IN THE MATTER OF ATCO ELECTRIC YUKON 2023-2024 GENERAL RATE APPLICATION

FINAL ARGUMENT

YUKON ENERGY CORPORATION

December 13, 2023

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1.0 INTRODUCTION

Yukon Energy Corporation's (Yukon Energy or YEC) intervention focuses primarily on issues relevant to the integrated grid system, and on matters that are jointly of interest to Yukon Energy and AEY, to the extent that decisions by the Yukon Utilities Board (YUB or Board) on this Application may establish precedents affecting future YEC revenue requirement applications (e.g. return on equity determinations and new IPP deferral accounts).

In this Argument, Yukon Energy limits its submissions and comments to the following issues:

- the continued need for a simplified approach to determine a fair ROE for Yukon utilities, and the Board's selection of an appropriate reference BC utility for the purpose of determining ROE;
- YEC's agreement with AEY's position with respect to capital structure;
- the appropriateness of the proposed new IPP deferral account; and
- differences between AEY and YEC forecasts of primary AEY wholesale purchases from YEC for the test years.

2.0 RETURN ON EQUITY & CAPITAL STRUCTURE

2.1 AEY APPLICATION

AEY is requesting a return on equity (ROE) for the 2023-2024 test period linked to the recently approved British Columbia Utilities Commission (BCUC) Generic Cost of Capital (GCOC) rate of 9.65% for FortisBC Energy (FSI) and FortisBC Electric (FBC) plus a risk premium of 0.75% (total requested ROE of 10.4%) with an approved common equity ratio of 40%.[1]

2.2 YEC COMMENTS

YEC's comments are confined to addressing the following:

1. Continuing need for simplified approach to determine fair ROE;
2. BCUC GCOC Stage 1 Decision & Order G-236-23 – Appropriate Reference BC Utility; and
3. Retain deemed equity at 40%.

2.2.1 Continuing Need for Simplified Approach to Determine Fair ROE

Since at least the YEC 2005 revenue requirement proceeding, the Board has consistently approved a simplified approach using a BCUC benchmark and evidence on BCUC approved risk premiums for other BC utilities to determine a fair ROE as required by OIC 1995/90 for Yukon utilities. The Board noted in Order 2009-08, for example, that it "continues to be of the view that relying on a generic ROE from a different jurisdiction is the most efficient means of addressing an inherently complex and costly matter," and that it

[1] AEY Application, Section 8.2.3 and 8.2.4, page 8-4. AEY's Opening Statement (Exhibit B-12), paragraph 8, confirmed AEY seeking ROE of 9.65% plus a risk premium of 0.75%.

"strongly believes that such an approach is the most efficient manner for a jurisdiction such as Yukon."[2] This simplified approach avoids the need for expert evidence to determine the risk premium adder.

Throughout these ROE determinations, the Board has also consistently determined that the applicable business risk premium was higher for YEC than for AEY. In this regard, Order 2009-02 also noted YECL's acknowledgement that "relative to YECL, YEC has more risk".[3]

It is YEC's position that this simplified approach should be continued, with reliance on available BCUC ROE determinations and acknowledgement that the business risk premium for YEC should be higher than AEY.

2.2.2 BCUC GCOC Stage 1 Decision & Order G-236-23 – Appropriate Reference BC Utility

The recent BCUC GCOC decision and Order G-236-23 approved an ROE of 9.65% for both FEI and FBC. However, the following issues have been left to be determined in the BCUC GCOC Stage 2 proceeding that started in November 2023 and is expected to be concluded in 2024:

- whether FEI or FBC should serve as the benchmark for British Columbia,
- whether neither FEI nor FBC should serve as the benchmark for British Columbia, or
- whether each British Columbia utility's allowed ROE and deemed capital structure should be determined individually.[4]

The recent BCUC decision changed the relationship between ROEs for FEI and FBC. Prior to Order G-236-23, FBC's approved ROE of 9.15% was based on the FEI benchmark ROE of 8.75% plus a risk premium of 40 basis points, with FEI's approved deemed equity of 38.5% being lower than FBC's deemed equity of 40.0%. In contrast, Order G-236-23 approved the same ROE (9.65%) for both FBC and FEI, but with FBC's approved deemed equity of 41% being lower than FEI's deemed equity of 45%. The effect of this is that FEI's effective equity return (ROE times deemed equity) for revenue requirement purposes now exceeds FBC's effective equity return, i.e., FEI is now assessed to have a higher business risk than FBC.

In light of this change in approach, FBC (as the electric utility) is now the appropriate reference BC utility ROE to assist the Board in determining an allowed AEY ROE in the 2023-24 AEY GRA proceeding, i.e., FEI (the gas utility) is no longer relevant as a reference or benchmark ROE for Yukon electric utilities.

Using FBC instead of FEI as the reference ROE for the current AEY GRA ROE determination requires the Board to consider what if any risk premium should be added to the FBC ROE for the purposes of setting AEY's ROE. YEC submits that this issue must be considered in light of past Board assessments of AEY's business risk relative to FBC, and in light of the relevant evidence presented by AEY at the hearing, including

[2] Order 2009-8, page 53-54. Order 2005-12 had previously used BCUC benchmark and risk premium information to determine YEC approved ROE. This approach was re-affirmed for YEC in Order 2009-08, adopted for AEY in Order 2009-02, and re-affirmed for AEY in Order 2017-01 and for YEC in Orders 2018-10 and 2023-01.
[3] Order 2009-2, page 29.
[4] BCUC GCOC Stage 1 Decision and Order G-236-23, September 5, 2023, Section 7.0, pages 142-143.

confirmation of BCUC's determination that FBC's business risk has not changed substantially since its previous decision on this matter.[5]

Another issue relating to ROE that was reviewed at the hearing is whether YEC should be considered a comparable utility to AEY for ROE purposes.[6] Based on the Stand Alone Principle and OIC 1995/90 directions regarding determining a fair return, there is no reasonable basis to distinguish investor-owned publicly traded utilities from government owned utilities for ROE purposes. Accordingly, any increase in AEY's business risk relative to FBC compared to past Board assessments should result in a corresponding increase to YEC's risk premium relative to FBC for the YEC 2023-24 GRA.

2.2.3 Retain Deemed Equity at 40%

AEY proposes to retain deemed equity at 40% for regulatory efficiency, rather than adjust deemed equity to reflect business risk differences, because this is generally what the Board has accepted in the past.[7] Yukon Energy supports this approach for the current AEY and YEC GRAs.

3.0 NEW IPP DEFERRAL ACCOUNT

3.1 APPLICATION

AEY has applied for a new deferral account for constraint payments and maintenance costs related to Independent Power Producers' (IPP) projects under the IPP program directed by the Yukon Government.[8]

During the hearing considerable attention was directed at the inclusion of AEY-owned BESS and microgrid controller (MGC) infrastructure required for IPPs on the isolated thermal grids, and the inclusion of maintenance costs for these facilities under the new IPP deferral account.[9]

3.2 YEC COMMENTS

The current AEY and YEC GRA proceedings address for the first time in a substantive way the requirements related to IPP projects under the IPP program directed by the Yukon Government, and related directions in OIC 2019/25 regarding utility recovery through rates of costs incurred related to IPPs.

Both AEY and YEC require an IPP deferral account to recover variances from forecast IPP-related costs that occur due to factors beyond each utility's control. Circumstances regarding IPPs can differ materially as between isolated thermal communities served by AEY and the Yukon hydro grid supplied by YEC; however, basic IPP deferral account requirements remain in each of these situations to address IPP constraint

[5] Trogonoski, Day 4 Transcript, page 34 (confirms this BCUC determination, but also noted BCUC's increase in FBC's deemed equity ratio from 40% to 41%).
[6] Day 4 Transcript, pp. 6 to 12.
[7] Trogonoski, Day 3 Transcript, p.187, lines 10-13.
[8] AEY's Opening Statement (Exhibit B-12), paragraph 5(2) and Section 3.4 of the Application.
[9] Mr. Fortin asked questions on this matter, and said he would like to hear from interveners on this, on Day 1 Transcript, pp. 55 to 62; YUB counsel asked questions on this on Day 3 Transcript, pp. 36 to 45; written questions from the Board during the proceeding related to IPPs were also responded to in Undertaking #1 filed December 4, 2023.

payment requirements (which cannot be forecast) and other IPP-related costs that vary from GRA forecasts due to factors beyond utility control.

Section 2(2)(c) of OIC 2019/25 provides for AEY cost recovery through rates for maintenance costs of AEY-owned BESS and MGC infrastructure developed for (and initially funded by) IPP projects. AEY states that it needs to own the BESS and MGC for these isolated thermal community IPPs when this infrastructure is "grid forming" equipment enabling diesel off operation. In particular, the BESS, during diesel off scenarios, is responsible for management of system voltage and frequency (which is a utility responsibility), and the MGC is responsible for system coordination between AEY's power plant and the IPPs renewable generation site (see Undertaking #1, item "g").[10] Diesel off operation also increases economic and emission reduction benefits derived from IPP generation (since the utility is required to pay for all IPP generation that can be delivered, and diesel off capability increases the diesel reduction secured from this IPP generation), and it also provides social benefits in the community through reduction in diesel plant operation and noise.

The expectation for IPP deferral accounts is that accounting will be trued-up in the next GRA, with all costs still subject to review by the Board as to reasonableness.

4.0 PRIMARY WHOLESALE PURCHASES FORECAST FOR TEST YEARS

4.1 APPLICATION

AEY's Application forecasts firm power primary wholesale purchases from YEC, excluding power purchase related to secondary sales, at 349.7 GWh for 2023 (increase of 1.0% over 2022) and 362.6 GWh for 2024 (increase of 3.7% over 2023). The forecast for these purchases includes other forecast AEY hydro grid energy supplies as follows:[11]

- Fish Lake hydro generation at 9.5 GWh for 2023 and 10.1 GWh for 2024;
- Hydro grid standby diesel generation of 0.1 GWh for 2023 and 0.2 GWh for 2024; and
- Microgeneration supplies put back into the system of 3.2 GWh for 2023 and 3.7 GWh for 2024.

4.2 YEC COMMENTS

Yukon Energy and AEY have each prepared, after exchange of information, separate GRA forecast assessments for AEY firm power primary wholesale purchases from YEC for the GRA test years of 2023 and 2024. As outlined in the table below, the AEY firm wholesales forecast for 2023 is 1.6 GWh or 0.5% lower than YEC's forecast of 351.3 GWh, while the AEY forecast for 2024 is 6.7 GWh or 1.8% higher than YEC's forecast of 355.9 GWh.

[10] AEY Undertaking @1, item "g".
[11] AEY Application, Schedule 3.2. It is not clear that all of the microgeneration is only on the hydro grid.

	Firm Wholesales, GWh	Annual Change
2018	332.3	
2019	331.5	-0.2%
2020	347.3	4.8%
2021	349.0	0.5%
2022	346.3	-0.8%
Average annual		1.0%

	YEC Forecast		AEY Forecast filed	
	GWh	Annual Change	GWh	Annual Change
2023 F	351.3	*1.4%*	349.7	*1.0%*
2024 F	355.9	*1.3%*	362.6	*3.7%*

The following are noted regarding the above differences in the primary wholesales forecasts for the test years:

- YEC's forecast annual increase in wholesales of 1.3-1.4% is in line with the historical averages [the average annual increase for the last five years is about 1.0%].

- The 2023 year-to-date actuals closely align with YEC's 2023 forecast [with preliminary actuals to October, the updated full-year forecast for 2023 is expected to be about 351.2 GWh versus the YEC GRA forecast of 351.3 GWh and the AEY GRA forecast of 349.7 GWh].

- The 2024 forecast for YEC shows sustained growth at 1.3% (versus 1.4% the previous year). In contrast, the AEY 2024 forecast shows a major growth increase at 3.7%, and YEC has not been able to confirm as reasonable the resulting 6.7 GWh forecast difference. The following additional evidence is noted to assist review of the 2024 primary wholesale forecasts:
    - Recent Yukon population growth forecasts[12] with growth rates of 2.1-2.2% for 2023 and 2024 are lower than the 2.5%/year residential customer growth assumed in AEY GRA forecasts [AEY assumed 5% residential customer growth over 2023/24 years].
    - The increase in microgeneration will reduce the wholesale purchases from YEC. For example, AEY's 2023/24 GRA, Schedule 3.2 shows the increase in microgeneration deliveries to the grid by about 1 GWh in 2024 compared to 2022 actuals.

[12] See response to AEY-UCG-018(a) which provides Yukon Economic Development Fiscal and Economic Outlook March 2023 and Yukon Bureau of Statistics Population Projections, Updated February 2023.

- Variances in Fish Lake hydro forecasts between the AEY and YEC GRAs also contribute to differences in forecast primary wholesale purchases:
    - AEY's Fish Lake hydro forecast as reviewed above is 9.5 GWh for 2023 and 10.1 GWh for 2024. AEY notes that these are "based on the recent 2021-2022 output, planned maintenance, water availability and is adjusted for any planned decreases in generation due to capital rebuilds"[13].
    - YEC used Fish Lake hydro generation at 8.7 GWh for each test year, equal to the long-term average (LTA) generation as previously approved by the Board. The result is the following variances in Fish Lake hydro generation:
        - For 2023, AEY's forecast of 9.5 GWh is 0.8 GWh higher than the LTA of 8.7 GWh.
        - For 2024, AEY's forecast of 10.1 GWh is 1.4 GWh higher than the LTA of 8.7 GWh.
    - OIC 2021/16 requires use of long-term average renewable resource energy for generation forecasting used to set rates. It is therefore relevant to confirm the current long-term average energy generation forecast for Fish Lake hydro generation.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

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[13] AEY Application, Section 3.2, page 3-2.