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

REPLY ARGUMENT

YUKON ENERGY CORPORATION

December 16, 2013

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1.0 INTRODUCTION

Yukon Energy Corporation ("Yukon Energy" or "YEC") submits the following arguments in Reply to the arguments filed by the Applicant, Yukon Electrical Company Limited ("YECL"), and the intervenors, the City of Whitehorse ("CW"), the Utilities Consumers' Group ("UCG"), Leading Edge ("LE") and the Yukon Conservation Society ("YCS") (together the "Intervenors") in respect of YECL's 2013-2015 General Rate Application (the "Application").

Yukon Energy's Reply is focused on those matters it addressed in its Argument. However, Yukon Energy's silence on any issues not raised in this Reply Argument should not be taken as agreement, and unless expressly stated, the positions advanced by Yukon Energy in its Argument remain its views on the matters before the Board.

It is noted that many of the issues raised in argument by intervenors with regard to the Demand Side Management ("DSM") Plan are being responded to by YECL in its reply argument. Any specific issues related to Yukon Energy's DSM costs are not appropriately addressed as part of this proceeding and will be addressed at a future date when Yukon Energy brings these costs forward for YUB review.

2.0 GRID LOAD FORECASTS

2.1 RESIDENTIAL & COMMERCIAL SALES FORECASTS

YECL argues that the Yukon Utilities Board (the "YUB" or the "Board") should accept the revised 2013 residential and commercial sales forecast in its Updated Sales Forecast filed at the end of October 2013 that is 7.74 GW.h lower than the forecast in the Application. YECL's only support for this major revision is reference to YECL's weather normalized first 9 months actual sales for this test year and adoption of adjusted forecast methods (e.g., 3-year average UPC) that it's Application specifically rejected to avoid understating anticipated sales.

Intervenor arguments on this matter were limited and will not be commented on by YEC.

In reply, Yukon Energy notes that YECL's argument does not address the concerns set out in YEC's argument that sales reductions of this type to reflect 9 month actuals in a test year that was warmer than normal do not reflect normal regulatory review practice, and raise serious concerns that the revised forecast is simply too low for 2013, leading to similar concerns for the remaining test year forecasts being too low as well. As the Update was filed October 31, 2013 (just before the November 4-7 hearing), there was no ability to substantively review or test this forecast change through interrogatories. Under the circumstances, if any revision is to be accepted by the Board to the Application on the 2013 residential and commercial sales forecast, Yukon Energy recommends that the Board limit such revision to not more than 50% of the reduction that YECL has proposed in its Updated Sales Forecast.

2.2 WHITEHORSE COPPER TAILINGS ("WHCT") SALES FORECAST

YECL's argument notes a revised forecast for WHCT with zero sales now forecast in 2013 – however, YECL's Updated Sales Forecast and revenue requirement forecast for 2013 did not adjust the

Application's earlier forecasts for WHCT on the grounds that YECL is requesting a deferral account relating to WHCT sales uncertainty.

UCG argues[1] that YECL's referenced precedent for any such deferral account, namely the deferral account approved for Rate Schedule 34 for the shut down Faro mine maintenance requirements, was very different from what YECL is proposing for WHCT and should be disallowed.

In reply, Yukon Energy notes that YECL has provided no basis for forecasting any sales for WHCT in its revenue requirement for 2013, and has also confirmed a very high degree of uncertainty for any WHCT sales in subsequent test years such that YECL seeks to protect fully its net revenues from potential sales but defers all sales risks to ratepayers. Under these circumstances, Yukon Energy sees no basis for including any forecast sales to WHCT in the test years or for guaranteeing any net revenue benefit to YECL in the test years for any WHCT sales, and recommends that all WHCT forecast sales should be removed for each test year. Based on YECL's submissions, and to address in a fair and reasonable manner the possibility of WHCT sales during the test years, it is recommended that a deferral account be established similar to what was approved in the past for YEC with regard to Rate Schedule 34 (which is very different from what has been proposed by YECL in the current proceeding), i.e., in the event that any WHCT sales arise, the recommended new deferral account would provide that all revenues from serving this customer (less reasonable incremental costs associated with supplying the mine site under Rate Schedule 39) would be deferred for the future benefit of all ratepayers and disposed of by the Board at the next YECL GRA.

3.0 FISH LAKE LONG TERM AVERAGE HYDRO GENERATION

LE recommends in argument that a new long term average generation level of 9.21 GWh per year should be set for Fish Lake[2]. LE bases this recommendation on its assessment that the 50 year average at Fish Lake is 8.48 GWh per year (YUB-YECL-37(d)), and on LE's estimate that 5.6 GWh per year will be increased by approximately 13% (0.73 GWh) based on (YEC-YECL-17(c)).

In reply, Yukon Energy notes that there has been a steady decline in average Fish Lake generation over the past 50 years and no explanation or assessment provided 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. Yukon Energy is concerned that 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 (and not more than 8.73 as recommended by LE). Under the circumstances, and for the purpose of the current Application, Yukon Energy agrees with Yukon Electrical's proposal to remain with the Board-approved Fish Lake output of 8.73 GW.h per year for the 2014 and 2015 test years.

YEC also notes that contrary to LE's argument, expected Unit 1 generation based on YECL's evidence is 5.6 GWh/yr, not 5.6+0.73 GW.h/yr. [YEC-YECL-17(c) and(d) references Business Case #2, Table 4.]

[1] UCG Argument page 17-18.
[2] LE Argument page 7.

4.0 DEPRECIATION EXPENSE AND REINSTATEMENT OF NEGATIVE NET SALVAGE

YECL's argument notes (para 50) that "the significant increase in forecast depreciation expense over the Test Years arises primarily due to the request for the reinstatement of Yukon Electrical's historical practice of including a provision for future removal and site restoration in its depreciation rates." YECL's argument reviews (para 52) the direction in Board Order 2009-02 to remove negative net salvage from depreciation rates of YECL in order to provide consistency in approach between YECL and YEC (given the similar prior direction regarding YEC in Board Order 2005-12), and argues that the Board should now change its prior direction on this matter in recognition of the following "significant changes" that YECL argues have occurred since Board Order 2009-02:

- First, YECL argues that Board Order 2010-13 highlighted a priority to send "the right price signals", and that it is "counterintuitive" to be investing in DSM while at the same time "not sending the right price signal by not fully charging current customers for the cost to provide electric service; namely the cost associated with net salvage" (para 55).
- Second, as an outcome of Board Order 2009-02, YECL "is falling considerably behind in its required recovery of the funds for future removal of assets" (based on the assumption that, contrary to Board Order 2009-02, YECL should have been collecting over $12 million of net salvage over the past three years), and that this "deficiency will continue to grow at an increasingly rapid pace in future years" if Board Order 2009-02 is not changed (paras 56, 57).
- Third, with reference to BCUC Order G-44-12 regarding the 2012-2013 GRA of FortisBC Energy, "the BCUC, whose practice the YUB was initially following, has recently recognized the impropriety of burdening future ratepayers with the costs of retiring assets used by today's ratepayers" (para 58).
- Further, YECL argues that regulators in BC, 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" and "[a]s such, Yukon Electrical submits that there is nothing preventing this Board from approving different approaches to this significant issue for Yukon Electrical and YEC" (para 59).
- Finally, YECL argues that "Yukon Electrical does not stand to gain from the reinstatement of net salvage and is motivated rather by sending the appropriate price signals to ratepayers and avoiding intergenerational inequities" (para 60).

LE indicates some level of confusion regarding where the additional collected funds would be held and recommends that Board staff carefully review this matter to ensure that fairness to present and future ratepayers prevails and that there is not an inherent unfairness to present ratepayers[3].

UCG asserts that this is a significant increase in forecast depreciation expense (para 168) and "the proposed net negative salvage recovery should cause the Board to scrutinize Gannett Fleming's depreciation study carefully and to approach the increased depreciation rates recommended in the study

[3] LE Argument page 4.

with considerable caution," (para 167) and concludes that "this is a significant impact that should not be added to the burden of Yukon ratepayers" (para 169).

In reply, Yukon Energy submits that Yukon Electrical's argument on this matter is internally inconsistent and without merit: YECL argues that it has no direct interest or gain from reinstatement of net salvage and is motivated only to send the appropriate price signals to ratepayers - and it concurrently argues (contrary to Board Order 2009-02) that the Board should now treat ratepayers differently when dealing with the Crown utility (YEC) versus the investor-owned utility (YECL).

As clearly set out in YECL's submissions, net salvage was removed from depreciation at the direction of the Board in Board Order 2005-12 (for YEC) and Board Order 2009-02 (for YECL) - and the Board has clearly stated its direction to treat ratepayers consistently when dealing with each utility on this matter. To the extent that YECL's argument rests solely on sending "appropriate price signals to ratepayers", it is indeed essential that the Board continue to treat ratepayers consistently when dealing with YECL and YEC on this matter. In YEC's view, based on YECL's argument, it is an error and also misleading for YECL to suggest that the Board can now reinstate net salvage for YECL and then avoid consistent treatment for YEC.

YECL's argument and the evidence highlight the significant rate increase impact that will now occur if the Board reverses its earlier direction on this matter for YECL - as reviewed in YECL's response to UCG-YECL-23(e), reinstating net salvage as requested by YECL would add $2.717 million to the 2013 YECL revenue requirements (reflects 74% of the rate increase proposed for 2013), growing to $2.844 million increase by 2015 (reflects 38% of the cumulative rate increase then proposed). Additional future rate increase impacts will inevitably arise if the Board was subsequently to adopt a consistent approach to reinstate net salvage for YEC.

Yukon Energy in reply also notes the following:

- Assertions that provisions for net salvage is required at this time to send correct price signals now that diesel is on the margin and the utilities are investing in DSM and conservation measures are without merit, confuse revenue requirement and rate design principles and should be ignored.
- Alarmist assertions that YECL is "falling considerably behind in its required recovery of the funds of future removal of assets" and that the FRSR deficiency has grown "significantly" to over $12 million and will "continue to grow at rapid pace in future years if the pause in collection of net salvage is not ended" are simply assertions that Board Order 2009-02 was wrong and should be ignored. YECL's argument ignores the fact that the Board in Board Order 2009-02 was aware of all such issues and set out a clear threshold for the utilities to inform the Board and stakeholders when the fund for each utility was drawn down to $2 million. Information provided in this Application indicates that the fund balance was at $4.395 million in 2012 and has only been drawn down by $0.293 million over the past three years, i.e., YECL's fund today remains well above the threshold set by Board Order 2009-02 and is likely to remain so for several more years.

5.0 RETURN ON EQUITY & CAPITAL STRUCTURE

YECL argues that a total ROE of 9.21% is appropriate for 2013, based on the BCUC GCOC benchmark of 8.75% plus the previously approved "risk premium" for YECL of 0.46%. YECL also argues that an increase in its equity ratio from 40% to 44% is required "to reflect the changing world around it" including recent decisions of BCUC and Northwest Territories Public Utilities Board (para 63). Finally, YECL seeks approval for a new deferral account to allow YECL to flow through any change to the 8.75% ROE that may arise in 2014 or 2015 as a result of the BCUC Automatic Adjustment Mechanism ("AAM"), and argues 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" (para 74).

LE argues that the Board approve the requested ROE of 9.21% (8.75% benchmark plus 0.46% risk premium) for the years 2013 to 2015, and an equity ratio of 40% be approved for YECL for the test years (as opposed to the YECL-requested equity ratio of 44%). LE is not persuaded that YECL faces any higher risk related to its generation assets, and notes that YECL's request for a number of new deferral accounts that will shield YECL from various risks and effectively pass these risks on to the ratepayers. LE recommends the AAM be approved[4].

UCG argues that an ROE of 8.75% be approved for YECL (and recommends that a risk premium not be approved for YECL given the fact that YECL has consistently over-earned each year since its last GRA), and a capital structure of 38.5% be approved for YECL. (para 224) UCG recommends the AAM requested for 2014 and 2015 be denied (para 35).

In reply, Yukon Energy submits that YECL's requested ROE of 9.21% based on the current BCUC benchmark, plus 0.46% risk premium is appropriate and reflects past Yukon practice, but the proposal also to increase YECL's equity ratio above 40% as approved in the past by the Board is not appropriate (given that the risk premium addresses fully the risk differential from a low risk utility) and does not reflect clear determinations made by the Board in Order 2009-2. In addition, Yukon Energy sees no basis for adopting today the deferral account for AAM as it does not reflect any past Yukon experience and, as reviewed in YEC's argument, in this specific instance effectively shifts risk to ratepayers without any commensurate opportunities for ratepayers to benefit.

With regard to specific assertions made by YECL in its argument, Yukon Energy replies as follows:

- YECL asserts that it has "taken the current BCUC benchmarks and employed the same approach the YUB itself employed in Decision 2009-02 to adjust those BCUC benchmarks to bring them in line with Yukon experience"; however, there is no prior Yukon precedent for looking to BCUC as a benchmark to determine capital structure. BCUC (and AUC) decisions have <u>only</u> been relied upon in the past to determine benchmarks for ROE.
- YECL's assertions that its business and financial risks remain consistent with those assessed by the Board in Order 2009-02 or have increased modestly should also be ignored.

[4] LE Argument, page 5.

- Order 2009-2 clearly established[5] (and YECL has acknowledged in argument) that "its business risks are somewhat lesser than those of the YEC" (page 27). As such, it makes no sense for YECL to have an approved equity ratio that is 4% higher than YEC's.
- Historically, YECL's approved equity ratio has remained in line with YEC's (or below YEC's)[6].
- YECL has achieved and exceeded its ROE each year since 2009 (see LE-YECL-11(b) Attachment 1), indicating that its capital structure has not prevented it from earning at least a fair return since the past GRA.
- While YECL argues that its percentage of generation assets has increased relative to distribution or other assets, it remains a predominantly distribution-focused utility. As noted by LE in argument, the increase in percentage generation assets are due primarily to the value of the rebuilt Fish Lake Unit #1, and the replacement of various diesels in existing diesel plants, not due to additions of additional generation assets beyond those previously in service, and the percentage of power purchased from YEC is increasing as new customers connect to the integrated Yukon Grid.

- YECL acknowledges that the Board was not "overly receptive" to the evidence presented by Ms McShane in 2008-2009 GRA, but asserts that "much of Ms McShane's evidence appears to have foretold the developments that have since transpired in BC and the NWT" (para 69). It is unclear from YECL's argument what changes in Ms McShane's largely discounted evidence from the 2008-2009 GRA have been borne out in these other jurisdictions or how this is relevant to Yukon.
- Order 2009-2 was issued by the YUB after a detailed review of evidence on this issue during the 2008-2009 GRA. This included cross-examination of Ms McShane regarding her evidence by Board counsel and intervenors at the oral hearing. The Board in that proceeding after reviewing the evidence and testimony was clear to set out its views regarding the evidence provided by Ms McShane, and the specific circumstances regarding the application of the stand-alone principle to YECL noting as follows:

> "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[7]."

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[5] Order 2009-2, page 29.
[6] See UCG Argument para 187 notes the current capital structure for YECL (of 40% equity) "has prevailed following the past three determinations of the same by the board in its Order 1993-8, Order 1996-6 and Order 2009-2." Order 2009-2 notes at page 24 YEC's submission at that time that historically the equity ratio of YECL has been less than that of YEC, further at page 27 the Board notes it was "not convinced that the YECL situation or risk profile has changed since its last approved equity ratio for 1997 to warrant a substantial increase in the equity ratio."
[7] Order 2009-2, page 26.

- YECL argues that Ms McShane's evidence further supports the reasonableness of its requested increases since it is now only seeking a 44% equity ratio and a 46% risk premium (as opposed to a 47.5% equity ratio and 0.50% risk premium[8]) (para 72). Asking for less based on evidence that was clearly rejected by the Board in a prior proceeding does not make the basis or rationale for the request reasonable at this time.

6.0 COST OF DEBT

YECL has forecast debt rates in its Application of 4.35%, 5.05% and 5.80% for the years 2013, 2014, and 2015 respectively "based on the best information available to Yukon Electrical at the time the forecast was prepared" (para 75). YECL notes (para 76) that it has provided updated long term debt rates of 4.70%, 5.15% and 5.80% for 2013, 2014 and 2015 respectively, and indicates that while it actually issued debt in September 2013 at a rate of 4.761% as opposed to its forecast 4.35%, it is not seeking to revise its forecast. YECL also asserts that a long term debt rate deferral account (as proposed by UCG) is not necessary or appropriate as YECL 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 (para 76).

Intervenors have indicated concern that YECL's long term debt rates are higher than appear reasonable and should be reduced.

- **CW** asserts that since 2009 there is "a clear history of over forecasting of interest rates for new long term debt by ATCO electric", "YECL confirmed that it is unaware of the Bank of Canada signalling any changes to short term interest rates" and indicates that in 2013 its new long term debt was issued at 4.761%. As such, CW submits that the forecast "increases in cost of debt in 2014 and 2015 are unwarranted" and recommends the increases in forecast cost of new long term debt be 4.761% for 2014 and 2015 (page 15-16).
- **LE** notes YECL's forecasted long term debt rates seems to have a very high rate of increase under Canada's present stable but weak economic conditions, and if actual interest rates are lower the benefits accrue to the shareholder. LE requests Board staff with appropriate expertise carefully considers this matter in making their decision (page 5-6).
- **UCG** asserts that the same formulaic approach (120 basis points above long term Canada bonds) for forecasting future costs of debt for YEC should be used for YECL "so that ratepayers are not burdened with additional interest fees related to the financial paper shuffling amount YECL and its affiliates" (para 229). UCG argues that evidence submitted during the BCUC GCOC proceeding indicated that returns available to Canadian investors on long term Government of Canada default free bonds were in the 2.6-3% range and any debt costs associated with new debt should be based on the range of 3.8% and 4.2% and debt costs contained within the application

[8] YECL at para 72 notes it is seeking a risk premium of 0.46% as opposed to 50%. It is noted at page 29 of Order 2009-2 that in the 2008/2009 GRA YECL in reply argument sought a risk premium of 52 basis points (the same as YEC) and not 50 basis points. The Board determined it reasonable to place the risk premium for YECL at the midpoint of the risk premiums between YEC and Fortis BC – i.e., 46 basis points.

lowered accordingly (para 230). UCG also argues that a comparison of forecast and actual costs of the debt issues for YECL between 2007 and 2012 shows a high degree of variance mostly in YECL's favour, (paras 231) that this meets the test for a deferral account and that a deferral account should be established accordingly to track differences between forecast and issued debt interest rates (paras 233-234).

In reply, Yukon Energy does not see a sound basis today for a forecast of rising long term debt rates as set out in the Application or YECL's updated forecasts for 2014 or 2015 above about 5.0%. Although YEC does not support YECL's advocacy of multiple new deferral accounts, if the Board is to approve this shift towards additional deferral accounts then UCG's proposal for similar treatment of debt rates would merit consideration.

7.0 EXISTING DEFERRAL ACCOUNTS

YECL in its argument notes as follows regarding existing deferral accounts:

- **With regard to the DCF**, given the Board's letter dated October 22, 2013, it did not address the matter of its application for a DCF deferral account further "except to say that while consideration of this matter has been deferred, Yukon Electrical expects that when the matter is ultimately determined any deferral approved will cover the entirety of its 2013-15 Test period" (para 22).
- **With regard to the Purchase Power Flow Through**, it "continues to meet the criteria for a deferral account and should be approved by the Board", "any increases or decreases to these rates [namely, YEC's "rates that are currently in place for primary and secondary sales"] for 2013 and thereafter will be flowed through to Yukon Electrical's customers", and "this deferral is necessary and appropriate irrespective of the ultimate outcome of the DCF process" (para 24).
- **With regard to the Fuel Price Flow Through,** "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" (para 30).

LE indicates in argument that the approach to the Fuel Price Flow Through appears to be reasonable, and recommends "that the Board approves YECL's proposal to use the equivalent diesel liters IF the Board approves the bi-fuel project at Watson Lake" (page 3).

UCG was the only intervenor to raise a concern regarding the Fuel Price Flow Through deferral account indicating that the Board cannot approve the deferral account and the proposed methodology for calculating 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 OIC 1995/90 changed to account for LNG (para 131).

Yukon Energy did not provide any comment in Argument on the Diesel Contingency Fund and the Purchase Power Flow Through as these accounts relate to the DCF and ERA and are considered out scope of the current proceeding[9].

In reply to assertions by YECL that the Purchase Power Flow Through should be approved now "irrespective of the ultimate outcome of the DCF process", Yukon Energy re-iterates its view that these accounts are closely related to issues to be considered as part of the DCF and ERA proceeding and no final decision regarding either of these accounts should be made at this time. Yukon Energy further notes its understanding that the current Purchase Power Flow Through deferral account as approved for the first time by Board Order 2009-02 relates only to any ERA charge that may be applicable to YECL, and that no existing deferral account is in place to deal with any other changes to YEC's rates that are currently in place for primary and secondary sales.

With regard to the existing Fuel Price Flow Through, Yukon Energy agrees in principle that the existing fuel price flow through deferral account should be adjusted to accommodate the use of LNG; however, it is recommended that the Board require YECL to demonstrate, with examples, how this 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, before the Board approves this application.

8.0 NEW DEFERRAL ACCOUNTS

Comments regarding the WHCT deferral account and the ROE and Automatic Adjustment Mechanism deferral account have previously been addressed in this Reply Argument and further comment will not be provided here.

YECL asserts in argument on the remaining new deferral accounts:

- The **Defined Benefits pension plan deferral account** is required as "defined benefit funding requirements are not under the control of Yukon Electrical and are not reasonably forecastable", and "an error in forecasting could produce a loss or gain of a substantial magnitude" (para 41). Yukon Electrical is also requesting that both the current service portion and special payment portion be included in the deferral as both fluctuate due to actuarial valuations outside of Yukon Electrical's control and variances have been substantial for both components. In support of this approach YECL notes that similar deferral accounts have been approved by Northlands Utilities (Yellowknife) and Northlands Utilities (NWT), and recent comments provided by the AUC regarding the ATCO Electric Ltd Transmission 2013-2014 GRA[10].
- The **Depreciation Parameters deferral account** "is reasonable and would promote regulatory efficiency as it will assist in the harmonization of IRFS and regulatory accounting thereby

[9] 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."

[10] YECL notes that the AUC held 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 (page 16 cites AUC Decision 2013-358, para 99).

avoiding the administrative burden of keeping two sets of financial records in respect of depreciation" (para 61). YECL notes it would only update its depreciation parameters if an impact on depreciation expense was large enough to require adjustment for financial statement purpose (i.e., greater than $100,000 change) (para 62).

- The **Board Orders, Legislative Changes account** should be approved for flow-through of any costs related to Board Orders or legislative provisions resulting in change 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 2013-15 revenues or revenue requirement. (Addressed in Conclusions and Approvals Sought, [para 131 (b), (viii)]).

CW restricts its comments to the proposed new deferral accounting regarding **Board Orders, Legislative changes**; specifically, CW recommends disallowance of this account, noting that during cross-examination YECL confirmed that no costs have arisen in 2013 as of the date of the hearing which would fall into the category of costs which would be recovered in this deferral account, and YECL has not provided satisfactory evidence or reasons in support of this very broad deferral account.

UCG asserts with regard to the **Depreciation Parameters Deferral Account** that YECL could not identify any of its "comparable utilities" that have had a deferral account for depreciation parameters approved by a regulator, "in practice, useful lives are not adjusted frequently as there would generally need to be new information that would trigger such a change", and "unless new information is presented, there shouldn't be a need to adjust asset lives and depreciation rates." UCG also recommends that the **Board Orders/ Legislative Changes** deferral account be denied.

LE in discussing YECL's overall risk noted that "the effect of the many deferral accounts in effect is to shield YECL from all sorts of risks (these risks effectively pass on to the ratepayers). Where there is only risk of additional benefits deferral accounts are not used" (page 5).

In reply, Yukon Energy addressed each of YECL's proposed new deferral accounts in its Argument and nothing raised by YECL or other intervenors in Argument has changed YEC's views. Yukon Energy in argument indicated its material concerns with the nature and number of new deferral accounts proposed by YECL in its 2013-15 GRA. At a high level Yukon Energy is very concerned that the proposed deferral accounts are forcing utility regulation down a path that essentially re-juggles the traditional and long held apportionment of risk between the utilities and ratepayers and in essence forces ratepayers to take on more and more risk (with limited opportunities to benefit from undertaking the risk) while shielding the utilities from many risks that traditionally are borne by them.

With regard to all of the requested new 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. 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.

9.0 AUTOMATED METER READING (AMR)

YECL in argument requests the AMR project be approved as there are "numerous benefits associated with this project including improved customer service, improved safety performance for employees and customers, reduced vehicle emissions, as well as long term cost savings as compared to conventional meter reading." YECL argues that customers will benefit from the implementation of AMR with cost savings in 9 years and cumulative savings of $2.2 million over 25 years.

CW, YCS and **UCG** all recommend that the AMR (Business Case #27) not be approved, citing concerns regarding the business case being inadequate[11] and that the meters will not complement demand side and load management programs[12].

CW argues that it is "conceptually supportive" of efforts to improve efficiency (such as AMR) but asserts that "such initiatives must be based on complete and comprehensive business cases" and "there are issues with the business case" for AMR as presented by YECL. (para 44) CW also notes that until conclusive evidence is provided regarding the costs of implementing TOU billing, proceeding with AMR at this time may result in additional risk of sunk costs being charged to customers. CW recommends the project be denied until a comprehensive business case is provided that includes:

- A reasonable replacement assumption[13];
- A more robust assessment, including detailed costs of implementing TOU billing[14]; and
- The CW also requests the Board direct YECL to provide a business case providing an analysis of time of use rates in the Yukon as part of its next Phase II Application (para 45).

LE is the only intervenor that supported implementation of AMR, asserting that "YECL has been able to demonstrate an economic benefit to the use of these meters" and LE's consideration of "positive features" including that the meters will be capable of measuring hourly load data and that the proposed meters are being used by YECL's sister and parent companies in NWT and Alberta and are a standard product for them[15].

In reply, YEC is concerned that despite Board direction to consult and gain consensus with stakeholders (including City of Whitehorse and Yukon Energy) on this matter, a number of intervenors (including the City of Whitehorse) have raised issues regarding the business case for the AMR project. It is not clear

[11] UCG Argument, pages 44-45.
[12] YCS Argument, pages 2 and 5-6.
[13] CW notes (para 38) that over the ten years from years 10 to 20, the depreciation rate assumes that approximately 70% of the AMR are replaced; for the AMR option annual installation of AMR meters in years 2 to 26 are new additions only and does not include replacement metres, while the conventional option "includes more than just growth". CW notes the business case must include a reasonable assumption of the replacement of meters under the two alternatives and "an appropriate assumption about the replacement of assets under the two alternatives."
[14] CW notes (para 42) that "the proposed implementation does not allow for time of use billing" and while YECL indicates the "cost of implementing time of use billing would be prohibitive" it does not provide information adequate to assess the potential impact of time of use metering on the proposed AMR program.
[15] LE Argument, page 12.

that the Board's concerns as set out in Order 2009-02 have been adequately addressed, including the following concerns previously noted with regard to the AMR project:

- In the YECL 2008/2009 GRA, Yukon Energy recommended AMR not be allowed in rate base given the significant increase in controllable costs present in YECL's application. At that time it was noted that this expenditure was not essential for the utility to operate prudently and continue to provide safe and reliable service in the test years.
- In Order 2009-2, regarding the 2008/2008 GRA, the Board disallowed this expenditure, noting concerns with the business case (related to the escalation rate built in compared to the inflation rate increased in the test years[16]) and concerns that the benefits in the business case "appeared overstated". The Board noted at that time "that the cross-over of the benefits is nine years away puts the economic benefits of the business case at risk".
- The Board encouraged YECL to work with intervenors, including YEC, to review and assess the costs and potential benefits of the AMR project and upon completion of the review to submit a new business case that outlines the benefits of such a project over time, how it addresses the concerns raised by intervenor and describe potential economies of partnering with YEC and the City of Whitehorse in implementation of the Project.

10.0 CONCLUSION & RECOMMENDATIONS

As outlined at the outset, the positions outlined in YEC's Argument and in this Reply remain its views on the matters before the Board.

For ease of reference Yukon Energy has recommended the following in Argument:

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 existing 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.

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[16] Board Order 2009-2, page 41 notes the business case for AMR provided by YECL had an escalation rate of 3% and YECL asked for a 5% inflation rate over the test years.

5. With regard to the proposed new 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, all revenues from serving this load (less reasonable incremental costs associated with supplying the mine site under Rate Schedule 39) would be deferred for the future benefit of ratepayers 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; and
    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 and does not agree with the recommendation by LE to increase the Long Term Average generation at Fish Lake to 9.21 GWh.
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.

Yukon Energy also notes the following concerns and additional comments related to specific issues raised by other intervenors in argument:

1. With regard to **Cost of Debt** Yukon Energy does not see a sound basis today for a forecast of rising long term debt rates as set out in the Application or YECL's updated forecasts for 2014 or 2015 above about 5.0%. Although YEC does not support YECL's advocacy of multiple new deferral accounts, if the Board is to approve this shift towards additional deferral accounts then UCG's proposal for similar treatment of debt rates would merit consideration.
2. With regard to **Automated Meter Reading**, YEC is concerned that despite Board direction to consult and gain consensus with stakeholders on this matter, a number of intervenors have

raised issues regarding the business case for the AMRM project. It is not clear that the Board's concerns as set out in Order 2009-02 have been adequately addressed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

P. John Landry
Counsel for Yukon Energy Corporation

December 16, 2013