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

May 17, 2013

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

Dear Mr. McLennan:

Re: Yukon Energy Corporation 2012/2013 General Rate Application – YEC Response to Intervenor Comments on Compliance Filing

On May 2, 2013, Yukon Energy provided for approval of the Board a Compliance Filing in accordance with directions set out in the Reasons for Decision (Appendix A to Order 2013-1). The Board established a process for intervenors to provide comments on Yukon Energy's Compliance Filing on May 10, and for Yukon Energy to provide a response to intervenor comments on the Compliance Filing by May 17, 2013.

Yukon Electrical Company Limited (YECL) provided comments on May 10, 2013 and Utilities Consumer's Group (UCG) provided comments on May 11, 2013. Leading Edge, the City of Whitehorse and Yukon Conservation Society did not provide comments on the Compliance Filing.

Yukon Energy's response to each of intervenor comments is provided below.

YECL COMMENTS

The following two issues are raised by YECL in its comments:

1. **Revised DCF Proposal** - YECL's position is that the DCF and the ERA are highly integrated, and for this reason YECL requests that the Board reject YEC's revised DCF proposal or any related matters associated with the Energy Reconciliation Account in Rate Schedule 42 until such time as a joint proposal is filed by the Companies. Alternatively, should the Board choose to consider these matters as part of YEC's May 1 Compliance Filing, YECL requests that a formal process be established by the Board to allow for testing of YEC's revised DCF proposal. YECL quotes paragraph 255 of Board Order 2013-1, noting the direction that "...YEC is to work with YECL, and the two utilities will provide a joint recommendation on how the DCF will affect the Energy Reconciliation Account in Rate Schedule 42 and any proposed wording changes to that rate schedule." YECL also quotes paragraph 281 of Board Order 2013-1, noting the direction for YEC to "refile a Rate Schedule 42 in cooperation with YECL as directed in Section 3.6.2 of this decision".

Yukon Energy responds that the revised DCF included in the Compliance Filing carries out the directions at paragraph 255 of Board Order 2013-1 relating to three specific adjustments to the DCF as proposed in the Application which were reviewed at length during the proceeding. It also addresses the implications for the DCF arising from other Board directions.

On the matter of interrelationship between the DCF and the ERA, the DCF determines costs incurred by YEC for diesel generation - and therefore determines YEC's incremental diesel generation costs that flow through to YECL via the approved ERA when wholesales vary from GRA forecasts approved by the Board. Therefore clarity is needed on what DCF has been approved by the Board in order to address how the DCF will affect the ERA - but the ERA does not in any way affect the DCF.

On the matter of the ERA, YEC has met with YECL as directed by the Board. Please see Attachment A for review of the ERA discussion with YECL .

YEC re-iterates that approval of an updated DCF is integral to YEC being able to determine how its actual diesel generation costs are to be accounted for in 2012 (and going forward) now that the Board has directed that rates be set based on diesel generation at 100% of long-term average (LTA) hydro generation. It also needs clarity to ensure that YEC is held whole.

It is also important to emphasize that Yukon Energy will be unable to close its 2012 year-end financial statements until its auditors are able to understand the impact of the Board's directions on LTA and the DCF.

2. **Reimbursing YECL (paragraph 316 of Order) -** YECL notes that YEC states at page 5-5 of the Compliance Filing that the direction at paragraph 316 of Board Order 2013-1 will be implemented for future capital projects, and that no changes are reflected in the Compliance Filing. YECL requests further comment from the Board addressing YEC’s commitment towards reimbursing YECL, and including in revenue requirement, YECL’s invoices associated with the Haines Junction bypass and the CSTP projects.

   Yukon Energy responds that the Compliance Filing fully responds to the Board's direction at paragraph 316 of Board Order 2013-1.

   In summary, this decision did not direct YEC to amend its revenue requirement to include YECL's invoices associated with the Haines Junction bypass and the CSTP projects. Yukon Energy has committed to implement the direction at paragraph 316 of Board Order 2013-1 for future capital projects.

UCG COMMENTS

UCG notes that its submission highlights areas that appear inconsistent with the intent of the Board's directions in Order 2013-1, and indicates "displeasure" that YEC's compliance filing did not include EXCEL versions of the tales and calculations provided.

Yukon Energy fundamentally disagrees with the various allegations made by UCG in its Compliance Filing comments.

1. UCG at times goes beyond commenting on whether the Compliance Filing reflects the directions provided in Order 2013-1 and instead ventures into further argument on areas where the Board has provided direction, specifically
    a. With regard to secondary sales, UCG asserts that if secondary sales occur in 2013 and subsequent years, then all net revenues should be held in a deferral account and passed through to all Yukon ratepayers at the time of the next rate adjustment.
    b. Similarly, with regard to potential added industrial load connected to the grid in mid-2013 UCG asserts that "if an additional load magically appears on the system during 2013, then all net revenues should be held in a deferral account and passed through to all Yukon ratepayers at the time of the next rate adjustment."

    In both of the above cases UCG is simply re-opening argument after the proceeding has already concluded and in both cases the assertions and recommendations from UCG are inappropriate and should be ignored.

2. UCG makes assertions that YEC has not implemented the Board Directions correctly and consequently the Compliance Filing is incomplete:
    a. **Wholesale Sales Forecast** - UCG asserts that the wholesale sales forecast included in the Compliance Filing is incomplete for the following reasons: (1) YEC has updated the wholesale sales for 2013 but has not made any adjustments for 2012; (2) YEC has not provided correspondence from YECL that confirms the specific changes that have been made with respect to the unavailability of Fish Lake Hydro during 2012 and 2013 (as directed in Order 2013-1) and the addition of Whitehorse Copper Tailings as a YECL customer; and (3) YEC has not provided any detail regarding the information received from YECL regarding Fish Lake Hydro or assumptions regarding Whitehorse Copper Tailings load and associated YECL line losses.

        Yukon Energy disagrees with these assertions and notes as follows:
        i. Board Order 2013-1 found "YEC's wholesale forecast reasonable" (paragraph 34) and the Board did not direct any specific adjustments to the 2012 wholesale forecast related to Fish lake or to WHCT[1].

[1] Board Order 2013-1 the Board "finds YEC's wholesale forecast reasonable" (paragraph 34), but noted the view that "YECL may have more up to date information regarding the unavailability of Fish Lake during the 2012-13 test period" and directed YEC to consult with YECL regarding the unavailability of Fish Lake during the test period and adjust the forecast if necessary in the compliance filing (paragraph 35). Unavailability of Fish Lake Unit #1 was already considered as part of the GRA forecasts and was not an issue.

ii. The issue of concern regarding the unavailability of Fish Lake[2], and the impact on the wholesale sales forecast (as raised by YECL at the oral hearing[3]) was focused on the continued unavailability of Fish Lake in 2013.

iii. Order 2013-1 did not require YEC to file correspondence from YECL and did not direct YEC to consult with YECL (or provide documentation) regarding assumptions underlying the WHCT load forecast or associated line losses. The Compliance Filing page 1-3, footnote 3 explains the adjustment to the Wholesale forecast related to WHCT and the assumed losses.

iv. The only direction related to Whitehorse Copper Tailings provided in Order 2013-1 was to remove Whitehorse Copper Tailings volumes from the industrial sales forecast and include these volumes in the wholesale sales forecast for the test years and adjust the revenue requirement accordingly. This change was included in the Compliance Filing (see Table 1-3, Table 1-1 and Table 2-2).

b. **Industrial Sales Forecast** - UCG assert that the industrial sales forecast included in the Compliance Filing should be updated for the more accurate Alexco sales forecast identified in Argument at the hearing noting "if more accurate information is identified during the hearing, it should be incorporated into the compliance filing," and "while YEC felt free to adjust the industrial revenues for more accurate information related to Alexco, it did not do the same for sales".

Yukon Energy disagrees with the assertions made by UCG regarding the implementation of directions related to the industrial sales forecast and notes as follows:

i. Paragraph 39 of Order 2013-1 (which is quoted by UCG in its comments) clearly directs YEC to update the major industrial sales forecast in the Compliance Filing to account specifically for change to the 2012 and 2013 Minto sales forecasts referred to in the hearing and does not direct YEC to make similar adjustments to the Alexco sales forecast.

ii. YEC did not adjust industrial revenues "for more accurate information" as asserted by UCG, but made corrections to address clear errors that were identified in the GRA as filed (the Alexco peak demand correction noted at page 1-3 of the Compliance Filing was identified in response to UCG-YEC-1-20(b) and YEC committed to make this correction in argument; the demand revenue forecast correction also noted at page 1-3 of the Compliance Filing was identified subsequent to the hearing).

c. **Power Generation** - UCG asserts that YEC was directed to take into consideration in its Compliance Filing any adjustments needed to reflect the effect of the Mayo A runner improvements and that as YEC "simply confirmed that they were considered in the

[2] Tab 2 Page 2-4 of the GRA notes, "YECL wholesale sales were adjusted to reflect expected in-service of a new Fish Lake hydro unit #1 in 2013." Footnote 7 at page 2-4 indicates further that, "Unit #1 failed in March 2010. Per discussions with Yukon Electrical management in fall 2011, this unit is currently expected to be back in service in January 2013. YECL provided an update at the oral hearing (November 12-14, 2012) that Fish Lake Unit #1 would not be available January 1, 2013 as forecast.

[3] See November 12, 2012 Transcript page 131 where counsel for YECL indicates expectation that Fish Lake Unit#1 would not be in service until Q3 of 2013.

modeling", UCG "submits that there is not enough information provided in the compliance filing to confirm what the impact is nor how the impact was reflected in the final numbers."

Yukon Energy disagrees with the above assertions made by UCG and note as follows:

i. Order 2013-1, paragraph 60 directs YEC to confirm whether the effect of Mayo A runner improvements have been included in the forecast and if not to update its generation forecast accordingly.
ii. YEC in the Compliance Filing at page 1-5 confirmed that the effects on generation related to the Mayo A runner improvements were considered in the modeling that informed the GRA. As it is confirmed that Mayo A runner improvements are already considered in the generation forecast there is no need to update the forecast in the Compliance Filing. Order 2013-1 did not provide any further direction in this regard.

3. UCG several times throughout its comments asserts that the filing is incomplete and calculations cannot be confirmed due to information not being provided or due to lack of EXCEL spreadsheets being available.

   Yukon Energy disagrees with the assertion that information is not available to determine that the Board directed adjustments have been made. The following are specifically noted:

   a. **Fuel Cost -** With regard to fuel cost UCG asserts that it cannot agree with the amount of the adjustment as the filing does not include explanations regarding how the impacts of changes to the load forecast and generation mix have been calculated so there is no way to confirm YEC's adjustments to the 2012 and 2013 revenue requirements. This assertion fails to recognize that the Compliance Filing includes sufficient information and explanations to confirm the impact of changes in load forecast and generation mix on fuel cost. The following are specifically noted:
      i. Page 1-4 of the Compliance Filing provides a narrative explanation regarding the changes in load forecast and related impacts on generation and diesel requirements and fuel costs. When dealing with changes to expected diesel generation at 100% LTA, YEC has noted its reliance on the relevant power benefit model (which has at no time been provided in the form of an EXCEL file);
      ii. Appendix 1.1-1, Table 1-1 provides a summary of changes in LTA hydro and diesel generation in the Compliance Filing compared to the 2012/2013 GRA.
      iii. Appendix 4.1, Attachment 4.1 provides revised Tables 4.1-1 and 4.1-2 from Appendix 3.2 of the 2012/2013 GRA. These tables may be used to calculate expected YEC diesel generation with LTA YEC Hydro generation for each test year and can be used to confirm the 7.9 GWh diesel generation forecast at 100% LTA hydro generation in 2012 and 11 GWh of diesel generation forecast at 100% LTA hydro generation in 2013.
   b. **Cost of Debt -** UCG asserts that it is unable to determine whether the directions to adjust the forecast cost for new debt in 2012 and 2013 have been implemented as directed given only a PDF version of Schedule 11 was provided. Again, this can be readily determined from the material as provided.

    i. Section 1, page 1-5 explains the decrease in interest cost from 5% assumed in the Application to 3.97% in 2012 and 3.58% in 2013 and notes that the 2011 long term debt interest was also updated to reflect actual 3.69% interest rate rather than 5% in order to be consistent (as this expense would carry forward to each test year)[4]. This is also noted in Section 2, Table 2.1 and 2.2
    ii. Section 3 of the Compliance Filing includes a Tab 7 with adjustments as directed by Board Order 2013-1 (see Schedule 11 at page 14).
    iii. Appendix 3.1 and Appendix 3.2 provide annotated versions of Tab 7 for each test year, which provide an explanation for adjustments in each test year (see page 13 of each appendix).

c. **Western Copper Aerial Mapping -** UCG notes the Compliance Filing identifies a $6000 reduction to depreciation in each test year regarding Western Copper, but UCG states that it does not see any changes to the rate base proposed in 2012 and 2013.
Yukon Energy disagrees with the assertions made by UCG regarding this item and notes the following information provided in the Compliance Filing:
    i. Section 1, page 1-7 notes deferred costs for this item remain in WIP for future recovery from that customer, reducing mid-year net rate base by $0.027 million in 2012 and by $0.021 million in 2013 (paragraph 301).
    ii. Page 1-6 notes that Tables 1.1-2 and 1.1-3 in Appendix 1.1 provide a detailed assessment of impacts on rate base and revenue requirement resulting from Order 2013-1 directions related to capital and deferred cost projects.
    iii. Appendix 1.1, Table 1.1-3 specifically notes under items between $0.100 million and $1 million reduction in amortization of $6,047 and reduction in ratebase impact in 2012 of $27,210 and in 2013 of $21,163.

d. **Deferred Projects -** UCG notes it sees reductions to rate base of $219,000 in 2012 and $478,000 in 2013 related to Marsh Lake and Gladstone and does not see enough detail in the compliance filing to confirm that YEC has followed the Board's direction.
Yukon Energy disagrees with the above assertions and notes as follows:
    i. Section 1, Page 1-6 notes keeping Marsh Lake and Gladstone in WIP will reduce mid-year rate base by $3.962 million in 2012 and $8.178 million in 2013.
    ii. Appendix 1.1, Table 1.1-2 provides adjustments to rate base, return on rate base and amortization expense and specifically notes the adjustments due to directions related to Marsh Lake and Gladstone: $3.962 million of total $5.750 million reduction in mid year net rate base before rate case in 2012 and $8.178 million of total $13.311 million reduction in mid year net rate base before rate case in 2013.
    iii. Appendix 1.1, Table 1.1-2 provides the specific reduction in amortization expense for each project and the reduction in rate base.

4. UCG asserts that "YEC has taken it upon themselves to submit a revised DCF proposal for approval by the Board as part of this Compliance Filing" and submits that "it is completely absurd

[4] With respect to the 2011 long term debt of $19.148 million, the following clarification is noted: $17.095 million is amortized over 25 years at an annual interest rate of 3.69%, and the balance of $2.053 million is an unsecured advance (due one year after demand, with no principal repayment schedule) at an annual interest rate of 3.97%.

to submit a revised policy proposal such as this as part of a compliance filing and not give stakeholders an opportunity to thoroughly review the proposal and underlying assumptions, submit information requests pertaining to the revised proposal/ assumptions and then allow for time to test alternative approaches." UCG notes it "disagrees with YEC's statement that the impact to Rate Schedule 42 is not related to the revised DCF policy" and asserts that "submitting a revised DCF proposal and underlying assumptions as part of the compliance filing was not the intent of the board's direction especially when there are outstanding components of that direction that YEC has not yet undertaken." UCG asserts it is "premature for the Board to approve the revised DCF proposal and underlying assumptions until stakeholders have an opportunity to better test the proposal."

Yukon Energy disagrees with the above assertions. In summary as noted in YEC's response to similar issues raised by YECL :

a. The revised DCF included in the Compliance Filing carried out the directions at paragraph 255 of Board Order 2013-1 for three specific straight forward adjustments to the updated DCF that was proposed in the Application and reviewed at length during the proceeding. Further, it addressed the implications for the DCF of other Board directions. Finally, recent meetings with YECL have confirmed that, while the DCF is crucial to informing the ERA calculation, the same is not true for the converse i.e. resolution today on the ERA is not required for the Board to approve the DCF as proposed in the Compliance Filing.
b. Approval of an updated DCF is integral to YEC being able to have clarity as to how its actual diesel generation costs are to be accounted for in 2012 (and going forward) given that the Board has directed that rates be set based on diesel generation at 100% of long-term average (LTA) hydro generation.
c. Clarity on the DCF is also required in order to assess how the DCF will affect the ERA, and how the Board's directions relating to LTA and DCF impact YEC's 2012 financial statements.

5. Finally, UCG notes section 26(2) of the PUA states that "as public utility shall not change its accounting practices under subsection (1) except with the prior approval of the Board", and UCG submits that YEC should be applying for accounting orders from the Board to allow YEC to establish the deferral accounts directed to be established by the Board in Order 2013-1 and to continue operation of existing deferral accounts in 2013 and beyond.

   In response to this comment, it is noted that the Compliance Filing implemented the Board's directions as set out in Order 2013-1. If the Board determines YEC requires accounting orders to allow YEC to establish the accounts established by Board direction in Order 2013-1 it is expected that the Board will provide such direction in its Order on the Compliance Filing.

Please direct any questions on this communication to the undersigned.

Yours truly,

Ed Mollard
Chief Financial Officer

ATTACHMENT A: ERA

YEC met with YECL as directed by the Board. The issues raised by YECL relate primarily to the ERA. The concern raised was focused on whether regulatory efficiency would be best attained through YECL or YEC administering an ERA deferral account.

In this meeting, YECL re-iterated its proposal, as set out in its Reply Argument, that the ERA be removed from Rate Schedule 42 and, instead, the YEC diesel costs related to YECL wholesale variances from Yukon Energy's GRA forecasts as approved be recovered from ratepayers through a new YEC deferral account to be administered by YEC and dispersed by YEC.

Yukon Energy notes that Board Order 2009-2 approved a wholesale purchase power deferral account for YECL to accommodate any cost impacts on YECL from ERA charges, and Board Order 2010-13 (paragraph 181) confirmed that implicit in its approval of this YECL deferral account is approval of a future rate rider to dispense the accumulated balances in this deferral account. Accordingly, in response to YECL's request, YEC is agreeable to seeking confirmation from the Board that, based on the Board's previous directions, ERA amounts will flow through to ratepayers through a new rider, and that any amounts not so approved by the Board would result in adjustments to the ERA amounts paid to (or recovered from) YEC.

Yukon Energy, however, understands that Board Order 2013-1 directed the Companies jointly to propose wording changes to the ERA in the existing Rate Schedule 42, and did not direct consideration of any new YEC deferral account. Yukon Energy notes that the ERA is long-established as an integral part of this wholesale rate, being first approved in Order 1993-7, and being most recently approved in Board Order 2011-6 based on joint recommendation of the Companies. YEC also notes that the ERA mechanism as part of Rate Schedule 42 complies with Section 7 of OIC 1995/90.

Yukon Energy re-iterates that it is critical for the ERA and Rate Schedule 42 matters to be addressed expeditiously at this time in order for YEC to be able to close its 2012 year-end financial statements, and to ensure that YEC is held whole.

In order for the ERA to be finalized, direction is sought from the Board as regards the option that the Companies are to pursue.