included in O&M be held in a deferral account. However, as clearly stated in response

³⁷ 2T351, line 6 to 2T354, line12.

to CW-YECL-27(a), it is Yukon Electrical's intention that all costs related to DSM be capitalized and amortized. Some costs related to DSM were inadvertently included in O&M in the Application, which was corrected in the Updates filing filed on October 31, 2013. Therefore, as no costs related to DSM are included in the forecast of O&M for the test period, Yukon Electrical respectfully submits that the UCG's recommendation is not relevant and should be rejected.

Reply to LE Suggestion that the Utilities be Directed to Implement Additional DSM Measures Encompassing some or all of Peak Shaving, Load Shifting, Valley Filling, and Surplus Hydro Sales Starting Not Later than Year 4 of the Program (and Reply to UCG Suggestion that DSM Plan Should Not Be Approved Until a Low-Income Programs are Included)

141. As Yukon Electrical outlined in its Argument, Mr. Robillard explained in his testimony that because DSM is in its infancy in the Yukon, the objective was to begin with measures that the utilities could be sure they would do well with and avoid beginning with programs that may be overly complex.³⁸ Mr. Robillard further explained that programs addressing peak shifting require more consideration and market research before such programs can be rolled out and that the utilities did not want to slow down the process of getting a good initial suite of programs out into the market.³⁹ Similarly, there was extensive discussion during the hearing in respect of programs targeted at low-income customers and how such programs are equally not good programs for a nascent DSM Plan.⁴⁰ As outlined in its Argument, Yukon Electrical submits that programs targeted at low income customers or at peak shifting are matters that can be considered in future iterations of the DSM plan, once the utilities have trained their staff and have a better understanding of their market.⁴¹ The absence of such programs in a first DSM Plan is entirely appropriate, and consistent with the experience in other jurisdictions. Accordingly, Yukon Electrical submits that the LE and UCG recommendations in respect of peak shaving and low-income programs, respectively, should be rejected by the Board.

Reply to UCG Suggestion that YECL and YEC Have Failed to Demonstrate that the Proposed DSM Plan and Programs Adhere to Cost-Effectiveness Principles and Should be Directed to Address the Question of DSM Plan Optimization

142. In its Argument (p.55), the UCG asserts that the utilities appear to have made no attempt to optimize the DSM Plan. Yukon Electrical submits that this assertion is not correct; the entire program design process was an optimization process to select a portfolio of DSM programs and

³⁸ 4T739, lines 13-16.

³⁹ 4T739, line 1 to 4T740, line 20.

⁴⁰ 4T701, line 24 to 4T702, line 14.

⁴¹ 4T741, lines 6-15.

program elements that would optimize savings, while minimizing rate impacts. The optimization process was based on the identification and fine-tuning of each of the programs and program elements based on the application of four standard cost-effectiveness tests, namely the total resource cost test (TRC), the program administration cost test (PAC), the rate-impact measure test (RIM), and the participant cost test (PCT). Details regarding the application of these tests are provided in ICF Marbek's report.⁴² By applying these standard tests, the optimal balance was reached between expected volumetric effects, minimal short-term rate impact using the RIM test, and maximal long-term rate impact using the TRC test.⁴³ As a result of using these tests, it has been demonstrated that the programs and program elements adhere to the industry best practice regarding cost-effectiveness testing.

143. All measures and programs were thoroughly modeled and the results of the cost-effectiveness tests were presented at the forefront of the DSM plan. The test results were presented in detail in the DSM Plan report for each program element, for each program, and for the entire portfolio.⁴⁴

144. The UCG submits on p.52 of its Argument that there is no information on the record about what threshold levels were determined. As laid out in ICF Marbek's report, the four standard tests result in benefit/cost ratios that demonstrate success when they are above 1, which means that the present worth of benefits outweighs that of the costs.⁴⁵ Given the above and given the portfolio economics laid out in ICF Marbek report,⁴⁶ the DSM portfolio presented complies with cost-effectiveness principles. As pointed out by UCG in its Argument (p.56), the DSM programs are going to be targeted to specific customer groups to realize certain benefits, and will also result in avoided system costs for all customers. The results of the tests conducted by the utilities and their consultants have so demonstrated that the programs will target certain customers and will realize net benefits.

145. Yukon Electrical concurs with the UCG's view on p.55-56 of its Argument that a reasonable approach to optimization of the DSM plan, while limiting ratepayer impact, is to examine the rate impact of programs and their results, and favour those programs with the lowest rate impacts and best results, and this is exactly what we have done. In optimizing the set of programs, ease of implementation of the program was considered to achieve early wins,

⁴² DSM Plan, Appendix E, p. 6.

⁴³ DSM Plan, Appendix E, Exhibit 1 on p. 3 and pp. 3-4.

⁴⁴ DSM Plan, Appendix E, p. 9.

⁴⁵ DSM Plan, Appendix E, p. 9.

⁴⁶ DSM Plan, Appendix E, p. 9.

to recognize that this is the first portfolio of DSM programs to be jointly delivered by the two utilities and to minimize program administration costs, thereby minimizing rate impact.

146. Yukon Electrical also concurs with the UCG's statement on p.56 of its Argument that the utilities need to show that the DSM programs being delivered are fair and valuable to all customers (i.e., participants and non-participants). This has been clearly demonstrated through the results of the cost-effectiveness tests that have been applied. All programs pass the TRC, which shows that Yukon society achieves net benefits from the delivery of the programs; all programs pass the PCT, which means that there are net benefits to program participants, and all programs pass the PAC, which means that there are net benefits to the utilities in delivering these programs. While not all program elements pass the RIM test, this is not an unexpected or unusual result for a DSM program.

147. Not passing the RIM test means that there will be a rate impact for non-participants without the offset from being a DSM participant, and so the question becomes, "Is that rate impact undue"? As pointed out by Ms. Carlson in her testimony, the impact to rates as a result of the DSM costs included in of Yukon Electrical's current GRA filing is 0.1%, 0.2% and 0.2% for 2013, 2014 and 2015, respectively.⁴⁷ Yukon Electrical considers that acceptable rate and bill impacts resulting from DSM programs are appropriate objectives of a DSM plan, and that the current DSM plan has met these objectives as the rate impact from our DSM portfolio is small and not undue. In program delivery, the utilities will be striving to maximize customer uptake for both residential and business customers in the programs, within the DSM budget.

148. The UCG suggests on p.58 of its Argument that the appropriate approach to determining the value of demand-side options includes monetized environmental and societal externality costs. Yukon Electrical submits that there is no evidence to suggest that this is appropriate. Adding these costs to the TRC would expand the range of measures that would be considered cost-effective. However, for this first DSM portfolio, there was a broad selection of program elements that passed the TRC such that not all of these could be included in the DSM portfolio; an optimal set of program elements was chosen. As a result, there was no need to calculate a modified TRC or Societal Cost Test.

149. Yukon Electrical concurs with the matter brought up by the UCG on p.56 of its Argument that avoidance of building additional facilities due to DSM initiatives is an objective of DSM and

⁴⁷ 4T600, lines 8-19.

that in order to screen DSM programs, it is necessary to determine the costs which are being avoided through demand-side reductions in load. The TRC and PAC calculations include the avoided costs of building additional facilities; the avoided cost of new generation, 21 cents per kWh, was the measure used to test DSM against supply options.⁴⁸ The standard cost-effectiveness tests, by their definition, also account for utility capital, operating and energy supply costs, and incremental or decremental customer equipment and operating costs. The avoided new generation savings by the end of year 5 of the joint utility plan is \$1,953,000.⁴⁹ Yukon Electrical submits that DSM is a cost-effective option which is part of integrated resource planning, and which may allow for deferral of new generation projects and reduce the demand on the electrical distribution system.

Reply to Suggestion by the UCG that there is a Lack of Detail Available on the DSM Programs That have been Proposed

150. The UCG expresses a concern on p.60 of its Argument that there is very little detail on the programs to be delivered, and in particular, refers to the residential programs. Yukon Electrical is surprised that the UCG has not found the extensive information on the program portfolio contained in Conservation-Potential Review report,⁵⁰ the three market characterization reports,⁵¹ the DSM program portfolio document,⁵² the program implementation plan,⁵³ and the program evaluation, measurement and verification plan⁵⁴ to be sufficiently detailed. Within the DSM portfolio plan, details have been provided on the modalities of the residential rebates in the DSM portfolio plan.⁵⁵ It is standard practice for the DSM program administrator to have some flexibility in final program design to take account of any market or other changes that have taken place since the filing of the DSM plan to ensure that the program design is based on the best available information before the launch. As well, it is important to have some flexibility in program details during delivery to make program adjustments to allow the program to evolve in response to customer uptake and changing market conditions.

151. Extensive information has been provided on eligible measures, incremental cost of these measures, and typical impact per measures as well as incentive levels.⁵⁶ The utilities reserved

⁴⁸ DSM Plan, Appendix E, p. 6.

⁴⁹ Response to Undertaking DSM #8.

⁵⁰ DSM Plan, Appendix G1.

⁵¹ DSM Plan, Appendices B1, B2 and B3.

⁵² DSM Plan, Appendix E.

⁵³ UCG-YECL-128(b), Attachment 1.

⁵⁴ YUB-YECL-26(a), Attachment 1.

⁵⁵ DSM Plan, Appendix E, p. 73.

⁵⁶ DSM Plan, Appendix E, Exhibit 67 on p. 72, for example.

the right to revise eligible measures as needed in accordance with current market conditions, technology development, evaluation, measurement and verification results, and program implementation experience. These conditions, again, are standard practice. The utilities will seek to maintain these incentive levels as much as possible, but if adjustments are required, the programs will be tested for cost-effectiveness after the changes, and incentive levels will be balanced in order to achieve equivalent results at the program level.

152. The UCG recommends on p.57 of its Argument that initiatives should focus on barriers to wise energy use in a manner which provides valued services. Yukon Electrical agrees and this is why a thorough barrier analysis was carried out, to make sure that there are DSM program tactics to tackle these barriers,⁵⁷ and the program theory clearly laid out for each of the program elements.⁵⁸

Reply to UCG Comments Regarding the Focus of DSM on the Customer Side of the Meter (p.58-59)

153. The DSM program by its definition only addresses the customer side of the meter; projects which increase the efficiency of generation and distribution of electricity are investigated as part of the utilities' resource planning and are considered Supply Side Management. The utilities were directed in Board Orders 2009-2 and 2009-8 to focus on Demand Side Management, which focuses on the end user of electricity and is intended to affect customer behaviour through incentives or disincentives for electricity usage.⁵⁹ The utilities have also addressed Supply Side Management including internal efficiencies as outlined in YCS-YECL-7-1 and do not consider Supply Side Management to be part of the proposed DSM program.

Reply to UCG Suggestion that Consultation on DSM Programs was Inadequate

154. The UCG expressed concern on p.61 of its Argument about the consultation process carried out for the development of the DSM Plan. Yukon Electrical asserts that a high quality consultation process was conducted throughout the process of developing the DSM plan, as detailed in the responses to UCG-YECL-128(a) and UCG-YECL-128(b). These responses provide an extensive list of stakeholders who participated in the consultations and the associated presentation material. As shown, a wide variety of participants were engaged, including non-profit organizations, government organizations, retail representatives, construction

⁵⁷ DSM Plan, Appendices B1, B2 and B3, Section 13.

⁵⁸ DSM Plan, Appendix E, p. 29, 40, 55, 74, 83, and 92.

⁵⁹ DSM Plan, p.3, Section 1.1.

representatives, other market actors and interested individuals. Consultations included public presentations, workshops and focus groups.

155. Consultations began in January 2011 and continued through to June 2013, when the final program design was rolled out to the public. A thorough list of the number of individuals and organizations that were consulted was provided in the DSM Market Characterization Methodology.⁶⁰ The expert consultants from ICF Marbek testified that the level of consultation as it took place in Yukon would be at a suitable level even in a jurisdiction as large as Ontario.⁶¹ Mr. Robillard noted that the consultation that took place in the Yukon has been very much in the top 10 percent of any process that he had been involved in over the 30 years of his experience in this area.⁶²

156. Also, there will be continued opportunities for stakeholder input through the evaluation, measurement and verification (EM&V) process, which will be undertaken throughout the program delivery. Additionally, once the EM&V process evaluation report is completed midway through the program delivery, a stakeholder workshop will be organized and the stakeholder input obtained will be used in the design of the next DSM program.⁶³

Reply to the UCG Suggestions Regarding DSM Reporting (p.61-62)

157. Exhibit 8 of the Program Implementation Plan describes the utilities' commitments to reporting parameters. As can be seen from this list, the utilities concur with UCG that the DSM annual report filing to the Board should contain the DSM expenditures, amounts of electricity saved, and the benefits realized on the system as a whole as well as a comparison to any specific program targets. As was advocated by the consultant from ICF Marbek while a member of the Ontario Energy Board, UCG submits, and the utilities agree, that the DSM annual report should also address the fairness of a rate impact from DSM programs on customers who have already implemented conservation measures and alternate supply options on their own. This will be achieved by the annual calculation and reporting of the results for the measures, for the programs and for the portfolio.⁶⁴ As well, Yukon Electrical's actual costs incurred related to the DSM plan will be subject to a prudence review at the time of its GRA filing. Therefore, Yukon Electrical respectfully submits that UCG's recommendations regarding reporting should be rejected.

⁶⁰ UCG-YECL-128(b) Attachment 1.

⁶¹ 4T717, lines 17-20; 4T718, lines 6-8.

⁶² 4T711, line 14.

⁶³ 4T668, line 1.

⁶⁴ CW-YECL-27(d), Attachment 1, p.28.

Reply to the UCG Statement that the Developers of the DSM Plan Have No Knowledge of Other DSM Initiatives in the Yukon

158. UCG asserts in its Argument (p.64) that the developers of the DSM plan have no idea what has taken place in the same jurisdiction in recent years. Yukon Electrical respectfully submits that this statement is not supported by the evidence. The Yukon Energy Solutions Centre, Yukon Housing Corporation and the City of Whitehorse were all consulted in developing the plan, as evidenced in the Conservation Potential Review report,⁶⁵ in the market characterization reports,⁶⁶ and in the DSM program portfolio document.⁶⁷ The DSM portfolio was designed to avoid overlaps with the programs already offered by these organizations and with the intent to complement the existing Yukon DSM initiatives in terms of technologies (conservation measures) and/or in term of market segments, as shown in the DSM program portfolio document.⁶⁸

Reply to UCG Suggestion that Costs Associated with Internal DSM Programs Conducted Should be Recovered from the Shareholders

159. As stated in response to CW-YECL-27(a)(v), Yukon Electrical has not forecast any costs related to internal DSM programs in the test period. Therefore, Yukon Electrical respectfully submits that the UCG's recommendation is not relevant.

160. Yukon Electrical continues to make internal system efficiency improvements and to address opportunities to improve energy efficiency within its various facilities, as outlined in its response to YCS-YECL-7-1. Improvements include: conversions to higher voltages to reduce losses; designing substations to ensure impedances are optimized to reduce internal losses; insulation upgrades implemented in various plants; and building envelope improvements, air handling balancing and HVAC replacement in Yukon Electrical's facilities in Whitehorse. The benefits resulting from these efficiencies are incorporated into the forecast of costs for the test period and, as such, benefit ratepayers. As well, these improvements are outside the scope of the DSM plan.

10. INCOME TAX

161. No further comment is required in respect of this matter.

⁶⁵ DSM Plan, Appendix G1.

⁶⁶ DSM Plan, Appendices B1, B2 and B3.

⁶⁷ DSM Plan, Appendix E, Exhibit 5, p. 8.

⁶⁸ DSM Plan, Appendix E, Exhibit 5, p. 8.

11. PRIOR BOARD DIRECTIONS

162. No further comment is required in respect of this matter.

12. OTHER MISCELLANEOUS MATTERS

Reply to UCG Suggestion that Planning for an Efficient Regulatory Review of Utility Revenue Requirements Should Include Comprehensive Stakeholder Input (para. 14)

163. Yukon Electrical agrees that consultation and stakeholder input are important components in the development of a successful regulatory filing. Yukon Electrical's consultation activities were detailed in UCG-YECL-2(a), UCG-128(a) and YUB-56 Attachment 1 as well as during the hearing on transcript pages 1T167-1T176.

Reply to UCG Suggestion that Submissions to Revenue Requirement and Rates Approval in the Yukon Should Be a Joint Undertaking Between YEC and YECL with Input from Government Entities (e.g. the Energy Solutions Centre) as Opposed to a Process that Each Entity Undertakes on Its Own Without Regard for Other Stakeholders and Each Other (para. 15)

164. Yukon Electrical and YEC each must individually assess whether their respective approved revenue requirements will afford them an opportunity to recover prudently incurred costs and earn a fair return in non-test years. Yukon Electrical and Yukon Energy have different cost drivers as evidenced by their most recent General Rate Applications (YEC 2012-2013 and Yukon Electrical 2013-2015). The companies' respective cost drivers may, or may not, result in them come before the Board for the same test period. As such, Yukon Electrical respectfully submits the UCG's recommendation should be dismissed.

Reply to UCG Suggestion that Once YECL's 2013, 2014 and 2015 Revenue Requirements are Established by the Board, Existing Rates Should Continue to be Applied Until the Board Makes a Determination on Cost Allocation, Rates and Terms and Conditions of Service Following the Completion of a Phase 2 Review Based on the Allowed Revenue Requirements. A Variance Account Should Be Established to Record the Revenue Surplus / Deficit Realized in 2013 and 2014 Pending the Results of a Phase 2 Review (para. 16)

Reply to UCG Suggestion that There Should Be No Recovery of Any Foregone Revenue From January 1, 2013 to the Date on Which the Board Approves Rates Following the Compliance Filing Related to This Application (para. 17)

Reply to UCG Suggestion that Given the Commitment of YECL to Work With YEC to Assemble Cost of Service and Other Phase 2-Related Evidence by June 30, 2014, UCG Submits that Any Adjustments to Rates and Charges Applied to the Bills of Yukon Ratepayers Should be Deferred Until After the Phase 2

***Evidence Has been Reviewed and the Board Has Rendered a Final Decision
(para. 18)***

165. These recommendations by the UCG would be both unfair and prejudicial to Yukon Electrical and its ability to continue to provide safe and reliable electric service. As such, Yukon Electrical respectfully submits the UCG's recommendations should be dismissed.

Reply to UCG Suggestions Related to Phase 2 Matters

166. In paragraphs 19, 20, 21 and 45 of its Argument, the UCG makes a variety of statements and recommendations that relate to the next Phase 2 that will be filed jointly by Yukon Electrical and YEC. Yukon Electrical respectfully submits the comments and suggestions do not relate to this Application and can be addressed in the pending Phase 2 process.

Reply to UCG's Suggestion That YECL's Reliability Performance Measures Should Include Customer-Specific Reliability Measures as Well as Ways to Monitor Momentary Outages

167. Yukon Electrical respectfully submits that the reliability statistics filed with the Board on an annual basis, which were included in the response to UCG-YECL-40(a), are reasonable and sufficient in order to assess Yukon Electrical's reliability.

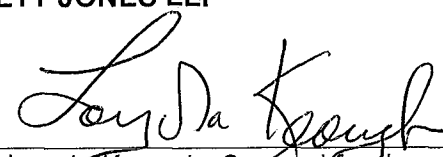
13. CONCLUSION

168. In summary, Yukon Electrical submits that it has provided comprehensive support for, and justification of, all approvals requested as part of its Application, which are necessary and appropriate approvals that will allow it to continue to provide safe and reliable electricity service. In the absence of any evidence, the Interveners have recommended arbitrary and unsubstantiated reductions to the Revenue Requirement and the denial of necessary and appropriate deferral accounts. Yukon Electrical submits that these requests should be denied.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 16th day of December, 2013.

BENNETT JONES LLP

Per:


Loyola Keough, Counsel for the
Yukon Electrical Company Limited