IN THE MATTER OF YUKON ELECTRICAL COMPANY LIMITED 2013-2015 GENERAL RATE APPLICATION

FINAL ARGUMENT

YUKON ENERGY CORPORATION

December 2, 2013

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1.0 INTRODUCTION

Yukon Energy Corporation (Yukon Energy or YEC) intervened and participated in the Yukon Electrical Company Limited (Yukon Electrical or YECL) 2013-15 General Rate Application proceeding.

As the primary generator and transmitter of electricity on the integrated system in Yukon, and also as a distributor, Yukon Energy has a material interest in the outcome of YECL's Application. Yukon Energy's intervention focused primarily on issues relevant to the integrated grid system (e.g. load forecasts affecting YEC wholesales [YECL purchase power requirements], Fish Lake expected generation, planning for future generation projects on the grid), and on matters that are jointly of interest to Yukon Energy and Yukon Electrical in the context of decisions by the Yukon Utilities Board (YUB or Board) on the Application setting precedents that may potentially affect future YEC revenue requirement applications (e.g. depreciation treatment of net salvage or FRSR, return on equity determinations, deferral accounts).

For the 2013-2015 Application, the current applied for year over year rate increases are 6.6% for 2013, 2.9% for 2014 and 2.4% for 2015[1]. A large portion of forecast increases in costs and return compared to 2009 Approved costs is expected in the Application to be recovered through increased revenues at existing rates, i.e., the share of these cost increases to be funded by rate increases is 44% in 2013, 49% in 2014 and 51% in 2015[2]. The most significant areas where forecast costs have increased in the test years compared to 2009 Approved costs are as follows:

- **Depreciation Expense** - compared to 2009 Approved costs depreciation expense (net of amortization of contributions) increases in 2013 by $2.483 million, in 2014 by $3.309 million and in 2015 by $4.179 million (this is 27-28% of total requested cost increase in each test year). As discussed in further detail in Section 2 below – a significant portion of the increase in depreciation expense is attributed to the request to reinstate the provision for net salvage (or Future Removal and Site Restoration [FRSR]).
- **Non-Fuel Operation and Maintenance Expense** - compared to 2009 Approved costs non-fuel O&M expense (excluding property taxes) increases in 2013 by $2.667 million, in 2014 by $3.092 million and in 2015 by $3.433 million (this is 31% of total requested cost increase in 2013, and 25% and 23% of total requested increases in 2014 and 2015 respectively).
- **Return on Ratebase** - compared to 2009 Approved costs return on ratebase increases in 2013 by $1.620 million, in 2014 by $2.504 million and in 2015 by $3.312 million (this is

[1] Page 2 of October 31, 2013 Update.

[2] Based on the October 31, 2013 Update, the increase in forecast costs plus return on rate base compared to 2009 Approved costs is $8.711 million in 2013, $12.243 million in 2014, and $14.929 million in 2015; in contrast, the requested cumulative increases requested over existing rates is $3.842 million in 2013, $5.954 million in 2014 and $7.677 million in 2015.

19-22% of total requested cost increase in each test year). These increases reflect major growth in rate base, i.e., forecast 2015 rate base is almost double the 2009 Approved rate base[3].

To provide context for the Application, it is noted that Yukon Electrical last applied to the Board for an increase in rates in 2008/2009 – seeking an increase of 5.9% in 2008[4] and 5.1% in 2009 (not including fuel price increases[5]). Subsequent to its last GRA, YECL has earned in excess of its last approved ROE of 8.93% for each of 2009 (+2.42%), 2010 (+1.61%), 2011 (+1.81%) and 2012 (+1.25%)[6]. For each of these past years YECL's actual ROE was also in excess of its requested ROE in the current Application of 9.21% for the 2013-15 test years.

Yukon Energy does not in Argument propose to address all matters covered in YECL's Application, information requests or oral evidence; however, the failure of YEC to address any specific matter should not be interpreted as concurrence with YECL's position, and Yukon Energy expressly reserves its right to address all matters in Reply Argument if the need arises.

As noted above, the Application includes material growth in non-fuel O&M expenses and rate base, and Yukon Energy will review the arguments provided by other intervenors on these matters.

Yukon Energy in Argument limits its submissions and comments at this time to the following significant matters of principle and approach in YECL's Application:

- **Depreciation expense** – this includes provision for re-introducing net salvage (FRSR) expenses in the revenue requirement.
- **Return on Equity and Capital Structure** – including review of appropriateness of the requested ROE and equity share of capital structure for the utility based on past precedents in Yukon.
- **New and Existing Deferral Accounts** – this includes review of the number of new deferral accounts being requested by YECL.
- **Grid Load Forecasts** – this includes review of these elements of the Application.
- **Fish Lake** – this includes review of updated long term average generation from this hydro facility.
- **New Grid Diesel Generation** – this includes review of the proposed addition of new diesel generation to the grid.

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[3] Application, Schedule 8.1

[4] Per Board 2009-2 the requested increase for 2008 represented a $2.220 million increase over the amount that would be recovered under existing rates and the requested increase for 2009 represented a $4.130 million increase. The final compliance filing as approved in Board Order 2009-5 included an increase of $4.072 million in 2009 over the amount that would be recovered under the then existing rates.

[5] Board Order 2009-2, Appendix A, page 1.

[6] LE-YECL-11(b) Attachment 1 notes actual ROEs of 11.35% in 2009, 10.54% in 2010, 10.74% in 2011 and 10.18% in 2012.

Overall, Yukon Energy's review of the Application focused on review of requested approvals in light of past Yukon precedents applicable to YUB regulation of Yukon Energy and Yukon Electrical.

2.0 DEPRECIATION EXPENSE

Depreciation expense (net of amortization of contributions) merits careful review as it makes up approximately 27-28% of YECL's requested increase in costs over 2009 Approved costs in each of 2013, 2014 and 2015 and is the most material share of the increase in total costs in the Application. Specifically, YECL is requesting a $2.483 million increase over 2009 GRA Approved depreciation expense in 2013, a $3.309 million increase over 2009 GRA Approved depreciation expense in 2014 and a $4.179 million increase over 2009 GRA Approved depreciation expense in 2015.

Depreciation rates for the test years are based on updated depreciation parameters recommended in a depreciation study conducted by Gannett Fleming, as well as forecast capital expenditures for new assets coming into service in the test years. The Application includes a proposal to change the method of depreciation for diesel generation from a mass property approach to a life span approach, noting this change will allow more accurate depreciation rates for diesel generation facilities. YECL is also proposing to reinstate the provision for future removal and site restoration (net salvage or FRSR) in depreciation expense, significantly increasing the forecast depreciation expense included in the test years[7].

Yukon Energy is concerned about the material impacts associated with re-introducing net salvage or FRSR in the depreciation costs of YECL and YEC.

YECL's Application to reinstate provisions for net salvage or FRSR in depreciation rates ignores previous specific direction provided by the Board to both utilities regarding net salvage. In Yukon Energy's view, YECL has failed to provide any compelling rationale to deviate from prior Board direction in this regard.

- In Order 2005-12, Yukon Energy was directed by the Board to discontinue recording an annual provision for FRSR effective January 1, 2005. The Board ordered a variance from GAAP and required that the December 31, 2004 balance in the FRSR remain as a liability to be utilized for dismantling costs that are incurred in 2005 and future years. The Board directed YEC to inform intervenors and stakeholders when the balance in the account reaches $2.0 million[8] (as noted in the Order 2005-12 the balance in the reserve at the end of 2004 was $5.757 million).

[7] Application page 7-1.
[8] Order 2005-12, page 48.

- In Order 2009-2, the Board indicated that the need for consistency between the two utilities in this area was important and that "YECL has a salvage obligation and YECL has the ability and can account for amounts equivalent to FRSR," and "YECL is to remove these amounts from its depreciation expense for each of the test years and is not to include any amounts for negative net salvage until board approval is provided." Similar to YEC, YECL was directed to inform the Board and interested parties when the balance for this liability account reaches $2 million[9].

In YEC's view, YECL has not established any material change in circumstances since 2009 that would warrant re-examining this issue at this time.

The Board established a clear trigger for reviewing the fund and this net salvage provision in Order 2005-12 and Order 2009-2, i.e., both utilities were to inform the Board and stakeholders when the fund balance approached $2 million. YUB-YECL-80(b) notes the 2008 FRSR balance for YECL was $4.688 million and the 2012 FRSR balance was $4.395 million. The YECL fund balance would need to be drawn down a further $2.395 million to meet the trigger determined by the Board.

Many of the arguments advanced by YECL in support of reinstating net salvage relate to issues beyond revenue requirement matters and should be dismissed. Specifically, YECL's attempts to justify this change based on rate design principles related to sending correct price signals to consumers (in light of implementation of conservation measures[10]) are well beyond any revenue requirement matter focused on depreciation and accounting, i.e., 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. Similarly, YECL's reliance on comments from the Board in Order 2010-13 (related to the Joint Phase II Rate Application) takes these comments completely out of context and such arguments should be dismissed[11].

YECL notes retirement costs associated with assets retired over the past 3 years have drawn down the account by just over 6.2% of the balance that existed December 31, 2008. However, as reviewed above, over the past 3 years the fund has been drawn down by only $0.293 million and currently remains well above the $2 million trigger established by the Board as the basis for review. As noted above the fund balance (at $4.395 million in 2012) appears more than sufficient to address any planned retirements going forward. YECL has not demonstrated they would be harmed by not having this fund re-activated.

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[9] Order 2009-2, page 22.
[10] YUB-YECL-80(b).
[11] Specifically, in the sections of Order 2010-13 quoted by YECL the Board was outlining its position that rates based on a cost of service study (with alignment of cost and revenues for each rate class) should take precedence over the need to ensure runout rates reflected incremental cost of diesel generation. Comments provided by the Board in this specific context cannot be used to support a provision for net salvage in YECL's current revenue requirement, i.e., net salvage provisions may increase the revenue requirement but do nothing to facilitate rate rebalancing (i.e., the apportionment of costs between classes is unchanged) or to ensure customers are receiving appropriate price signals.

Removing the Application's provision to restore net salvage (or FRSR) would materially reduce YECL depreciation expense and revenue requirement for the test years.

1. The response to CW-YECL-30(a) indicates, based on the filing prior to the Update, that removing the provision for net salvage would reduce depreciation expense (prior to amortization of contributions) as follows in each test year: $1.966 million in 2013 (30% reduction), $2.092 million in 2014 (28% reduction), and $2.315 million in 2015 (27% reduction)[12].
2. The response to UCG-YECL-23(e) indicates, based on the filing prior to the Update, that excluding net salvage would result in the following adjustments to the overall revenue requirement for each test year:
    a. In 2013, decrease the revenue requirement by $2.717 million (reflected 74% of the cumulative rate increase then proposed);
    b. In 2014, decrease the revenue requirement by $2.719 million (reflected 46% of the cumulative rate increase then proposed);
    c. In 2015, decrease revenue requirement by $2.844 million (reflected 38% of the cumulative rate increase then proposed).

In summary, based on the above and the potentially similar impacts on future YEC revenue requirement applications, Yukon Energy recommends that the proposal in the Application to restore net salvage or FRSR not be approved by the Board.

3.0 RETURN ON EQUITY & CAPITAL STRUCTURE

3.1 RETURN ON EQUITY

Yukon Electrical is requesting a return on equity (ROE) for the 2013-2015 test period linked to the recently approved British Columbia Utilities Commission (BCUC) Generic Cost of Capital (GCOC) benchmark rate of 8.75% plus a risk premium of 0.46% (total requested ROE of 9.21%). The requested risk premium of 0.46% over the BCUC GCOC benchmark return on equity is consistent with that previously approved by the Board for YECL in Order 2009-2.

The Application also notes for 2014 and 2015, the BCUC GCOC benchmark return on equity is subject to an Automatic Adjustment Mechanism (AAM) that will become operative if a long term Canada bond yield of 3.8% is met or exceeded. To address the potential for an AAM, YECL is requesting a deferral account for 2014 and 2015 to flow through any change to the 8.75% ROE resulting from the AAM.

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[12] See also Application page 7-1.

Use of the BCUC benchmark ROE of 8.75% and applying a risk premium of 0.46% for the test years follows past YEC applications and past Board direction (provided in Order 2009-2[13]) and in this regard Yukon Energy has no concern regarding applying this benchmark for determining the ROE for YECL in the test years.

Yukon Energy does have material concerns, however, with adopting the AAM to adjust YECL's ROE in 2014 and 2015 as there is no prior Yukon precedent for applying such an automatic adjustment mechanism and in this instance the mechanism would appear to only be eligible for increases to the utility.

In requesting an AAM, YECL suggests that it is relying on prior Board direction that the BCUC automatic adjustment mechanisms for a low risk utility be used to determine ROE in Yukon. It is acknowledged that the Board has provided direction in Order 2009-2, Order 2009-8 and Order 2013-1 to use a generic cost of capital benchmark to determine <u>during a GRA proceeding</u> a benchmark ROE for Yukon utilities. However, Yukon Energy strongly disagrees with the assertion that prior Board direction has been provided to apply any automatic adjustment mechanism (as used in British Columbia.) in Yukon in the absence of a GRA proceeding. YEC and YECL have not previously sought approval for the application of an automatic adjustment mechanism, and the Board has not commented on the appropriateness or use of such a mechanism in Yukon or approved such a mechanism for Yukon in prior Orders.

The new deferral account related to the AAM proposal is addressed further in Section 4.2.1 below of the Yukon Energy Argument.

3.2 CAPITAL STRUCTURE

In the current Application, Yukon Electrical is again seeking to increase the equity component of its capital structure – this time from 40% as approved in the 2008/2009 GRA to 44%[14]. YECL asserts that its risk has modestly increased since the 2008/2009 GRA, and also notes that its request for an increased common equity ratio arises from the recognition in other jurisdictions that similar increases have been approved for other utilities which YECL has been compared to or benchmarked against[15].

In support of the requested increase in its common equity ratio from 40% to 44% YECL also relies on the expert evidence filed in support of the 2008/2009 GRA which concluded Yukon Electrical's business risks are:

1. Higher than those of a typical Canadian distribution utility;
2. Higher than average within the spectrum of Canadian utilities; and

[13] Order 2009-2, page 29.

[14] In the 2008/2009 GRA YECL sought to increase its equity ratio to 47.5%.
[15] YUB-YECL-31.

3. The capital structure for Yukon Electrical should respect the stand-alone principle[16] .

In relying on evidence filed in its 2008/2009 GRA to support its request, Yukon Electrical fails to recognize existing precedents and Yukon-specific circumstances in attempting to justify increasing its common equity ratio from 40% to 44% in the test years. In particular, YECL does not disclose that all of these issues were reviewed and addressed by the Board in Order 2009-2, and that the Board's Order in effect did not support key findings provided in the expert evidence that YECL continues to rely upon in the current proceeding.

Specific findings of the Board in that Order are as follows:

1. The Board rejected the "stand alone principle" relied upon by YECL to support its requested increase in common equity ratio[17].
2. The Board noted YECL stated it "does not face a higher regulatory risk than a typical electricity distribution company in Canada" and its "ability to earn the allowed return is not a financial risk but a business regulatory risk" and the Board indicated that it was "not satisfied that "YECL's business risks are higher than those of a typical distribution or transmission utility", and noted after reviewing the evidence and arguments submitted by intervenors, that it was not convinced that the YECL situation or risk profile had changed since its last approved equity ratio for 1997 to warrant the substantial increase in the equity ratio requested[18].
3. Board Order 2009-2 determined YECL was "not a high risk utility"[19], and YECL in the 2008/2009 GRA agreed that YECL is a lower risk utility than Yukon Energy which has a capital structure of 40% equity[20].

YECL also bases its request to increase its equity ratio from 40% to 44% on increases approved for other utilities against which YECL asserts it has been compared with or benchmarked against[21], including Northland Utilities (Yellowknife)[22], Northland Utilities (NWT)[23] and the equity ratio approved by the BCUC for a benchmark utility[24]. In looking outside of Yukon for a benchmark YECL ignores the existing Yukon precedents and benchmarks established by the

[16] Transcript, page 539-40 notes YECL's request "is based on the expert evidence it filed in the 2008-2009 GRA that concluded Yukon Electrical's business risks are higher than those of the typical Canadian distribution utility and that the capital structure for Yukon Electrical should respect the stand-alone principle."

[17] Order 2009-2, page 26 notes "YECL also contributes (albeit in a small way) to the size, diversification and capital structure on AE. Given that capital in the form of either debt or equity flows to YECL through AE (or through CU), and that there is a strong management influence on YECL through AE, and given the significant affiliated transactions and contracts between YECL, AE and other ATCO companies, this Board rejects the stand-alone principle in determining capital structure."

[18] Order 2009-2, page 26 and 27; the Board notes at page 27 "the Board is not convinced that the YECL's situation or risk profile has changed since its last approved equity ratio for 1997 to warrant a substantial increase in equity ratio."

[19] Order 2009-2, page 26.

[20] Order 2009-2, pages 26-27; Order 2009-2 also notes at page 29, "the Board notes that YECL acknowledges that relative to YECL, YEC has more risk.'

[21] YUB-YECL-31.

[22] Which increased from 39.57% to 43.5%.

[23] Which increased from 40% to 44%.

[24] Which it notes has increased from 35.01% to 38.5% since 2008.

Board with regard to equity ratios for YEC and YECL, and does not address the fact that YECL (based on Order 2009-2) is a lower risk utility than YEC (which had a 40% equity ratio approved in its 2012/2013 GRA).

YECL also confuses the simple logic of using the BCUC approach to set a benchmark formula for ROE (as determined during the Generic Cost of Capital Proceeding) with using BCUC Decisions as benchmarks for other issues that have been addressed and determined by prior Board Order:

- As noted, YECL asserts that it was directed to benchmark its equity ratio against the BCUC GCOC; however, prior Board Decisions have only directed YECL to use the BCUC approach as a benchmark for determining ROE for a low risk utility, taking into account that the BCUC approach also specifically allows for adjustment of the benchmark ROE to reflect the added risk for each utility relative to a low risk utility. As noted above, the Application's requested risk premium of 0.46% over the BCUC GCOC benchmark return on equity is consistent with the BCUC approach and precedents, as well as consistent with the risk premium previously approved by the Board for YECL in Order 2009-2[25].
- YECL continues to cite as a precedent the acceptance of the stand alone principle in BC as justification for increasing its equity ratio, when this principle has been rejected by the YUB for Yukon (further undermining reliance on the BCUC GCOC for determining equity ratios in Yukon).

YECL has essentially relied upon the same evidence filed and rejected by the Board in Order 2009-2 to support its case to increase its equity ratio. Further, YECL has provided no compelling evidence to suggest that its circumstances or risks have changed materially since 2009 to warrant any change to its approved equity ratio of 40% or its risk premium of 0.46% over the BCUC GCOC benchmark return on equity. In fact, as noted in Section 1.1 of this Argument, since its last GRA Yukon Electrical has consistently secured returns on equity well above its last approved ROE.

In summary, Yukon Energy recommends that the Board retain the principles set out in Board Order 2009-2 and not approve any change in YECL's 40% equity and 60% debt capital structure[26].

[25] Order 2009-2 page 29.

[26] YEC-YECL-14 (a) and (d) notes, based on the filing prior to the Update, that keeping the equity ratio at 40% and allowing an ROE of 9.21% would reduce the forecast return by approximately $0.138 million in 2013, $0.182 million in 2014 and $0.181 million in 2015.

4.0 REQUESTED APPROVALS FOR EXISTING & NEW DEFERRAL ACCOUNTS

YECL's Application is seeking approval of **eight** separate new and existing deferral accounts. These requests are reviewed below, focusing first on the three existing deferral accounts.

4.1 EXISTING DEFERRAL ACCOUNTS

YECL seeks approval to continue the following existing deferral accounts (reviewed in prior GRA proceedings): Purchased Power Flow Through; Diesel Contingency Fund; and Fuel Price Flow through.

With regard to requested approvals for existing deferral accounts the following points are noted:

- With regard to the **Diesel Contingency Fund** and the **Purchased Power Flow Through**, in an October 22, 2013 letter to Yukon Energy the Board confirmed that matters related to the Diesel Contingency Fund and the Energy Reconciliation Adjustment (ERA) are being considered through a process separate from the YECL 2013 GRA proceeding and therefore "DCF and ERA-related matters will be considered out of scope of the current 2013 GRA process." As such, Yukon Energy will provide no further comment regarding these accounts at this time, on the understanding that these accounts relate to the DCF and ERA related matters considered out of scope of the current YECL GRA Application.
- With regard to the existing **Fuel Price Flow Through** deferral account, the Application requests continuation of the existing deferral account with approval to change the methodology for calculating the deferral to include liquefied natural gas (LNG) as well as diesel fuel in Watson Lake. YECL notes the purpose of the deferral continues to protect both customers and YECL's shareowner from changes in fuel price as compared to forecast[27]. Yukon Energy agrees in principle that the existing fuel price flow through deferral account should be adjusted to accommodate the use of LNG. In response to UCG-YECL-19(b), YECL states that "it is premature at this time to make application to the YUB regarding changing the Fuel Adjustment Rider & Deferral Price Variance Policy for the inclusion of LNG" until after the current Application has been dealt with by the Board.

With regard to the changes proposed in the Application to this deferral account to include LNG, the only specific change requested is to convert LNG fuel costs to equivalent diesel litres based on energy content, i.e., a litre of LNG will be assumed to have 58% the HHV energy content of a litre of diesel[28]. No assessment is provided as to the choice in this regard between HHV and LHV for this conversion, no examples have been provided as to how this would be done in practice, and the forecasts in the Application appear to make no provision for any of the

[27] YUB-YECL-1(c).
[28] Application, pages 4-3 and 4-4; UCG-YECL-19(d).

expected cost savings at Watson Lake as a result of the use of LNG[29]. Yukon Energy recommends that the Board secure examples of how YECL will in practice provide for LNG costs in Fuel Price Flow Through deferral account and in future Rider F determinations so as to ensure that all fuel price cost savings from LNG use at Watson Lake are fully passed on to ratepayers.

4.2 NEW DEFERRAL ACCOUNTS

Yukon Energy has a number of issues and concerns regarding the **five** new deferral accounts that YECL requests approval for in its Application. Specific issues and concerns regarding each of the **new** deferral accounts proposed by YECL are noted in detail in the sections that follow.

4.2.1 New AAM & ROE Deferral Account

The Application indicates that for 2014 and 2015 the BCUC GCOC benchmark return on equity is subject to an AAM that will become operative if a long term Canada bond yield of 3.8% is met or exceeded. In order to address the potential for the AAM to be invoked, Yukon Electrical is requesting a deferral account for 2014 and 2015 to flow through any change to the 8.75% ROE resulting from the AAM[30].

Yukon Energy's concerns with the requested deferral account are as follows:

1. **There is no prior Yukon precedent for an automatic adjustment mechanism in Yukon** - As noted in Section 3 (reviewing issues related to Return on Equity and Capital Structure), YEC and YECL have not previously sought approval for the application of an automatic adjustment mechanism, and the Board has not commented on the appropriateness or use of such a mechanism in Yukon or approved such a mechanism for Yukon in prior Orders. Notwithstanding that the BCUC has in the past had an AAM related to the utilities that it regulates (with provisions for related rate adjustments), the YUB to date has only used the BCUC benchmark ROE as a basis for approving an allowed ROE for both YEC and YECL in separate revenue requirement applications - and no approval has been provided to date for any AAM related to the ROE approved for each such application.
2. **The deferral account shifts risk to ratepayers without any commensurate benefits should the forecast change** - In the current circumstances, Yukon Energy has

[29] Application, Schedule 4.2 and YEC-YECL-9(b). Forecast litres of "diesel" at Watson Lake reflect LNG converted to Litre Diesel Equivalent (based on energy content), and the Watson Lake average cost per litre of diesel at 101.76 cents/kW.h simply reflects actual prices in place for diesel fuel as at February 2013 (Application, p 4-2). In effect, the Application forecasts LNG price at 58% of the diesel price on an energy equivalent basis (HHV), such that a litre of LNG is forecast to cost 58% of the forecast price of diesel (or 59.02 c/kW.h for LNG use at Watson Lake) - on this basis, a diesel equivalent liter of LNG is forecast to have the same price as a litre of diesel. LNG fuel prices on a diesel equivalent basis are forecast separately by YECL, in its business case analysis for Watson Lake Bi-Fuel Project, to be about 85% of the price of diesel during the test years (YUB-YECL-42(a), Figure YUB-YECL-42A).

[30] Application page 8-6.

concerns regarding the application of an automatic adjustment mechanism and the use of a deferral account to address what can only be an upward adjustment in rates based on the application of the current BCUC mechanism in 2014 or 2015. In the current circumstance, a new AAM and ROE Deferral Account has no possible upside for ratepayers for taking on this risk as the deferral is one-way[31], i.e., the benchmark ROE set by the BCUC will be no lower than 8.75% for each of the test years and will only increase if certain parameters are met.

3. There is no precedent for use of this form of deferral account in Yukon, and YECL could provide no precedent for a similar deferral account used by utilities in other jurisdictions[32].

YECL avoids providing any detailed comment regarding how the deferral account will affect YECL's risk profile noting only that the BCUC AAM has potential to contribute to regulatory efficiency (by avoiding frequent, costly and time consuming ROE proceedings) and that the BCUC did not note in its decision any impact the AAM formula has on the risk profile of the benchmark utility[33].

In summary, for the reasons noted above, Yukon Energy recommends that the Board does not approve a new AAM and ROE deferral account for YECL.

4.2.2 New Whitehorse Copper Tailings (WHCT) Sales Uncertainty Deferral Account

YECL asserts that the deferral account is required for WHCT as "this is a new industrial customer that is uncertain as to the exact timing of its start-up as well as its ultimate load"[34].

Overall, Yukon Energy is concerned that the implementation of a deferral account as proposed here to address sales uncertainty is unprecedented in Yukon and materially shifts risk from the utility (who should be positioned to forecast the load or manage the risk) to all ratepayers without also providing ratepayers with any upside benefit for undertaking this forecast risk. Specific issues and concerns raised by this deferral account are noted below:

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[31] Transcript page 260, the witness for YECL seems to suggest that the deferral would be positive or negative as there is the potential for the ROE to decrease in 2015 if it increases in 2014. However, based on the evidence on the record, the benchmark ROE will be no lower than 8.75%.

[32] YEC-YECL-13(g) notes "Yukon Electrical has not conducted an exhaustive search of similar mechanisms used in other regulatory jurisdictions. In British Columbia, the AAM will be used by: FortisBC Inc., FortisBC Energy (Vancouver Island), FortisBC Energy (Whistler), Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd." Stating the AAM will be used by the noted BC utilities does not provide any clarity regarding whether a deferral account is in place to address the AAM.

[33] YECL in YEC-YECL-13(f).

[34] The Application notes at page 2-7 that the customer has acknowledged uncertainty in the exact timing of its start-up as well as its ultimate load, and as WHCT is a single industrial customer that could contribute materially higher or lower than 1.4% of Yukon Electrical's total forecast sales, and the exact timing of start up and eventual load are not within the control of YECL, a deferral account is required relating to sales uncertainty.

1. **There is no Yukon precedent for the proposed approach and it effectively undermines the historic balancing of risk between the utility and ratepayers** - Historically, each utility has carried the risk for increased or decreased costs due to changes in the load compared to GRA forecasts and specifically with regard to load changes, equipment availability (i.e., unexpected maintenance or outages, except where such charges are appropriately part of insurance claims or uninsured losses) and generator efficiency. Yukon Energy has provided service to each industrial customer connected to the grid since the early 1990s and has historically taken on forecast risk related to industrial loads coming on and going off the system, subject to the Board's direction that YEC was to come back to the Board if and when required to accommodate major changes in the status of the Faro mine customer load. Yukon Energy continues to undertake such risk for its industrial customers, not only with regard to the timing of new loads coming onto the system, but in relation to changes in existing industrial loads from forecast, i.e., YEC's approved 2013 revenue requirement includes provision for the then forecast WHCT load that YECL has now stated will not occur in 2013.
2. **Rate Schedule 34 cannot be cited as a precedent for the proposed deferral account** - YECL cites Rate Schedule 34[35] as a Yukon precedent for this proposed deferral account[36]; however, this assertion is very misleading given the full context underlying the requirement for the rate, the terms and conditions of the deferral account and how it was ultimately disposed.

   The context for the earlier deferral account was very different, i.e., it addressed the post shut-down Faro mine situation where site maintenance energy was urgently required with no clear basis for any forecast of ongoing load. In this context, all of the net revenue benefits from the actual sales went 100% to the account of ratepayers. Review of Order 1998-5 (approving Rate Schedule 34) indicates that the Board approved these rates and terms in Order 1998-5 noting as follows:

   > "<u>all revenue</u> derived from Rate Schedule 34, less reasonable incremental costs associated with supplying the Faro mine site under this rate schedule, shall be placed in a deferral account for <u>subsequent application to the benefit of customers as directed by the Board</u>"[37]. [emphasis added]

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[35] Rate Schedule 34 was approved on an interim basis in Order 1998-2 and approved on a final basis in Order 1998-5

[36] Transcript, page 196-197 YECL's witness notes "in substance, it would be Yukon Electrical's position that the deferral is consistent. It's dealing with the same issue of a mine, that there was uncertainty with respect to the energy that would be consumed by that mine. It was a slightly different rate, a site maintenance rate as opposed to the industrial rate, but the issue is exactly the same." Further, YECL's witness notes "there was dollars put into that deferral account. There was site maintenance energy sold to the Faro mine back in the 1990's and, yes, that deferral account was cleared at a subsequent Yukon Energy proceeding."

[37] Board Order 1998-5

Revenues from Rate Schedule 34 were deferred into the Faro Mine Dewatering Fund which was addressed in Order 2005-12, Order 2009-8 and Order 2013-1. By the end of 2004, the projected balance in the account was $2,067,000[38]. Since 2005 the balance has been disposed of to the benefit of ratepayers and as directed by the Board during the 2005 Required Revenues and Related Matters proceeding, the 2008/2009 GRA and the 2012/2013 GRA[39].

YECL's October 31, 2013 update filing specifically acknowledges that WHCT load will not materialize in 2013; however, while the October 31, 2013 filing updated other areas of the residential and commercial sales forecast based on more current information, it did not update the industrial load forecast[40]. Not updating the forecast effectively ensures that YECL can book $52,269[41] net income for 2013 with deferred collection from other customers without any risk (and these other customers are guaranteed to bear this cost in rates with no commensurate upside) for a load that YECL is 100% certain will not occur in 2013. The only uncertainty here relates to what, if any, WHCT load will materialize in 2014 or 2015 - however, using the same proposed approach as in 2013, the Application effectively ensures that YECL can book $205,630 net income for 2014 and for 2015 with deferred collection from other customers in the event that WHCT does not in fact connect to the grid.

It is recommended that the WHCT load forecast be updated in the Compliance Filing to remove any WHCT load for 2013, as this is in fact what is now known to be what will occur.

Based on the facts as they exist today, there is no clear basis for including any WHCT load in the Application forecast for 2014 or 2015 - and no basis therefore for adopting the deferral mechanism as proposed by YECL which in effect serves only to ensure that YECL gets certain net income amounts under all circumstances.

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[38] Order 2005-12, page 5.

[39] In **Order 2005-12**, the Board noted that the Faro mine dewatering account can and should be drawn down to provide rate stability to customers and ordered YEC to amortize the account credit balance in such a manner as to offset the need for general service rate increases at the amount equal to the revenue shortfall approved by the board for 2005 to 2007. In **Order 2009-8** the Board approved applying $0.463 million of the remaining Faro Dewatering Account deferred regulatory amounts against the current outstanding balance in the YEC Reserve for Injuries and Damages. In **Order 2009-10** the Board approved using funds available in the Faro Dewatering account to address the 2008 revenue deficiency of $0.026 million; and using funds in the Faro dewatering Account to address the 2009 revenue deficiency of $0.355 million. In **Order 2013-1** the Board approved transferring the $0.398 million of one-time funds from the Faro Mine Dewatering Deferral Revenues against the RFID balance.

[40] The update filing notes at page 9 updated information in response to UCG-YECL-8(e) regarding forecast for electricity sales to Whitehorse Copper Tailings (WHCT) for 2013, 2014 and 2015 noting, "the customer indicates that they have had continued delays and will not begin construction or production in 2013. WHCT is now hoping to build in late winter or early spring of 2014, which would require Yukon Electrical to provide construction power, with full electrical supply required for production required two to three months later. Despite this updated information, Yukon Electrical has not updated its forecasts".

[41] YEC-YECL-6(d) provides a WHCT deferral account calculation examples for 2013, 2014 and 2015, including a case where WHCT does not start operations in the test period.

Under the current circumstances and based on past precedent, it is possible (without including any forecast load in the YECL revenue requirement) to consider a deferral account to deal with the WHCT load if and when it connects.

Based on the Faro site maintenance deferral account that YECL has referenced, YEC recommends that the current circumstances are best addressed by a deferral account exactly similar to the earlier deferral account applied to Rate Schedule 34, i.e., should the WHCT load arise, <u>all revenues</u> from serving this load (less reasonable incremental costs associated with supplying the mine site under Rate Schedule 39) would be deferred <u>for the future benefit of ratepayers</u> and disposed at the next YECL GRA. This approach fully protects both YECL and all other ratepayers, and allows for facilitation of the WHCT load connection if and when this is feasible.

4.2.3 Other deferral accounts: New Depreciation parameters deferral account; New Defined Benefit Pension Plan; & Flow through of costs related to Board Orders or legislative provisions

YECL is also seeking approval of three other <u>new</u> deferral accounts:

- **Depreciation parameters deferral account** - YECL is requesting approval for a deferral account that would allow it to file future applications, as necessary, to change its depreciation parameters within the 2013-2015 test period, and flow through the impact of any such change to customers within the test period[42]. The effect of the change in depreciation parameters would be determined based upon the rate base forecast approved by the Board for the test period.
- **Defined benefits plan deferral account** - Yukon Electrical is requesting a deferral account to flow through increases or decreases to required cash contributions to the company's defined benefit pension plan as a result of the required annual actuarial evaluations[43].
- **Flow through of costs related to Board Orders or legislative provisions** - Yukon Electrical requests approval to flow-through (dollar for dollar) to the tariff any costs related to Board Orders or legislative provisions resulting in changes to the rules or parameters that Yukon Electrical operates under, or that bear on the nature and extent of Yukon Electrical's obligations as a regulated utility and which impact its 2013-2015 revenues or revenue requirement[44].

Yukon Energy's concerns regarding these new deferral accounts are as follows:

[42] Application, page 7-2 and 7-3.
[43] Application, page 5-3.
[44] Application, page 1-6.

1. There is no precedent in Yukon for any of these accounts and YECL can provide few precedents from elsewhere to support application of these accounts in Yukon.
   a. With regard to the Depreciation Parameters Deferral Account, YECL cannot cite a precedent for any other similar deferral accounts currently approved/ used by other regulated utilities in Canada[45].
   b. With regard to the Defined Benefits Plan Deferral Account[46] and the flow through of costs related to Board Orders or legislative provisions[47] YECL notes that both Northland Utilities (Yellowknife) Limited and Northland Utilities (NWT) Limited have similar deferral accounts approved.
2. In certain cases there is no clear rationale or justification for application of these accounts in Yukon:
   a. With regard to the Depreciation Parameters Deferral Account, YECL acknowledges that updated depreciation parameters could wait until its next GRA[48]. It is also unclear how this deferral account would reduce administrative burden or costs, given the likely need for some form of limited scope regulatory review process by the YUB at the time of a change to ensure transparency and fairness. In oral testimony YECL's witness indicated it was a "conceptual issue" and had not been quantified[49], and during cross examination at the oral hearing YECL's witness could not provide an example of any sudden technological change that would result in the type of changes considered by the deferral account[50]. The desire for YECL to "harmonize" IFRS and regulatory accounting and reduce the administrative burden of keeping two sets of books does not outweigh concerns related to the unprecedented nature of a deferral account which may in effect side-step the regulatory review process.

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[45] YEC-YECL-12(d); discussion at the hearing (Transcript page 550-51), YECL witnesses referenced AUC Decision 2013-358 (September 24, 2013) related to ATCO Electric Ltd's 2013-2013 Transmission General Tariff Application. A review of this decision indicates a similar account was proposed by ATCO and denied by the AUC (see pages 17-19 of that Decision).

[46] YEC-YECL-10(b); YECL's witness at the oral hearing noted that Decisions regarding requested deferral account treatment for both current contribution and special contribution payments for ATCO Pipelines and ATCO Electric were still pending (Transcript page 550-51). With regard to the ATCO Transmission GTA the Witness for YECL noted "Results of the December 31st, 2012 actuarial valuation are to be provided to the Alberta Utilities Commission as part of ATCO Electric's compliance filing with that application, and that no final decision as of yet has occurred as to whether the requested deferral will be approved or not."

[47] YECL notes in YUB-YECL-3(b) in these decisions, the approved wording of the deferral account was as follows:

> ...a deferral account which would be used to record amounts associated with any Board decisions that result in changes to the rules or parameters that Northland operates under, including such areas as the billing system, collection practices or the frequency of meter reading, or statutory or legislative provisions or changes that bear on the nature and extent of Northland's regulated utility obligations or operations and which impact Northland's 2011-2013 Revenues and/or Revenue Requirements. For clarity, no such recorded amounts would be approved by the Board as part of this Negotiated Settlement. Rather, the balance(s) would be brought forward by Northland for consideration in Northland's next General Rate Application.

[48] YUB-YECL-82(b).

[49] Transcript, page 536.

[50] At Transcript page 537-38 YECL's witness cited as an example the potential conversion from diesel units to natural gas units as a technological change that may trigger changes in depreciation rates but acknowledged that this was not going to "happen overnight" and would occur over a longer time period.

   b. The flow through of costs related to Board Orders or legislative provisions seems designed to address issues that have arisen in NWT but have not occurred to date in Yukon. However, maintaining consistency with sister utilities in NWT is not a sufficient rationale for deviating from past Yukon practice and introducing a new deferral account as ill defined and open ended as the above account proposed by YECL. Such an account is wholly unprecedented in Yukon and should be disallowed.

3. YECL is seeking to secure deferrals for 2013 when more accurate and updated results are available and can be applied.
   a. For example, with regard to the Defined Benefit Pension Plan, YECL indicates the pension valuation as at December 31, 2012 was completed in July 2013, and DB pension funding for 2013 as a result of this valuation would decrease O&M for 2013[51]. In this regard, there appears to be information sufficient to update 2013 results in the compliance filing rather than flow these changes through to a deferral account.

In summary, based on the factors discussed above and in the absence of any established current need for these new deferral accounts, Yukon Energy recommends that the Board not approve at this time any of the three new YECL deferral accounts reviewed above.

In sum, with regard to all of the requested <u>new</u> deferral accounts it is Yukon Energy's view that nothing has changed materially in the regulatory environment in Yukon to support the need for these extraordinary new risk management mechanisms.

5.0 GRID LOAD FORECASTS

As previously noted in section 4.2.1 of this Argument, Yukon Energy recommends that YECL's forecast grid sales to WHCT in 2013, 2014 and 2015 be deleted from the forecast revenue requirement based on (a) the evidence as to no expected sales in 2013 to WHCT and high uncertainty about any sales thereafter to WHCT, and (b) the recommended approach for dealing with WHCT load uncertainty through a deferral account that would accrue for the benefit of ratepayers all revenues from sales to WHCT (less reasonable incremental costs associated with supplying the mine site under Rate Schedule 39).

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[51] YUB-YECL-5(a) indicates a resulting decrease in O&M of $203,000; The October 31, 2013 Update filing provided updated information which indicates YECL's Defined Benefit pension funding for 2013 increased from $956,000 to $1,040,755 due to a required transfer deficiency payment of $84,755 (the update did not provide an update to the impact on O&M in 2013 – however, the increase from $956,000 to $1,040,755 would suggest that the decrease in O&M would be slightly lower than $203,000).

Yukon Electrical's October 31, 2013 Update provided a major reduction in forecast YECL firm residential and commercial sales on the hydro grid relative to what was provided in the Application and reviewed during the IR process[52]:

- **2013:**
  - Application forecast 1.1% increase in combined residential and commercial sales (all YECL) compared to 2012 actual (3.44 GW.h increase).
  - Update forecast 1.4% decrease in combined residential and commercial sales (all YECL) compared to 2012 actual (4.30 GW.h decrease).
  - Overall reduction of 7.74 GW.h in YECL residential and commercial sales forecast for 2013, all of which is located on the hydro grid.
  - After including 6.2% losses for YECL on sales, overall reduction in YECL forecast grid purchase power requirement of 8.22 GW.h for 2013.
- **2014:**
  - Application forecast 6.12 GW.h increase in combined residential and commercial sales (all YECL) compared to 2013 Application forecast.
  - Update forecast 5.93 GW.h increase in combined residential and commercial sales (all YECL) compared to 2013 updated forecast.
  - Overall reduction of 7.93 GW.h in YECL residential and commercial sales forecast for 2014, all of which is located on the hydro grid.
  - After including 6.2% losses for YECL on sales, overall reduction in YECL forecast grid purchase power requirement of 8.42 GW.h for 2014.
- **2015:**
  - Application forecast 6.10 GW.h increase in combined residential and commercial sales (all YECL) compared to 2014 Application forecast.
  - Update forecast 5.89 GW.h increase in combined residential and commercial sales (all YECL) compared to 2014 updated forecast.
  - Overall reduction of 8.14 GW.h in YECL residential and commercial sales forecast for 2015, all of which is located on the hydro grid.
  - After including 6.2% losses for YECL on sales, overall reduction in YECL forecast grid purchase power requirement of 8.65 GW.h for 2015.

In summary, the major change in forecast non-industrial grid sales due to the Update was for the 2013, i.e., the change for this one year (-7.7 GW.h) accounts for 95% of the total change for 2015 (8.1 GW.h) – indicating that forecast annual growth rates from the Application have been retained for 2014 and 2015.

Looking further at the very significant 7.7 GW.h reduction in forecast 2013 grid non-industrial sales introduced in the Update immediately prior to the hearing, YECL explained during the

[52] All numbers from Schedules 2.1 and 2.2 in the Application and as revised in the October 2013 Update.

hearing that the Update looked at actuals for the first nine months of 2013 which showed results that were much lower than forecast in the Application (on a non-normalized basis as well as on a normalized basis), and that "we don't quite have a good understanding exactly why that has happened"[53]. Overall, the situation once again demonstrates the risks in relying on YECL's available grid sales forecasts - and leaves the current review of the Application without a solid basis for proceeding.

Yukon Energy is concerned that the materially reduced non-industrial grid sales forecast for 2013, if adopted for the 2013 test year rate increase determinations, sets a new precedent in adjusting a GRA load forecast based on actual results at the time of a hearing. Such adjustments can create a range of issues for all parties - and certainly act to greatly reduce YECL's risks related to a normal GRA process.

Beyond these regulatory process concerns, Yukon Energy is also concerned that too severe a downward adjustment is being proposed by YECL for these 2013 non-industrial grid sales if the Board wants to examine an updated situation. This concern is reviewed in detail below.

In its Update to the Application YECL noted that "[t]he 2013 forecast is now based on the aggregate three year (2010-2012) average normalized UPC and, in addition, reflects the actual increase in customer additions of 33."[54] Based on the evidence, the magnitude of the YECL forecast update reductions are not explained by reversion to three average normalized UPC.[55]

The updated YECL forecast for 2013 weather normalized YECL purchase power requirements for non-industrial sales approximates 304.0 GW.h, and the related YECL grid generation updated forecast requirements for non-industrial customers approximates 308.4 GW.h[56]. Yukon Energy contrasts these updated forecasts with the following information indicating that actual results to date in 2013 support an updated 2013 weather normalized forecast requirement for non-industrial customers that is 5 to 7 GW.h higher than the YECL Update:

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53 See transcript pp. 631-632. Attachment 1 of the Update shows actual residential and commercial sales (all YECL) for the first nine months of 2013 lower than the Application forecast by 5.1% (11,735 MW.h); on a normalized basis, YECL estimates that these sales for the first nine months of 2013 were 3.6% (8,384 MW.h) lower than the Application forecast. The Update notes that numbers of customers for the first none months were actually slightly higher than forecast, and that the decline in load therefore related to forecast average use per customer.

54 Page 3 of 9 of the updated Application from October 31, 2013.

55 In response to IR YEC-YEC-3 c), YECL had previously provided the impact of using a 3-year average usage-per-customer ("UPC") for Whitehorse residential sales forecast compared to 2012 weather normalized UPC that YECL used for the forecast in original Application. The impact was in the range of 1.2-1.3 GW.h for 2013-2015 test years. The UPC used for Whitehorse residential sales forecast in original Application as 11,211 kW.h/customer based on 2012 weather normalized UPC plus 0.7% increase compared to 11,083 kW.h/customer based on a 3-year average weather normalized UPC or decrease of 129 kW.h/customer. This multiplied by forecast number of residential customer would result about 1.8-1.9 GW.h reduction in residential sales forecast in contrast to 3.8-3.9 GW.h reductions in total YECL residential sales forecast in the Update for the test years.

56 304.0 GW.h for purchase power excluding WHCT, plus approximately 4.4 GW.h for assumed Fish Lake generation and YECL grid diesel generation as forecast for 2013 in the Application (Schedule 3.2). The original Application forecast 312.2 GW.h for purchase power excluding WHCT, and 316.6 GW.h for forecast YECL grid generation requirements for non-industrial customers.

- Board Order 2013-04 approved a YEC compliance filing that included a 2013 wholesale forecast of 307.2 GW.h including WHCT sales as then forecast at 5.1 GW.h (including YECL losses); excluding the WHCT portion of these sales, the YEC non-industrial grid firm wholesale forecast for 2013 as approved by the Board was 302.1 GW.h, based on Order 2013-04 issued March 25, 2013[57]. This forecast assumed Fish Lake generation for 2013 at 4.88 GW.h (a reduction of 3.85 GW.h due to delay in Fish Lake Unit #1 coming into service), i.e., the implied grid generation forecast requirements for YECL non-industrial customers based on normalized weather conditions approximated 307.0 GW.h.
- Based on actual wholesales for the first nine months of 2013, Yukon Energy's updated wholesale forecast for 2013 (YECL non-industrial sales) using approved GRA non-industrial forecasts for the remaining three months approximates 304.3 GW.h (i.e., an increase of 2.2 GW.h over approved GRA forecasts), with implied updated 2013 grid generation forecast requirements for YECL non-industrial customers based on non-normalized weather conditions of 309.2 GW.h.
- YEC confirms that overall actual conditions during the first ten months of 2013 were warmer than normal, and estimates that adjustment for normalized weather temperature conditions would add between 4 to 6 GW.h to the forecast 2013 non-industrial wholesale sales load (implying updated 2013 grid generation forecast requirements for YECL non-industrial customers based on normalized weather conditions at between 313.2 and 315.2 GW.h).

Yukon Energy recognizes that the Update as filed cannot be fully tested at this late date, and that there is limited ability as well for the Board to assess any specific alternative adjustment to the original Application. Accordingly, if an update to 2013 non-industrial grid sales forecast as filed in the Application is to be allowed to reflect actual results, Yukon Energy recommends that the 2013 reductions to the filed forecast be limited to no more than 50% of what has been proposed by YECL, i.e., YECL's overall 2013 non-industrial grid generation reduction of 8.2 GW.h be limited to a reduction of no more than 4.1 GW.h (with 2013 adjusted purchase power then forecast at no less than 308.1 GW.h and 2013 adjusted forecast generation for non-industrial grid firm sales at no less than 312.5 GW.h).

Looking beyond 2013, YECL's updated forecast purchased power for non-industrial grid loads approximates 305.7 GW.h for 2014 and 312.0 GW.h for 2015[58]. The 2014 forecast purchased power for non-industrial grid loads is only 1.7 GW.h more than the YECL's updated forecast purchased power for 2013 of approximately 304.0 GW.h excluding WHCT sales.

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[57] See YEC compliance filing as approved by Order 2013-04, Appendix 3.2, Schedule 9.
[58] Schedule 2.1 Revised shows WHCT Industrial sales at 1.025 GW.h in 2013 and 4.62 GW.h in 2014 and 2015. After allowing 6.2% for losses, removing these WHCT sales reduces forecast purchased power requirements by 1.09 GW.h in 2013 and 4.91 GW.h in 2014 and 2015.

As reviewed below, Yukon Energy is concerned that the 2014 and 2015 grid forecasts are also each at least 4.3 GW.h too low[59]:

- As reviewed above, YECL's updated 2013 forecast generation for non-industrial grid firm sales approximates 308.4 GW.h (304.0 GW.h wholesales excluding WHCT, plus approximately 4.4 GW.h for assumed Fish Lake generation and YECL grid diesel generation).
- As reviewed above for 2013, if updates are to be made based on actual loads to date in 2013, the YECL update for non-industrial grid firm sales should be increased by at least 4.1 GW.h (adjusted forecast generation for non-industrial grid firm sales at 312.5 GW.h).
- Allowing for annual growth of 2% (consistent with Application as Updated), forecast 2014 YECL grid generation would approximate 318.8 GW.h – and forecast 2014 purchase power requirement would approximate 310.0 GW.h (after deducting 8.8 GW.h assumed forecast for Fish Lake generation and YECL grid diesel generation in 2014), i.e., about 4.3 GW.h higher than in the Update of 305.7 GW.h.
- Following similar analysis with 2% growth for 2015, forecast 2015 purchase requirement would approximate 316.4 GW.h, i.e., about 4.4 GW.h higher than in the Update of 312.0 GW.h.

In summary, Yukon Energy recommends that the Board direct YECL to adjust the Application's grid load sales and purchase power forecasts as provided in the October 31, 2013 Update as follows:

1. Remove all industrial (WHCT) forecast sales for each test year;
2. Retain the remaining non-industrial grid forecasts as per the original Application to reflect normal regulatory review practice;
3. If, however, an update to 2013 non-industrial grid sales is to be allowed to reflect actual results, the 2013 residential and commercial sales reductions to the original Application should be limited to no more than 50% of what has been proposed by YECL as reviewed above and this adjustment should be carried consistently through to adjusted 2014 and 2015 forecasts as reviewed above (the end result will increase YECL Update grid generation requirements by at least 4.1 GW.h in 2013 and slightly more in 2014 and 2015).

[59] Fish Lake and YECL grid diesel generation forecast of 4.4 GW.h in 2013 and 8.8 GW.h in 2014 and 2015 per Schedule 3.2 in Application.

6.0 FISH LAKE

The Application forecasts Fish Lake generation on the grid at 4,329 MW.h in 2013 (Unit #2 only all year) and 8,730 MW.h in 2014 and 2015, assuming forecast in-service date for Fish Lake Unit #1 of December 2013 (YEC-YECL-17(b)). These forecasts reflect long-term average generation as approved by the Board in YECL's last GRA, with Unit #1 assumed at approximately 4,400 MW.h per year.

In response to YUB-YECL-37(d), YECL provided the following updated information on long-term averages expected from Fish Lake generation:

- Long-term average generation prior to Unit #1 failure over 50 years (1960-2009) was approximately 8.48 GW.h/year, with 4.89 GW.h from Unit #1 and 3.59 GW.h from Unit #2. This is below the Board-approved 8.73 GW.h output.
- This long-term average dropped to 8.28 GW.h over the past 40 years, and 7.7 GW.h over the past 30 years.
- Expected annual generation from the new Unit #1 is 5.6 GW.h, but there is no actual experience yet with this new unit, it is unclear what the efficiency gain will be, and it will be subject to operational flows.
- In light of all of the above, YECL proposed that the best forecast available for this Application is to remain with the Board-approved output of 8.73 GW.h per year.

Yukon Energy notes that there is no explanation on the record as to the basis for the reasonably steady decline in average Fish Lake generation over the past 50 years, and no assessment on the record as to whether there is a reasonable basis for assuming that the higher flows experienced in the 1960s and 1970s are still relevant under current day conditions in this watershed. Notwithstanding the expected increase in the new Unit #1 generation, there is a potential basis for concern that long term average generation at Fish Lake applicable for the future may be less than the Board-approved 8.73 GW.h/year.

For the purpose of the current Application, Yukon Energy agrees with Yukon Electrical's proposal to remain with the Board-approved output of 8.73 GW.h per year for the 2014 and 2015 test years.

7.0 NEW GRID DIESEL GENERATION

In the last GRA Yukon Electrical proposed a new 1.5 MW diesel generating unit on the grid at Carcross, which the Board did not approve. In the current Application, YECL has proposed a 2 MW unit for in-service in 2015 at a capital cost of $3.0 million to provide contingency generation for local peak load demands of 1.5 MW in winter with approximately 712 total customers in

Carcross and Tagish[60]. YECL also proposes a threshold minimum load of 1.0 MWhs (based on assumed 1 MW peak load) and 300 customers to enact the N-1 planning criteria whereby local backup diesel generation would be provided. In response to YUB-YECL-46(g), YECL notes that Haines Junction is another community on the grid that due to load growth in the near future would not have sufficient generating capacity to provide 100% standby capacity - and YECL states that it would be beneficial "to obtain guidance from the Board with respect to ensuring standby capacity for existing communities is maintained".

In response to YECL references to the grid planning criteria in YEC's 2006 Resource Plan (see YUB-YECL-46(a) and YEC-YECL-26(c)), Board Order 2009-2 notes YEC's explanation that the WAF and MD grid Community Criteria in the 20-Year Resource Plan only suggested that communities over 1.0 MW would be considered as the preferred location for new diesel units, providing grid support as well as local generation during line failures.

Board Order 2009-2 further noted that YEC had pointed out that there was no current need at that time for new diesel units to meet grid system requirements. The Board was not convinced that the Carcross generator was the best option at that time to mitigate outages in the Carcross-Tagish area, and directed YECL to remove this unit from its proposed capital additions in its Compliance Filing. The Board also directed YECL in its next GRA to present its business case respecting the Carcross genset if it is still the preferred option to mitigate reliability concerns in the area, and to provide a study that illustrates the initiatives that similar utilities (north of 60) are undertaking to address reliability concerns.

Yukon Energy is aware of, and is addressing in its plans, the need for new thermal generation units on the grid to replace existing diesel units that need to be retired and to pursue opportunities for conversion of diesel units to lower cost and lower emission LNG-supplied gas-fired units. In Yukon Energy's view 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 YECL 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.

8.0 CONCLUSION & RECOMMENDATIONS

In summary, Yukon Energy is concerned that Yukon Electrical has in many cases advanced an Application that ignores past Yukon precedents.

[60] In response to YUB-YECL-46(d), YECL confirms that "the line to Carcross and Tagish has not been identified as a particular problem area."

Yukon Energy is also concerned that Yukon Electrical continues to rely on precedents from other jurisdictions to support arguments to increase its equity ratio and to support an ever expanding and unprecedented list of deferral accounts designed to transfer risk away from YECL and towards ratepayers, while ignoring specific circumstances in Yukon. The Board set out clear instructions in Order 2009-2 on many of the issues advanced again by YECL in its current Application (and addressed in this Argument) and, in Yukon Energy's view, YECL has not provided sufficient basis or rationale to deviate from this previous Decision.

For the detailed reasons set out above, Yukon Energy recommends:

1. The Board deny the proposal in the Application to restore net salvage or FRSR in depreciation expense for the reasons detailed in Section 2 of this Argument.
2. The Board deny the proposal in the Application for an Automatic Adjustment Mechanism for determining YECL's ROE for 2014 and 2015 for the reasons detailed in Section 3.1 of this Argument.
3. The Board approve an equity ratio for YECL for the test years of 40% and deny any increase in equity ratio for YECL for the reasons detailed in Section 3.2 of this Argument.
4. With regard to <u>existing</u> deferral accounts, as set out in Section 4.1 of this Argument, the Purchase Power Flow through and Diesel Contingency Fund are considered out of scope of the current proceeding. Yukon Energy agrees in principle that the existing fuel price flow through deferral account should be adjusted to accommodate the use of LNG, and recommends that the Board secure examples of how YECL will in practice provide for LNG costs in Fuel Price Flow Through deferral account and in future Rider F determinations so as to ensure that all fuel price cost savings from LNG use at Watson Lake are fully passed on to ratepayers.
5. With regard to the proposed <u>new</u> deferral accounts, the Board deny these requested accounts for the reasons detailed in Section 4.2 of this Argument. Based on the Faro site maintenance deferral account that YECL has referenced, YEC recommends that the current circumstances with regard to WHCT sales uncertainties are best addressed by a deferral account exactly similar to the earlier deferral account applied to Rate Schedule 34, i.e., should the WHCT load arise, <u>all revenues</u> from serving this load (less reasonable incremental costs associated with supplying the mine site under Rate Schedule 39) would be deferred <u>for the future benefit of ratepayers</u> and disposed at the next YECL GRA. This approach fully protects both YECL and all other ratepayers, and allows for facilitation of the WHCT load connection if and when this is feasible.
6. With regard to the Application's grid load sales and purchase power forecasts as provided in the October 31, 2013 Update Board, the Board direct YECL to adjust as follows:
    a. Remove all industrial (WHCT) forecast sales for each test year;
    b. Retain the remaining non-industrial grid forecasts as per the original Application to reflect normal regulatory review practice;

c. If, however, an update to 2013 non-industrial grid sales is to be allowed to reflect actual results, the 2013 residential and commercial sales reductions to the original Application should be limited to no more than 50% of what has been proposed by YECL as reviewed above and this adjustment should be carried consistently through to adjusted 2014 and 2015 forecasts as reviewed above (the end result will increase YECL Update grid generation requirements by at least 4.1 GW.h in 2013 and slightly more in 2014 and 2015).

7. For the purpose of the current Application, Yukon Energy agrees with Yukon Electrical's proposal to remain with the Board-approved output of 8.73 GW.h per year for the 2014 and 2015 test years.
8. With regard to the proposed new diesel at Carcross, Yukon Energy's view as primary generator and transmitter on the grid, is that prior to establishing any new thermal units at locations on the grid where no such units currently exist, there is a need for YECL 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.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

P. John Landry
Counsel for Yukon Energy Corporation

December 2, 2013