Yukon Energy Corporation (YEC)
2023-24 General Rate Application (GRA) Compliance Filing

Yukon Utilities Board (Board)
Information Requests (IRs) Round 1 to
Yukon Energy Corporation

YUB-YEC-1-001

Reference: **YEC 2023-2024 GRA Compliance Filing, Section 2.4.1 – Depreciation Expense, PDF pages 31-35;**

Issue: **YEC updates to 2023-2024 depreciation expense**

Quote: As reviewed in Appendix 1.1, Tables 1.1-2a, 1.1-2b, 1.1-3a and 1.1-3b, the depreciation and amortization expenses are changed due to the following:

- The net increase in depreciation and amortization expense of $0.872 million for 2023:
  - In paragraph 310, the Board noted that it considers that the $8.784 million costs for Southern Lakes Enhanced Storage (SLESP) project "should have been capitalized into YEC's rate base in November of 2022" with "approximately two months of amortization expense recorded in that year." Accordingly, for the Compliance Filing, YEC has revised the capitalization date for the SLESP from 2023 to 2022 with two-month annual amortization for 2022 [no impact to the amortization expense for the 2023 and 2024 test years, but impacts rate base amount] and added annual amortization expense for the 2023 test year [the Application only included amortization starting from 2024]. This increased amortization expense for 2023 by $0.878 million.
  - In Directive 12 (paragraph 227), the Board disallowed AFUDC amounts for WH2 Uprate, WH4 Servomotor and EAM projects after 2021. Accordingly, the Compliance Filing reflects $0.229 million in disallowed AFUDC cost for these projects [$0.175 million for WH2 Uprate, $0.019 million for WH4 Servomotor and $0.042 million for EAM] with annual disallowed depreciation of about $0.07 million.
  - An adjustment of $0.057 million as noted above to correct YEC's depreciation for three asset classes.

- The net decrease in depreciation and amortization expense of $0.388 million for 2024:
  - Fixed asset depreciation reduction of $0.288 million.
    - The reduction in fixed asset depreciation reflects the delay in in-service dates for the projects IPP Connections (Directive 14, paragraph 256), Whitehorse Stoplog Crane Replacement (paragraphs 245 and 249),

MH0 Road & Road Slope Stability (paragraphs 245 and 249), Schwatka Lake Safety/Debris Boom (paragraphs 245 and 249) and P&C: S250 Callison Protection, Control and SCADA Upgrade (paragraphs 245 and 249), offset by an increase in depreciation of Mayo Mobile Diesel Genset due to an increase in cost (paragraphs 245 and 249).

- Customer contribution amortization reduction of $0.156 million.
  - The reduction reflects the update for contributions related to IPP Connections (Directive 14, paragraph 256).
- Deferred cost amortization reduction of $0.249 million. Yukon Energy Corporation 2023/24 General Rate Application August 5, 2024 Order 2024-05 Compliance Filing Page 2-8 Section 2
  - The change relates to the Aishihik 5-Year License Renewal update [paragraphs 245 and 249], and amortization related to the removed deferred projects: Digital Strategy and Policy Development, Privacy Management Program, Vegetation Management Plan Update and Public Safety Plans (Directive 21, paragraph 343).
- Annual disallowed depreciation of about $0.07 million as noted above.
- An adjustment of $0.069 million as noted above to correct YEC's depreciation for four asset classes.

Request:

(a) Please refer to YEC's statement found on PDF page 34 of its Compliance Filing that it revised "the capitalization date for the SLESP from 2023 to 2022 with two-month annual amortization for 2022 [**no impact to the amortization expense for the 2023** and 2024 test years, but impacts rate base amount] and **added annual amortization expense for the 2023 test year** [the Application only included amortization starting from 2024]. This increased amortization expense for 2023 by $0.878 million." As these two statements appear inconsistent, please clarify whether there **was** an increase to the amortization expense for 2023 in the amount of $0.878 million.

(b) Please refer to YEC's statement found on PDF page 34 of its Compliance Filing that "the Compliance Filing reflects $0.229 million in disallowed AFUDC cost for these projects [$0.175 million for WH2 Uprate, $0.019 million for WH4 Servomotor and $0.042 million for EAM] with annual disallowed depreciation of about $0.07 million."

Please confirm that the amount of disallowed AFUDC costs is the amount of $0.236 million, being the sum of $0.175 million for WH2 Uprate, $0.019 million for WH4 Servomotor and $0.042 million for EAM rather than $0.229 million as indicated by YEC.

If confirmed, please clarify whether any correction to YEC's revenue requirement schedules is required. If a correction is required, please provide revised schedules.

Please also confirm if the reduction to depreciation expense related to the disallowed AFUDC is $0.070 million for each of 2023 and 2024 is indicated on PDF pages 34-45 of YEC's application, or $0.007 million as indicated in YEC's GRA Compliance Filing Summary Tables on Table 1.1-2a – 2023 and Table 1.1-2b – 2024. If a change is required, please provide revised schedules.

(c) Please refer to YEC's statement found on PDF pages 34 of its Compliance Filing in respect of the "Customer contribution amortization reduction of $0.156 million."

Please confirm that the $0.156 million reduction to customer contribution amortization noted by YEC has the effect of increasing YEC's 2024 depreciation expense and has been treated as such in its revenue requirement.

YUB-YEC-1-002

Reference: **YEC 2023-2024 GRA Compliance Filing, Section 2.4.1 – Depreciation Expense, PDF pages 31-35;**
Board Order 2024-05 Appendix A Errata, paragraphs 188-191

Issue: **YEC response to directives #9 and #10**

Quote: Board Order 2024-05 Appendix A Errata, paragraphs 188-191:

188. The Board has examined YEC's forecast depreciation expense calculations and generally finds them to be reasonable subject to the following concerns. Specifically, in YEC's Tab 7 schedules, namely Schedule 3A –Calculation of Depreciation Expense and Schedule 3B – Calculation of Amortization Expense for Deferred Costs and Intangibles, for each of 2023 and 2024, the Board observes on Schedule 3A, there are generally no working formulae contained in the column of the schedule where the forecast depreciation expense is shown. In Schedule 3B, there are often formulae, but the calculations do not appear to reflect any amortization of deferred costs or intangibles on current year additions.

189. In order to provide parties and the Board with more fulsome and detailed information respecting the calculation of YEC's forecast 2023-2024 depreciation expense, in its compliance filing, YEC is directed to file a revised Schedule 3A, in which it will insert a column indicating the depreciation rate being used, and to include working formulae in the column of the schedule where the forecast depreciation expense is being calculated, including the forecast depreciation expense on current year additions. Further, YEC is directed to file a revised Schedule 3B to include working formulae in the column of the schedule where the forecast amortization expense is being calculated, to ensure the calculation of the forecast depreciation expense on current year additions.[93]

190. In addition to the directions in the preceding paragraph, the Board directs YEC to recalculate its Schedule 3A and Schedule 3B depreciation expense, among other things, based on the incorporation of any Board-directed changes to dates and costs that impact each of forecast capital expenditures and capital additions, and any other direction that may result in a change to YEC's depreciation or amortization expense calculation.

191. Accordingly, subject to the directions in the above paragraphs, and any Board findings and directions made elsewhere in this Board Order, YEC's proposed depreciation expense for the years 2023 and 2024 is approved as reasonable.

[93] In its response in YEC's 2021 GRA, in Exhibit B-5, YUB-YEC-1-109(b), PDF pages 506-514, that "... YEC calculates depreciation in accordance with international Financial Reporting Standards. Each asset is depreciation monthly based on its costs. For forecast depreciation, the methodology is the same as it provides the most accurate forecast. As stated in part (a), this forecast is system generated. Our understanding is this is not a change from previously approved YEC depreciation expense calculation methodology."

Preamble: In response to Directive 9, in Tab 7, Schedule 3A (2023 and 2024), YEC inserted formulae to the extent that year end cost has been derived, but added no other formulae to derive its depreciation expense because "it uses Microsoft Great Plains to track its assets and calculate depreciation and amortization as that system can incorporate all required data, such as date of full depreciation, into its calculation, and that it is therefore not possible to provide in Schedule 3A as directed an exact working file with formulae in excel. ... The depreciation for the capital additions for the forecast years are then added manually in the excel based on cost of assets and depreciation rates. As reviewed below, no depreciation is calculated for asset cost additions during a year." (PDF page 32)

Further, in Appendix 2.4, YEC contrasted "the 2023 and 2024 depreciation expense in Schedule 3A (column G) with a formula based calculation based on the approved depreciation rate (column E) and start-of-year costs (column A). The depreciation and amortization expenses included in the revenue requirements for the 2023 and 2024 test years are typically lower compared to the calculated depreciation and amortization expenses using the start-of-year asset base and depreciation rate as illustrated in Appendix 2.4, reflecting that the YEC system depreciation estimate generates no depreciation and amortization expense for the assets with zero net book value, i.e., fully amortized assets. ... Overall, the depreciation expenses included in the revenue requirements, Schedule 3A of Tab 7, are $2.3 million lower for 2023 and $2.2 million lower for 2024 compared to the calculated depreciation expenses as shown in Appendix 2.4 [columns A-F in Appendix 2.4]." (PDF pages 32-33)

YEC goes on to state that "for this Compliance Filing purposes, no changes have been made to Schedule 3A except for the changes due to capital cost changes as reviewed below and the adjustments noted above. To simplify the Board's review process, YEC proposes that in its next GRA, the calculation of depreciation expenses for forecast years will be based on the approach illustrated in Appendix 2.4, columns A-F. This would also be consistent with how AEY forecasts depreciation expenses in its GRAs." (PDF page 33)

With respect to the Board's directive to calculate forecast depreciation expense on current year additions, YEC stated in response that "...it has been YEC's practice for rate making purposes that (unless otherwise specifically noted) the depreciation and amortization of capital and deferred cost additions start in the next year following the year when the capital addition occur [i.e., there are no depreciation or amortization expenses included in the revenue requirement for 2023 for the projects closed in 2023 and similarly there are no depreciation or amortization expenses included in the revenue requirement for 2024 for the projects closed in 2024]. YEC used the same practice in the previous GRAs.

- A change to include depreciation and amortization expenses for the assets in the year the capital or deferred cost addition occurs would increase the revenue requirements for 2023 and 2024 test years [the increase in depreciation and amortization expenses would be somewhat offset by a reduction in rate base and return on rate base, however, the amount of return on rate base reduction would be insignificant compared to added depreciation and amortization expenses].
- YEC notes that in the next GRA the amortization and rate base for the assets capitalized in 2023 and 2024 will be based on actuals, taking into account any actual depreciation and amortization that has occurred." (PDF page 33)

Request:

(a) Please explain how there can be both "depreciation for the capital additions for the forecast years are then added manually in the excel based on cost of assets and depreciation rates" and "no depreciation ... calculated for asset cost additions during a year" as these statements appear inconsistent. Does YEC mean that the calculation for depreciation for historical amounts comes from Great Plains and depreciation amounts for forecast additions (including the current forecast year) are added manually? Please confirm or explain.

(b) Please explain in detail on what basis YEC can conclude that its Appendix A-4 Columns A-F methodology results in higher than forecast depreciation expense of $2.3 million in 2023 and $2.2 million in 2024, yet states that "in its next GRA, the calculation of depreciation expenses for forecast years will be based on the approach illustrated in Appendix 2.4, columns A-F. This would also be consistent with how AEY forecasts depreciation expenses in its GRAs."

In the response, please provide all assumptions and an example calculation(s) upon which YEC relies on to reach these two conclusions.

(c) YEC states "for this Compliance Filing purposes, no changes have been made to Schedule 3A except for the changes due to capital cost changes as reviewed below and the adjustments noted above". Given that the Board directed YEC to recalculate its forecast depreciation expense for 2023 and 2024 to include depreciation and amortization expense on current year additions, please explain how making no changes to Schedule 3A is responsive to that direction.

(d) From a ratepayer's perspective, please identify and contrast all positive and negative aspects associated with YEC commencing the depreciation or amortization of capital and deferred cost additions in the year of capitalization, versus the current YEC methodology of amortizing costs in the following year.

YUB-YEC-1-003

Reference: **YEC 2023-2024 GRA Compliance Filing, PDF page 37**

Issue: **YEC response to Directive #13**

Quote: <u>Board Order 2024-05 Appendix A Errata, paragraph 240:</u>
However, similar to the Board's earlier observations with respect to YEC's amortization calculations, it is unclear whether YEC commenced the amortization of the Aishihik five-year licence renewal project in 2022 – the year of capitalization. YEC is directed to clarify the costs capitalized for this project in 2022 and the amount of amortization expense it incurred in 2022 (and how it was calculated) with respect to this project in its compliance filing to this Board Order.

<u>YEC 2023-2024 GRA Compliance Filing, PDF page 37:</u>
The $3.903 million portion of the five-year licence renewal cost was closed in December 2022 and no amortization was recorded in 2022. The remaining cost of $0.804 million closed in 2024 as reviewed in Table 5.5 of Tab 5.

Preamble: The Board examines the practical application and implication of YEC's current depreciation and amortization methodology.

Request:

(a) Please confirm the reason there is no 2022 amortization expense forecast for the Aishihik five-year licence renewal project which was capitalized in 2022 is due to YEC's practice of not calculating depreciation or amortization expense on a capital addition until the year following capitalization.

(b) Assuming part (a) is confirmed, please also confirm that notwithstanding a further capitalization of $0.804 million in 2024 to the Aishihik five-year licence renewal project, there will be no change to YEC's current $0.781 million amortization expense of the asset ($3.904 million / 5 years = $ $0.781 million per Tab 7, Schedule 3B for 2023 and 2024) until the year 2025.

(c) Assuming parts (a and b) are confirmed, please explain how the matching principle is adhered to when there appears to be significant delays in the amortization of this specific capital asset under YEC's current depreciation practice (to not calculate depreciation or amortization on a capital addition until the year following capitalization).

In the response, please address whether YEC similarly determines its return on capital to commence in the year following capitalization (to align with the return of capital through depreciation expense.)

(d) Please explain whether IFRS requires the application of a mid-year convention in respect of depreciation or amortization expense calculations on current year additions, or if the application of a mid-year convention is not required given that depreciation expense under IFRS is calculated on a monthly basis.