Yukon Energy Corporation (YEC)
Phase II Review and Variance of YEC 2021 GRA

Yukon Utilities Board (YUB) Information Request Round 1 to Yukon Energy Corporation

YEC-YUB-1-001

Reference: **YEC R&V Phase II Submission, PDF pages 4, 8, 9, 10, 11, 16 and 17**
Appendix A to Board Order 2018-10, paragraph 323

Issue: **Board Order shifting of water-related risks from customers to the utility**

Quote: To draw from the LWRF due to low water levels, YEC will have to submit an application to the Board requesting a drawdown of the fund indicating that the application is due to changes in hydro generation because of changes in water levels from those contained in the last Board approved forecast. <u>YEC will take the forecast risk for incremental generation costs for incremental loads outside of the forecast period with the exception of incremental load covered by the ERA.</u> YEC is directed to amend its DCF term sheet to comply with these directions. Conversely, when the fund requires replenishment, YEC can apply to the Board for rate rider to replenish the LRWF. YEC, in its compliance filing, may submit any potential ceiling for the LWRF rate rider. (Appendix A to Board Order 2018-10, paragraph 323. Footnote removed; underlining added.)

Preamble: YEC Phase II submission mentions numerous times that Board Order 2019-08 shifted water-related risks from customers to the utility.

Request:

(a) Please confirm that the Board preserved the principle that the proper apportionment of forecast risk for generation costs for incremental loads was with YEC in Appendix A to Board Order 2018-10.

(b) Please confirm that the Board in Board Order 2019-04 confirmed its finding that YEC will take the forecast risk for incremental generation costs for incremental loads outside of the forecast period with the exception of incremental load covered by the ERA.

(c) In terms of the LWRF, please confirm that the Board in Board Order 2019-08 determined YEC's compliance with respect to directions from Board Order 2019-04 and gave direction for YEC on the LWRF going forward.

YEC-YUB-1-002

Reference: **YEC Round 2 IR responses, YEC 2017-2018 GRA, PDF pages 256 and 258, response to YEC-YUB-2-1(d, e, and f)**

Issue: **Variances from forecast thermal generation fuel volumes**

Quote: Costs due to variances from forecast thermal generation fuel volumes can arise due to different factors. Ratepayer versus YEC responsibility for these costs during periods between GRAs should vary depending on the factors causing the costs, and whether the "ratepayer" is a utility receiving wholesales versus a retail or industrial customer.

Costs due to variances from forecast thermal generation fuel volumes should be assigned to the utility when due to total generation load forecast variance or thermal generation unit maintenance requirements, and to ratepayers when due to water or wind forecast variance or other specific factors for which the utility is unable to control and/or the regulator has established deferral or contingency fund cost accounts, e.g., DCF or RFID related thermal generation fuel costs.

The DCF and prior contingency funds approved by the Board to assign water-related thermal fuel generation costs to ratepayers in each instance retained YEC responsibility for forecast thermal generation fuel cost variance due to total generation load forecast variance. This cost assignment is common practice in Canadian hydro generation jurisdictions. (Response in part to part (d). Underlining added; footnotes removed.)

And

No. The DCF does not put ratepayers at risk for all thermal generation fuel volume variances (including fuel volume variances not related to water conditions). The DCF clearly retains utility (rather than ratepayer) responsibility for certain thermal generation fuel volume risks.

The DCF as it currently exists applies only to Yukon Energy. As reviewed in response to (d) above, under this DCF Yukon Energy is at risk for thermal generation fuel volume variances that are due to total generation load variances and ratepayers are at risk for thermal generation fuel volume variances that are related to water and wind variances as determined by the DCF (as well as due to RFID-related factors). (Response to part (f). Underlining added.)

Preamble: The question for YUB-YEC-2-1(d) asked: "Should ratepayers or YEC pay for variances from forecast thermal generation fuel volumes? Please explain. Is this a common practice in Canadian jurisdictions? Please explain."

The question for YUB-YEC-2-1(f) asked: "For the DCF, as it currently exists, are ratepayers at risk for all thermal generation fuel volume variances (including fuel volume variances not related to water conditions)? Please explain."

Request:

(a) Has the risk apportionment between YEC and customers as defined by YEC in the above-noted responses to the two changed? Please explain.

(b) In the context of the answers given in YUB-YEC-2-1(d and e), how has YEC demonstrated that it has properly accounted for and assigned costs due to variances from forecast thermal generation fuel volumes to the utility in relation to total generation load forecast variance?

(c) Has YEC and the LWRF put ratepayers at risk for all thermal generation fuel volume variances (including fuel volume variances not related to water conditions)?

(d) Which takes precedent, YEC's risk for costs due to variances from forecast thermal generation fuel volumes or ratepayers risk for water-related thermal generation costs? Please explain in context to your response to parts (b) and (c) of this question.

YEC-YUB-1-003

Reference: **YEC R&V Phase II Submission, Section 2.1 – Evidence of YEC risks relative to FortisBC (Electric) risk, PDF pages 8-9**
Appendix A to Board Order 2018-10, paragraphs 246, 257-279, 282 and 283
YEC 2017-2018 GRA, YUB-YEC-3-3, YUB-YEC-3-4, PDF pages 203-211

Issue: **Establishment of YEC risk premium**

Request:

(a) Please confirm that the British Columbia Utilities Commission (BCUC) benchmark utility is Fortis Energy Inc (FEI).

(b) Please confirm that the comparators referenced in Appendix A to Board Order 2018-10 included FortisBC (Electric), PNG-West and AEY.

(c) Please confirm that in Appendix A to Board Order 2018-10, the Board did not adjust YEC's risk premium due to the existence of rate stabilization measures.

(d) Please confirm that in Board Orders 2018-10 and 2022-03, the Board continued to use the BCUC benchmark as the basis or starting point for determining the ROE for YEC.

(e) Please confirm that Board Order 2018-10 awarded YEC a total risk premium of 45 basis points comprised of small size (25 basis points), generation, isolated grid and customer diversity (20 basis points).

(f) Please confirm that the Board noted in Appendix A to Board Order 2018-10 that, for YEC, generation risk was low and customer diversity risk was low and that little weight was given to energy price competitiveness.

(g) Please confirm that YEC previously requested that its ROE risk premium be based on the midpoint of the risk premiums for FortisBC (Electric) and PNG-West.

(h) Please confirm that the BCUC decided that for FortisBC (Electric), size, generation risk and energy price competitiveness were the most pertinent factors in determining the risk premiums and that the BCUC also looked at operating risk and financial risk.

(i) Please confirm that the BCUC did not look at the existence of deferral accounts in assessing a risk premium for FortisBC (Electric). If not confirmed, please explain.

(j) Please confirm, in response to YUB-YEC-3-4 in the YEC 2017-2018 GRA, that BC Hydro bears all of the FBC hydro supply risk for water level variances.

(k) Please confirm that there is no specific BCUC decision that specifically defers to customers all variances due to water variability and that FortisBC (Electric) does not have a deferral account similar to YEC's LWRF.

(l) Please provide the hydro/thermal generation mix for FortisBC (Electric).

(m) Does FortisBC (Electric) have enough self-generation to meet its load requirements at all times?

(n) Has FortisBC (Electric) stated it takes the forecast risk for incremental generation costs for incremental loads outside of the forecast period? Please explain.

(o) Please confirm that FortisBC (Electric)'s protections as highlighted in the response to YUB-YEC-3-4 in the YEC 2017-18 GRA are for energy purchases and not FortisBC (Electric) generation. If not confirmed, please explain.

(p) The response to YUB-YEC-3-3 in the YEC 2017-18 GRA indicates that FortisBC (Electric) has a revenue variance deferral account. Does YEC have a similar mechanism?

(q) The response to YUB-YEC-3-3 in the YEC 2017-18 GRA states: "The BCUC in its Decision G-139-14 dated September 15, 2014 directed FBC to discontinue the Power Purchase Expense deferral account and its related Revenue Variance deferral account during the PBR term, noting that these expenses and revenues would be flowed through to ratepayers each year through the annual flow-through mechanism." With or without either of the FortisBC deferral accounts does YEC have a similar mechanism?

YEC-YUB-1-004

Reference: **OIC 1995/90, Section 2**

Issue: **Determination of ROE**

Quote: Normal return on equity

2.(1) Subject to subsection (2), the Board must include in the rates of Yukon Energy Corporation and the Yukon Electrical Company Limited provision to recover a fair return on their equity used to finance their rate base.

(2) The Board must include in the rates of the Yukon Energy Corporation provision to recover a fair return on the Corporation's equity, less one-half of one per cent (.5%).

Request:

Does OIC 1995/90 state that the Board must include in the rates of YEC and YECL provision to recover a fair return on equity and then deduct one-half of one percent (0.5%)?

YEC-YUB-1-005

Reference: **YEC R&V Phase II Submission, PDF page 16**
Appendix A to Board Order 2014-06, PDF pages 39-40

Issue: **AEY defined benefit pension deferral account**

Quote: YEC had no basis to consider the defined pension benefit deferral account as having any impact on its fair ROE given Board Order 2014-06 had approved a similar deferral account for ATCO Electric Yukon (AEY, then referred to as YECL) and determined that this deferral account does not affect the utility's ROE risk premium because it meets the criterion that "costs are not under the control of the company and are not reasonably foreseeable."

And

Although the Board recognizes YEC's argument that approval of the deferral account reduces YECL's risk, the Board disagrees with YEC that this is detrimental to ratepayers. Defined benefit funding requirements will be inherently volatile since they are based on actuarial assumptions partial to swings in the financial markets. The market factors that drove the pension into a deficit could just as easily reverse and put the pension into a surplus position. If market forces move in the right direction, ratepayers will benefit from lower contributions. If market forces move in the wrong direction, ratepayers will be adversely affected through higher contributions. Whether future market events will be beneficial or detrimental to the pension plan are not known to the Board, or in the Board's opinion, anyone else. By requesting the defined benefit pension requirement deferral account, YECL has signaled that it does not want to speculate on the financial markets. In the Board's view, neither does the ratepayer.

Accordingly, the Board hereby approves the defined benefit pension deferral account for both special payments and current service payments for the 2014 and 2015 test years.

Request:

(a) Please confirm that the Board approved the Defined Benefit Pension Deferral Account for AEY in Decision 2014-06.

(b) Please confirm that the Board found that the Defined Benefit Pension Deferral Account will reduce YECL's risk.

(c) Please confirm that YECL requested a 46 basis point risk premium relative to the BCUC benchmark rate of 8.75% for the 2013-2015 GRA test years.

(d) Please confirm that in Appendix A to Board Order 2014-06, the Board denied YECL's request for a risk premium relative to the BCUC benchmark rate of 8.75%.