YUKON ENERGY

YUKON ENERGY CORPORATION
P.O. Box 5920
WHITEHORSE
YUKON Y1A 6S7
(867) 393-5300

June 30, 2014

Mr. Bruce McLennan, Chair
Yukon Utilities Board
Box 31728
Whitehorse, Yukon Y1A 6L3

Dear Mr. McLennan:

Re: Application to Revise the Diesel Contingency Fund ("DCF") & Related Amendments to the Energy Reconciliation Adjustment ("ERA") – Supplementary Filing

Pursuant to Board Order 2014-8 Yukon Energy's supplementary evidence regarding matters raised in the Yukon Electrical submission of January 31, 2014 is provided in detail in the following two attachments:

- Attachment 1: Yukon Energy Review of the Yukon Electrical January 2014 Proposals to Change the DCF and/or ERA
- Attachment 2: Yukon Energy Review of Yukon Electrical January 2014 Assertions Regarding Yukon Energy's DCF/EFA Proposal

Major concerns addressed in Attachment 1 are summarized below regarding Yukon Electrical proposal to replace the DCF with a normal deferral account.

Continuance of a Rate Stabilization Mechanism in Yukon to address water variability

Elimination of the DCF, and re-allocation of risk between utilities and ratepayers, lies at the heart of the Yukon Electrical submission.

In contrast, the context provided by Order 2013-1 and 2013-3 is clearly focused on making revisions to the DCF prior to its activation. The Board directives do not indicate that alternatives to the DCF should be considered (or that the relationship and allocation between utilities and customers should be reconsidered or changed).

Of concern to Yukon Energy is that YECL's proposed general purpose diesel deferral account, as described, is not focused on providing rate stabilization for ratepayers to address material changes in water availability on the grid and would leave ratepayers without any mechanism to smooth out water-related rate impacts that will occur on Yukon's isolated grid system.

Specifically, the following are noted:

1. YECL's submission in effect does not propose any changes to either the existing DCF (as last approved in Order 1996/97) or the revised DCF as proposed by YEC in its 2012/13 General Rate Application, but proposes an entirely new and different mechanism that does not address the rate smoothing considerations addressed by the existing DCF.

2. While YECL indicates that it "is not opposed to a fund related to water level variances for Yukon Electrical and YEC", YECL's submission is focused on eliminating the DCF entirely. Its entire submission is focused on replacing the DCF with a seeming all-purpose diesel deferral account "to recover prudently-incurred diesel costs" incurred by utilities[1].

3. As described, the Yukon Electrical proposal for a diesel deferral account does not meet the requirements for a deferral account to deal with water variability concerns, but would address other load forecast-related costs that today are typically risks that lie with utilities in each rate zone and not with all Yukon ratepayers; specifically:

    a. YECL's overall description of the account is to deal with "diesel" variances from forecast; specifically, YECL notes that the mechanism to address diesel volume variance must adhere to certain principles that include a requirement that it be "based on actual data and [relate] to **all** fuel volume variances on the interconnected system[2]." **Emphasis added.**

    b. YECL also notes that the mechanism must be "dispersed in a timely manner, so as to not mask market signals in times of a drought or flood and to avoid intergenerational equity[3]."

    Taken together the above principles would negate any useful role that a deferral account would have in addressing concerns regarding rate stability relative to water variability on the integrated grid. Specifically:

[1] YECL January 2014 Filing, cover letter, page 5.
[2] YECL January 2014 Filing, Appendix A, page 8.
[3] YECL January 2014 Filling, Appendix A, page 8.

a. 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. The only diesel related costs that are to be addressed by the DCF are costs related to changes in diesel requirements due to more (or less) water than forecast.

b. In proposing a "normal deferral account approach" for all diesel generation costs, YECL's proposed approach would remove any purpose in having YEC diesel forecasts based on long term average hydro generation - and instead would presume use of short-term "actual diesel" forecast in each test year for the integrated system. This raises the following concerns:

    i. Yukon Energy's 2012/2013 approved test year forecasts are based on diesel generation at forecast long term average hydro (per Board Order 2013-1);

    ii. Use of short-term "actual diesel" generation forecast in each test year will not provide for rate stability given the certainty of material swings in water and hydro generation availability (i.e., the point of the DCF is not to hold each utility whole with respect to small variances in their load forecast - it is to ensure some rate smoothing mechanism is available to deal with the large swings in water availability that in the past have led to material changes to revenue requirement[4]).

    iii. YECL proposes that the fund must be "dispersed in a timely manner" so that it does not "mask market signals in times of drought or flood[5]" and avoids intergenerational equity.

        a. The system that has been in place in Yukon to deal with water flow variation since the 1990's is intended to maximize rate stability and predictability and mute the harsh short-term economic efficiency criteria as these would relate to impacts from water variability. The very concept of including long-term average water and a DCF in the rate system is intended to increase the rate stability of the system and decrease the harshness of the short-term

[4] For example, the 1990/91 Application.
[5] YECL January 2014 Filing, Appendix A, page 8.

economic efficiency outcome. If economic efficiency criteria were favoured principles in relation to addressing water flow variation, a DCF (or similar mechanism) would not be adopted to stabilize rates.

b. The premise of the DCF/rate setting method is that, subject to implementation constraints (e.g., thresholds on the fund size), ratepayers would pay the same during drought periods (when massive quantities of diesel maybe required) as they do during floods (when very small quantities of diesel, if any, are required). The DCF was established specifically to prevent short-term price variability and instead to provide firm rate customers with appropriate longer-term price signals that "look through" the year-to-year variability of hydro generation due to water availability.

In summary, termination of the DCF as proposed by YECL would simply shift to ratepayers the full instability of rates related to annual variances in water flows, and such a change is neither reasonable nor consistent with past precedent, practice and Board directions.

In Yukon Energy's view, there is no basis today for abandoning the DCF as suggested by YECL, particularly given the Board's decision in Order 2013-1 which confirmed that loads today on the Yukon grid have reached a level (notwithstanding recent material hydro capability expansion at Mayo and at Aishihik) where significant diesel generation can be reasonably expected on a long term average basis - and that it is therefore appropriate today to include in rates diesel generation costs assuming hydro generation at 100% of long-term average (and not at short-term forecast levels that only reflects current water conditions).

Yours truly,

Ed Mollard, CGA
Chief Financial Officer