IN THE MATTER OF the *Public Utilities Act*
Revised Statutes of Yukon, 2002, c.186, as amended

and

An Application by Yukon Electrical Company Ltd.
and Yukon Energy Corporation
for approval of the YEC & YECL Rider F —
Fuel Adjustment Rider & Deferred Fuel Price Variance Policy

APPENDIX A: REASONS FOR DECISION

A. Introduction

The Yukon Utilities Board (YUB or Board) received an application (Application) dated June 30, 2011, from Yukon Energy Corporation (YEC) and Yukon Electrical Company Ltd. (YECL) (jointly, the Companies) seeking approval for the YEC and YECL Rider F — Fuel Adjustment Rider and Deferred Fuel Price Variance Policy (Policy).

The Policy was filed in response to a direction from Board Order 2010-13, issued December 30, 2010, which states:

> Given the large swings in the balance of the Rider F account, the Board directs the Companies to provide a written policy, for approval by the Board, on how Rider F is to be managed at the time of the next filing to adjust the rate for Rider F, or at the latest by June 30, 2011. Secondly, to allow all interested parties to monitor the balance in the Rider F account, the Companies are to provide to the Board quarterly acknowledgement filings stating the balance in the Rider F account and concurrently posting those filings on each company's website for easy public access[1].

The Companies stated that the written policy outlines the administration of the Deferred Fuel Price Variance Account (DFPVA) and sets out how Rider F changes are administered in Yukon based on well-established past practice and specific order of the Government of Yukon, i.e. Order-in-Council 1995/90 (OIC).

[1] Board Order 2010-13 Appendix A, Reasons for Decision, page 42

The above direction was given as a result of oral testimony in the YEC General Rate Application for 2008-2009. In that hearing, YEC testimony was as follows[2]:

09 Q So there isn't any set balance before you

10 actually make the, adjustment whether it's up

11 or down, so collection or refund? So there's

12 no upper and lower limits?

13 A MR. OSLER: That is correct.

14 A MR. MOLLARD: As a matter of practice,

15 we try to keep, I believe, a balance of plus or

16 minus 200,000 in the account.

17 A MR. OSLER: But that's a practice,

18 not a --

19 A MR. MOLLARD: That is practice. That

20 is not an approved policy in any respect.

21 Q That's what my next question was, if there was

22 either an administrative or operational policy

23 for Rider F, and I believe you just said there

24 isn't –

25 A MR. MOLLARD: There is not. (Emphasis Added)

The filing of the Rider F Policy Application by the Companies, as directed by the Board, represents the first time that the Board and intervenors have a focused opportunity to review, test and approve, through a transparent process, the practice the Companies have followed with respect to balances collected in the DFPVA, and any subsequent Rider F adjustments. Parties to this proceeding now have the opportunity to understand the DFPVA and Rider F, calculate the balances and adjustments, and determine whether or not the practice, or now the policy, is being properly applied. This outcome was not possible prior to the direction given in Board Order 2010-13.

The Board issued Board Order 2011-10 outlining a written process and schedule for this proceeding and Board Order 2011-11 granting intervenor status to the Utilities Consumers' Group (UCG) and John Maissan, Leading Edge Projects Inc. (LE). The

[2] YEC 2008-2009 GRA, Transcript Volume 2, page 589, lines 9-25 inclusive.

proceeding schedule was subsequently amended in Board Order 2011-12, and later through Board correspondence of October 12, 2011.

In reaching the determinations contained within this Decision, the Board has considered all relevant materials composing the record of this proceeding, including the evidence and argument provided by each party. Accordingly, references in this Decision to specific parts of the record are intended to assist the reader in understanding the Board's reasoning related to a particular matter and should not be taken as an indication that the Board did not consider all relevant portions of the record with respect to that matter.

B. Background

OIC 1995/090 is a rate policy directive made pursuant to section 17 of the *Public Utilities Act*, dated May 29, 1995. Section 8 of the OIC states:

> **8**. The Board must permit Yukon Energy Corporation and The Yukon Electrical Company Limited to adjust their rates to retail customers, major industrial customers, and isolated industrial customers so as to reflect fluctuations in the prices for which the two utilities pay for diesel fuel, without the requirement for specific application to, and approval from, the Board.

The Companies stated that fuel adjustment clauses have existed since 1974-75 to provide for stability relative to swings in fuel prices. The Northern Canada Power Commission (NCPC) introduced a fuel-adjustment clause into its rate schedules to enable it to adjust rates automatically as fuel prices varied from levels forecast when calculating rates for the year[3].

The National Energy Board, in the Inquiry into Matters Relating to the Northern Canada Power Commission, recommended fuel adjustment clauses continue to be included in rate schedules to minimize risks[4].

The Companies added:

> Fuel adjustment provisions in use today (as set out in OIC 1995/90) have continued to be included in Yukon rate policy since the transfer of NCPC assets to Yukon. The authorization for these provisions has been granted via successive Orders in Council in place since 1988 (OIC 1988/150, OIC 1991/62 and current rate policy OIC 1995/90[5].

The Companies noted that the current wording in OIC 1995/90 was used in OIC 1991/62 and that similar wording was used in OIC 1988/150[6].

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[3] Application, Appendix A, page A-1.
[4] Application, Appendix A, page A-1, footnote 10. National Energy Board "In the Matter of a Public Inquiry Into Matters Relating to the Northern Canada Power Commission" (June 1985).
[5] Application, Appendix A, page A-1.
[6] Application, Appendix A, page A-1, footnote 11.

Historically, each company has established and used a DFPVA and two sets of transactions to implement the fuel price variance process. Appendix A of the application describes the process as follows[7]:

> 1. **Transactions between the Companies and their respective DFPVA:** Deferral by each utility of variances (plus or minus) in fuel price per litre from GRA fuel prices.
>
> 2. **Transactions between Ratepayers and the Combined Companies' DFPVA:** Where the combined balances in the Companies' DFPVAs trend outside defined boundaries, provision for a rate adjustment rider (Rider F) to collect or refund the balances to customers in a stable fashion.

The Companies submitted that based on the above method, customers pay overall rates that reflect actual fuel prices per litre incurred by the Companies, regardless of GRA forecast prices[8].

The management policy for the administration of the DFPVA and Rider F – Fuel Adjustment Rider was included in pages 3 to 6 of the application.

C. Interpretation of section 8 of the OIC

The Companies argued that section 8 of the OIC provides:

> … that Yukon Energy and Yukon Electrical can adjust their rate to retail customers, major industrial customers and isolated industrial customers so as to reflect fluctuations in the prices for which the two utilities pay for diesel fuel, without the requirement for specific application to, and approval from, the Board[9].

The Companies stated that:

> A Rider F mechanism as provided for in OIC 1995/90 allows for fuel price changes to be accommodated in a way that is fair to all parties without the need for a new GRA or other Board reviews.
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> In all cases, with a Rider F mechanism, both the ratepayers and the utilities will be assured that the rates charged to ratepayers (including Rider F) will account for actual fuel prices that are incurred rather than the GRA-period forecasts[10].

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[7] Application, page 1.
[8] Application, page 1.
[9] YEC/YECL Argument, page 2.
[10] YUB-YEC\YECL-2-5(d).

With respect to fuel volumes, the Companies submitted that the OIC is intended:

> To ensure fuel price risk is fully addressed by the fuel price variance mechanism in Yukon (and in all other jurisdictions where fuel price risk is handled outside of the setting of the normal regulated rate), it must apply to all volumes of fuel consumed. It would be ineffective if it applied only to the forecast fuel[11].

The Companies further submitted in argument that the DFPVA has been administered on a consistent basis since the 1989-90 GRA and that the Companies "are not aware of any jurisdiction that provides a fuel price adjustment mechanism that only addresses fuel price variances for utility board approved volumes."[12]

LE said that "neither this OIC nor any of its predecessors state that that it must apply to all fuel consumed".[13] LE is not convinced that the DFPVA applies to all fuel consumed and recommended that the Board not just accept the Companies' interpretation of OIC 1995/90 but determine what an appropriate interpretation of section 8 of OIC 1995/90 is regarding appropriate fuel volumes.

Views of the Board

The Board notes that DFPVA was introduced in 1974-75 and that the current form has essentially been in place since 1989-90[14]. Of importance is that the Companies have administered the DFPVA approved by the Board in Orders 1989-1 and 1990-2, on a consistent basis since that time. The evidence on this point was uncontested.

Furthermore, in Board Order 2003-03 (Appendix A), the Board addressed the OIC by stating:

> The directive does not remove the Board's power or jurisdiction to regulate rates under the *Public Utilities Act*, but the interpretation and application of the directive is also a matter within the jurisdiction of the Board.
>
> …
>
> The Board's interpretation of Section 8 of Order-in-Council 1995/90 is that it was intended that the Rider allow the Companies to adjust their rates to reflect fluctuations in prices paid for diesel fuel…[15].

On a plain reading of section 8 of the OIC, the Board finds that the Companies are allowed to adjust their rates to reflect the fluctuation in the price that the Companies pay for diesel fuel. However, the mechanism by which such automatic adjustments are administered is fully within the mandate of the Board and subject to Board review and approval.

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[11] LE-YEC\YECL-1-2.

[12] YEC/YECL Argument, page 2.

[13] LE Argument, Page 2.

[14] The current form was slightly altered in 2005 through Board Order 2005-12 whereby for each kW.h of electrical energy sold to secondary sales customers (Rate Schedule 32), the difference between the GRA-approved rate and the quarterly adjusted rate is charged/credited to the DFPVA.

[15] YUB-YEC/YECL-2-1(i) Attachment 3, page 5 of 5.

The provision does not limit the use of the diesel fuel to that which is used for generation. Diesel fuel may be used for maintenance. As long as the diesel fuel is purchased and used for utility purposes, the adjustment to rates for price fluctuation applies.

However, the Board does interpret that the words apply to diesel fuel that is consumed in the period and not sitting in inventory waiting for future use. Additionally, if the Companies apply the DFPVA for all diesel fuel usage (generation, maintenance and capital), the unit costs of diesel for capital and maintenance purposes is capped at the last Board-approved diesel fuel unit cost since any variance from the latest Board-approved fuel prices are applied to the DFPVA.

Based on the above, the DFPVA applies to all diesel fuel consumed in a period.

D. Rider D

Questions about Rider D and any potential interrelationship with Rider F were brought forward during the information request portion of this Rider F Policy process. The Board submitted several questions on this topic during a second round of information requests to the Companies to obtain a better understanding on whether Rider D was in any way an issue related to Rider F.

As background, a deferral account for purchased power was approved for YECL in Board Order 2009-2. The cost of purchased power in YECL's 2008-09 Phase I General Rate Application were based on YEC's primary energy and secondary sales rates that were in place in 2008. Those rates did not include any adjustment to the rates equal to the approved run-out rate for non-governmental residential service for the hydro zone. The deferral account is to capture any subsequent increases or decreases to those rates for 2008 and later[16].

YECL separately applied for Rider D, Diesel Generation Energy Cost Recovery Rider, in the YEC-YECL 2009 Phase II Rate Application. In the Rider D application, YECL said:

> The cost of purchase power as set out in the approved forecast is based on the supply to customers from existing Hydro generation sources. As a result, subsequent charges to Yukon Electrical from Yukon Energy when the Energy Reconciliation Adjustment (ERA) from Rate Schedule 42 is invoked is collected in the Board approved deferral account relating to the increases or decreases to the cost of purchases power. This deferral account will ensure that unforecasted diesel costs incurred by Yukon Energy that is flowed through to Yukon Electrical via the ERA are flowed through to Yukon customers.
>
> Currently, Yukon Electrical does not have a Board approved Rider to facilitate the dispensation of the balances tracked in the Board approved wholesale purchase power deferral account[17].

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[16] YECL 2008-2009 Phase I General Rate Application, page 3-2.
[17] YECL Rider D Application (March 1, 2010), page 2.

In Board Order 2010-13, the Board did not approve YECL's Rider D application for the following reasons[18]:

> The Board acknowledges that diesel is not forecast to be on the margin during the 2009 period and given the deferral account exists, Rider D may be applied for in the next YECL GRA when the issues of the deferral account and the mechanics of money flowing into and out of the account can be addressed. Conversely, if YECL determines that the balance in the deferral account is too large, YECL may file a separate Rider D Application at that time, providing all assumptions and calculations (including in electronic form), and over what term YECL proposes to dispense with the balance in the deferral account.

In response to LE-YEC/YECL-1-6 Revised, the Companies stated:

> Rider D as proposed by YECL and as so described in Order 2010-13 would depend on YECL variances in purchase power volumes and the variance between the stated run out rate charged to residential NG customers in the hydro zone (as per approved Rate Schedule 42) and the approved YEC incremental diesel generation cost, i.e., none of these factors have any bearing on the DFPVA applicable to either YEC or YECL, or to any variance between actual and GRA approved fuel prices.

Views of the Board

The Board is satisfied with the responses from the Companies. Since Rider D has not been approved by the Board, it is not currently a factor in this Rider F Policy Application.

E. Diesel Contingency Fund (DCF)

Similar to Rider D, questions about the DCF and any potential interrelationship with Rider F were brought forward during the information request portion of this Rider F Policy process. The Board submitted several questions on this topic during a second round of information requests to the Companies to obtain a better understanding on whether the DCF was in any way related to Rider F.

In response to YUB-YEC/YECL-2-4(g), the Companies stated:

> The DCF was created to mitigate the impact on diesel generation volumes due to water level fluctuations affecting the amount of hydro generation available. Accordingly, the DCF mechanism deals with a separate set of risks unrelated to diesel fuel price risk and consequently the DCF mechanisms are not related to DFPVA deferrals or Rider F changes.
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> The fuel price included in the DCF calculation is the GRA-approved price (i.e., the DCF only addresses risks related to water level fluctuations at the GRA-approved price and not at the actual diesel fuel price). By contrast, Rider F addresses risks related to the difference between the GRA-approved fuel price and actual fuel price and GRA forecast plant efficiencies for each actual litre of fuel consumed

[18] Board Order 2010-13 – Appendix A: Reasons for Decision, page 41 of 52.

> (but does not address risks related to changes in diesel generation volume at GRA-approved fuel prices).[19]

In argument, the Companies added:

> In sum, the DCF, established in 1996/97, was designed to stabilize utility costs of diesel due to fluctuations in generation related to higher or lower than average long term hydro generation due to water availability. The DCF is not affected by fuel price variances, nor by the fact that diesel volumes change (absent such changes being due to variances in hydro generation capability). Accordingly and consequently the DCF mechanisms are not related to the DFPVA deferrals and Rider F charges[20].

LE, in its argument, contended that based on information from the 2009 YEC-YECL Phase II Rate Application, the marginal diesel requirement under average water flow conditions was about 4 GW.h per year[21]. Due to subsequent load growth, the marginal diesel requirement is about 15 GW.h. LE stated that these numbers were consistent with the material diesel generation numbers YEC predicted for 2012 in the Mayo B Application. LE questioned if the Companies are covering some of the potential increased costs for diesel generation by using the extra water available (higher than average water-flow year) and not crediting the DCF. LE recommended that the Board instruct the utilities to table the necessary information for DCF calculations and determine if any amounts should have been credited to or deducted from the DCF. LE also asked the Board to order the Companies to apply the DCF calculation procedure to every month of 2011.

In reply[22], the Companies argued that matters relating to the DCF were outside the scope of this proceeding. The Companies also stated that the Board cannot legally over-ride OIC 1995/90 to limit the costs collected in the DFPVA to the level of diesel generation approved by the Board in the most recent GRA decision.

In further response to DCF issues, the Companies submitted that diesel was not forecast to be "on the margin". Also, changes in operating rules are required for the DCF and those changes require Board review and approval. Furthermore, any DCF transactions are at the GRA-approved fuel price thus have no impact on the DFPVA, and that there is no interrelationship between the administration of the DFPVA and the DCF.

YEC committed to addressing DCF issues and any changes in the operating rules for the DCF in its next GRA[23].

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[19] YUB-YEC/YECL-2-4(g).
[20] YEC/YECL Argument, page 7.
[21] LE Argument, page 4. The reference to the 2009 Phase II Rate Application was from information response YUB-YEC/YECL-1-15 in that proceeding.
[22] YEC/YECL Reply, page 4.
[23] YEC/YECL Reply, page 5.

Views of the Board

As noted above, the Policy was filed in response to a direction in Board Order 2010-13. At the time the direction was given, the Board did not contemplate issues respecting Rider D and the DCF. To strengthen the record in this proceeding, the Board issued Order 2011-12. Appendix A of that Order directed the Companies to provide adequate responses to certain information requests of LE and UCG.

Through Appendix B of Order 2011-12, the Board asked further information requests regarding the detailed calculations for the DFPVA, company risk, historical regulatory process, and the DCF. The information was needed to clarify the issues pertaining to the DCF.

The Board is satisfied with the responses of the Companies. The Board accepts the commitment of YEC to address all DCF issues in the next GRA and directs YEC to address any changes necessary in the operating rules, administration and revised revenue requirements pertaining to the DCF in its next GRA. Also, the Board requires that YEC provide a specific definition of the term "diesel on the margin". The Board directs that YEC complete its review and bring the necessary changes before the Board at the earliest of its next GRA or July 1, 2012.

Based on the evidence presently available to the Board, the Board accepts the submissions of the Companies that there is no interrelationship between the DFPVA and the DCF and no interrelationship between the DFPVA and Rider D.

F. Calculation of DFPVA and Management Policy Administration

Calculation of DFPVA

The DFPVA was established by each Company to implement the diesel fuel price variance (DFPV or variance) process. The process consists of transactions between the Companies and their respective DFPVA, as well as transactions between ratepayers and the combined Companies' DFPVA. The Companies further clarified that the variance applies to actual diesel fuel consumed (all fuel consumed) when calculating additions or deletions to the account, i.e. the Companies remain at risk (at GRA-approved fuel prices) for changes in volume from the GRA forecast.[24]

In respect of the administration of the DFPVA, the Companies submitted that there were three related activities:

a. Diesel fuel price variance – for each actual litre of diesel consumed to generate electricity, the difference between the actual weighted average cost per litre of fuel consumed and the most recent GRA-approved fuel price is recorded in the DFPVA

[24] Rider F – Fuel Adjustment Rider & DFPV policy

b. Rate Schedule 32 – secondary energy rate adjustment – for each kW.h sold to secondary sales customers, the difference between the GRA-approved rate and quarterly adjusted rate is charged/credited to the DFPVA. At this time, it is only YEC that has secondary sales that are subject to this adjustment. Further explanations were provided in Section 1.2 of the Fuel Adjustment Rider and DFPV policy (policy).
c. Rider F – fuel adjustment rider – is the rate mechanism used to collect/reimburse the net fuel price variance from/to customers.

The submissions regarding these activities, which are at issue, are set out in the following sections.

Diesel Fuel Price Variance

Section 1.1 of the policy provides that actual diesel fuel purchases are recorded as incurred into inventory for each Company. The purchase is then blended with existing inventory value to arrive at the weighted average cost per litre. Furthermore, each Company maintains a fuel expense account wherein, each month, actual fuel consumption is recorded as an expense at the weighted average cost. Furthermore, Section 1.1.4 of the policy states:

> 1.1.4 At the end of each month, the difference between the actual fuel cost, and the YUB approved cost/litre is adjusted to each Company's Diesel Fuel Price Variance Account and offset to sales margin (sales less cost of goods sold). The end result being each Company maintains visibility regarding the actual fuel cost, with the fuel variance being adjusted on the financial statements of each Company resulting in sales margin at the GRA approved costs/litre for actual fuel consumed.[25]

The Companies clarified that for each actual litre of diesel consumed to generate electricity, the difference[26] between the actual weighted average cost per litre of fuel consumed and the most recent GRA-approved fuel price is used when calculating the DFPVA due to inventory management considerations. In this way, the cost of fuel related to the DFPVA balance is calculated when the fuel is actually consumed and not when the fuel is purchased. Furthermore, it is not possible to distinguish one litre of fuel in inventory purchased at a certain price from another litre of fuel in inventory purchased at another price and a weighted average cost of all fuel in inventory must be used.[27]

The Companies submitted that the weighted average cost per litre is determined by taking the total cost of fuel purchases divided by the litres on hand. The Companies added that the values used for any given month are tracked on a first-in/first-out basis,

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[25] Application, Management Policy, Section 1.1
[26] "positive and negative variances in fuel price per litre from GRA forecast fuel prices are deferred to the DFPVA"; LE-YEC/YECL-1-15.
[27] YUB-YECL-2-3 (a).

such that the cost calculated for a given month and community are the costs on average of the litres on hand.[28]

Fuel volumes in respect of the diesel fuel price variance are calculated by dividing the actual generation (kilowatt hours “kW.h”) by the relevant GRA forecast heat rates. The difference between the weighted average fuel price and the GRA-approved fuel price is then multiplied by the number of litres, which yields the fuel variance dollars that is to be refunded or recovered from customers.[29] The Companies provided calculations and explanations with regard to the determination of DFPVA balances.[30]

With respect to risk, the Companies submitted they are at risk at GRA-approved fuel prices for all costs associated with diesel generation volume where their diesel generation requirements increase or decrease from volumes that were forecasted at the last GRA. The changes may be due to load changes, equipment availability or generator efficiency. Moreover, it is generally expected that the utilities are responsible for and account for such risks within their GRA load forecasts, “and accordingly are subject to volume risk if load forecasts are higher than expected or benefit if forecasts are lower than expected.”[31]

The Companies further submitted that they were not at risk for diesel cost changes due to water availability for Whitehorse-Aishihik-Faro (WAF) system hydro generating plants. Moreover, the Companies reiterated that they were protected for all situations where the price of diesel changes from the previous GRA-approved forecast price levels regardless of the use or purpose of the diesel fuel.[32]

YECL noted that its standby units were not incorporated into the fuel variance calculations when updated for prospective use as of June 1, 2009. Furthermore, since these standby units were included in the 2008-09 revenue requirement, YECL submitted that these units should be included as part of the DFPVA. YECL submitted that it would not collect the net amount owed from June 1, 2009 but would begin to include the standby units in the DFPVA prospectively beginning October 2011.

UCG noted the Companies’ submission that actual fuel consumption is recorded as an expense at the weighted average cost in the fuel expense account and submitted that the Companies have not been following the policy. In this regard, UCG further submitted that the DFPVA calculation was an estimation process, “taking the actual KW.h of generation output and converting this to litres using an average efficiency level”.[33]

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[28] YUB-YEC/YECL-2-3 (d) (ii).
[29] YUB-YEC/YECL-2-3 (d) (ii).
[30] YECL example calculation in YUB-YECL-2-3-(d)(i) Attachment 1,and YUB-YECL-2-3-(d)(ii) Attachment 1; YEC example calculation in YUB-YEC-YECL-2-3 (e) and (g) Attachment 1.
[31] YUB-YEC/YECL-2-3 (e) and (f).
[32] YUB-YEC/YECL-2-1.
[33] UCG Argument, paragraph 25.

UCG questioned why the utilities would not be able to use a first-in/first-out accounting process to better match fuel costs to actual costs incurred especially when the Companies submitted that the fuel cost values for any given month are tracked on a first-in/first-out basis.[34]

Rider F – Fuel Adjustment Rider

The Policy provides that the Companies recover/refund the variances accumulated in the DFPVA from/to customers through the Rider F (fuel adjustment rider) surcharge.

The Companies submitted that the DFPVA balances are the outcome of diesel fuel price variances versus Rider F collections. The DFPVA is calculated using the fuel price rates and the GRA forecast plant efficiencies, as approved during the GRA process. Rider F collections are determined by actual sales times the Rider F rate. The Companies also submitted that at each GRA since 1988, base rates have been expected to be adjusted to reflect the fuel price forecast for the GRA, and to enable the Rider F determination to restart from this new reference point.[35]

The Companies further submitted that there are many areas within the Rider F calculation where variances within the forecast will occur. When the Companies calculate a Rider F rate, it has typically been done with the goal of recovering existing DFPVA balances plus estimated diesel fuel price variances within a one-year period. The Companies submitted that the forecasting of variances eventually encountered becomes an issue of duration, as to how long the rate will be in effect, and not over-collection from ratepayers, as the Rider F will be adjusted by the Companies to a new rate once the DFPVA balances has gravitated back to zero. More specifically, the Companies stated:

> The actual result is that due to the variances in sales or diesel generation that will inevitably occur, the Rider F rate may be in effect for a longer or shorter period depending on how actual Rider F collections (based on actual sales) offset diesel fuel price variances (based on actual diesel generation).[36]

In respect of disputing Rider F calculations, the Companies submitted that intervenors have the opportunity to review Rider F calculations and related quarterly updates that are provided to the Board. Furthermore, if there is an issue or concern respecting the information that is provided to the Board, intervenors can raise this with the Board through the complaint process or at future GRA proceedings.[37]

UCG questioned the Companies' assertion that interested parties need only submit a complaint to get the Board to consider reviewing a new Rider F, since the utilities do not circulate the information to interested parties.

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[34] UCG Argument, paragraph 31.
[35] YUB-YEC/YECL-2-2.
[36] YUB-YEC/YECL-2-2.
[37] YUB-YEC-YECL-2-2 (h) and (i).

By contrast, LE submitted that the Companies provided ample evidence to show that they have consistently applied the DFPVA calculations to all diesel fuel consumed and applied the difference between existing GRA-approved fuel price and the actual fuel price to the account. However, LE recommended that the Board not allow deferrals to the DFPVA for diesel fuel costs above Board-approved prices when diesel generation exceeded the level of diesel approved by the Board in most recent GRA decisions until the Board is satisfied that the potential avoidance of the diesel contingency fund (DCF) with excess hydro and the resulting impact on the DFPVA has been eliminated.[38]

The Companies submitted that 'LE's alleged "*potential avoidance of the DCF with excess hydro*" raises issues well beyond the scope of this proceeding…'[39]. Furthermore, YEC does not anticipate the DCF would be triggered until necessary changes in operating rules are reviewed and approved by the Board. Moreover, the Companies noted that a recent GRA decision recognized that diesel was not forecast to be on the margin and until diesel is on the margin, the DCF cannot be triggered and amounts cannot be debited or credited to the DCF. The Companies further noted that the vast majority of diesel generation and corresponding Rider F impacts today are from YECL plants that are not connected to the integrated grid, and therefore have nothing to do with hydro generation or the DCF.

Views of the Board

The Board, in Board Order 2010-13, expressed concerns with large swings in the DFPVA ranging from a negative $635,000 to a positive $600,000. Given the large swings in the balance of the Rider F account, the Board directed the Companies "to provide to the Board quarterly acknowledgement filings stating the balance in the Rider F account and concurrently posting those filings on each company's website for easy public access." This was directed to allow all interested persons to monitor the balance in the Rider F account.

Noting UCG's concerns, the Board directs the Companies, when providing the Board with acknowledgement filings, to notify interested parties to the Companies' 2009 Phase II tariff application. If interested parties dispute the calculation in the acknowledgement filing, they may complain to the Board.

Furthermore, the Board directs the Companies, when submitting Rider F acknowledgement filings and related quarterly filings, to submit accompanying EXCEL spreadsheets that will assist the Board and intervenors in understanding the supporting calculations of the acknowledgement filing. The Companies are to ensure that the EXCEL spreadsheets contain formulas and linkages to assist the reader, similar to what was submitted in response to YUB-YEC/YECL-2-2 and YUB-YEC/YECL-2-3.

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[38] LE Argument, pages 5-6.
[39] YEC-YECL Reply Argument, page 4.

The Board considers important the Companies' submissions that make clear the related DFPVA calculations. The Board notes YECL's submission as regards its standby units and accepts YECL's proposal to include the standby units in the DFPVA prospectively beginning October 2011.

Timing of Rider F filings

The Companies submitted that their objective was to administer a Rider F rate which would be in effect for a year or longer while also keeping the combined Companies' DFPVA within an optimal range of +/- $200,000.[40] Furthermore, when the Companies calculate a Rider F rate, it has typically been done with the goal of recovering existing DFPVA balances plus estimated diesel fuel price variances within a one-year period.[41] In respect of this objective, the Companies stated that it is necessary to:

> … calculate a Rider F rate that will result in forecast collections equal to the current balance of the Diesel Fuel Price Accounts for both Companies, plus the net of the forecast diesel fuel price variances and RS 32 Secondary Sales Adjustments expected to be encountered during the forecast period to bring the DFPVA back to zero... [42]

However, the Companies argued that due to variances in sales or diesel generation that will occur, the Rider F rate may be in effect for a longer or shorter period depending on how actual Rider F collections (based on actual sales) offset diesel fuel price variances (based on actual diesel generation). Therefore, the forecasting of variances will eventually become an issue of duration, as to how long the rate will be in effect, and not an issue of over-collecting/refunding since the Rider F rate will be adjusted by the Companies to a new rate once the DFPVA balance has disappeared.[43]

The Companies stated that they will use best judgment to determine the timing of any collection/refund rider, recognizing that at times filings may need to be deferred and balances may exceed the optimal range. When balances in the account grow to a range of +/- $400,000 the Companies will adjust Rider F at the earliest feasible date thereafter and will use a shorter forecast period (typically 6 months) to accelerate the process of bringing the DFPVA back to zero.[44]

The Companies asserted that the DFPVA and Rider F mechanisms are meant to mitigate fuel price risks and provide for rate stability and are not designed to provide any price signal related to diesel.[45]

In respect of the Companies' assertion that "the Rider F rate will be adjusted by the Companies to a new rate once the new DFPVA balance has gravitated back to zero,"[46]

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[40] YEC-YECL Rider F – Cover Letter and Policy – June 30, 2011, pages 4,5.
[41] YUB-YEC/YECL-2-2 (c), October 28, 2011.
[42] YEC-YECL Rider F – Cover Letter and Policy – June 30, 2011, page 5.
[43] YUB-YEC/YECL-2-2 (c), October 28, 2011.
[44] The policy, Section 2.1.7.
[45] LE-YEC/YECL-1-10(a).
[46] YUB-YEC/YECL-2-2 (c), October 28, 2011.

LE submitted that this approach was not applied in the winter of 2010-11 as the account balance swung through zero in January/February 2011 and no new Rider F was instituted until July, 2011, by which time the negative balance had exceeded $448,000.[47] Furthermore, LE submitted that the example was not consistent with the Rider F DFPVA policies submitted by the Companies which indicate that Rider F charges will only be made to keep the account balance in a range of +/- $200,000.

With regard to the above example, LE submitted that Rider F was out of synchronization with the high diesel costs being incurred – ratepayers were getting a rebate for many months while the DFPVA was going negative – and started paying Rider F in the summer when significantly less diesel costs were being incurred. Noting that seasonal cycles of increasing and decreasing pressure on diesel fuel prices due to heating fuel demand variations will be a reality into the future, LE recommended that the Board direct the Companies to review the trends in the price of diesel fuel and in the DFPVA account at least twice per year with Rider F changes, as appropriate, to be implemented on January 1 and July 1 of each year. Moreover, LE submitted that this process should be put in writing in the Rider F policy.[48]

The Companies stated:

> A directive to file a Rider F adjustment within a fixed time period would not provide the necessary flexibility to adjust to specific situations (such as unresolved GRA proceedings) or changes in circumstances related to swings in fuel prices (that may negate the requirement for a Rider change).

The Companies submitted that the current policy provides for a reasonable compromise that includes regular updates to the Board and other interested parties, while maintaining flexibility. Accordingly, the Companies submitted that LE's recommendations should be dismissed.

Views of the Board

The Board notes that the Companies' stated optimal DFPVA balance range as stated in the policy is +/- $200,000. The Board understands that balances, in particular the pooled balances of the DFPVA, may fluctuate over a broad range making it necessary for the Companies to update Rider F. In respect of DFPVA balances in the range of +/- $400,000 Section 2.17 of the policy states:

> 2.1.7 In any event, when balances in the account grow to a range of +/- $400,000 the Companies will adjust Rider F at the earliest feasible date thereafter and will use a shorter forecast period (typically 6 months) to accelerate the process of bringing the DFPVA back to zero.

47 LE Argument, pages 2-3.
48 LE Argument, page 3.

In Board Order 2010-13,[49] dated December 30, 2010, the Board expressed concerns with large swings in the DFPVA on the order of +/- $600,000. The Board notes that the volatility in the DFPVA still exists. For example, LE referred to an exhibit in this proceeding wherein the DFPVA balances swung from a zero balance to a negative balance that exceeded $448,000.00 within a short time. The Companies, in LE-YEC/YECL-1-10, stated that the:

> … Companies had intended to implement a Rider F rate change coincident with the implementation of the new Phase II rates to save costs on testing and implementation… This was anticipated to occur on May 1, 2011...
> …oil prices spiked. [This combined with a two month delay respecting the implementation of phase II rates] … carried the DFPVA combined balance to an end of June balance of ($448,216) with Rider F collections going into effect on July 1, 2011.

The Board took note of the Companies' submissions that the +/- $200,000 DFPVA balance range was a threshold amount that was determined in the 1990s[50] and was meant to provide the companies with leeway to absorb price volatility of diesel and not to implement frequent rate changes. Moreover, the Board is cognizant of the Companies' submission that the threshold amount used in combination with the Companies' annualized approach will reduce the frequency of rate changes and associated implementation costs.[51]

In consideration of the above, the Board accepts as reasonable the policy objective to adjust DFPVA balances over a 12-month period when balance exceeds +/- $200,000.

The Board accepts the Companies' submission that a "directive to file a Rider F adjustment within a fixed time period following exceeding a threshold, or to file an adjustment on a regular basis (e.g. quarterly) would not provide the necessary flexibility to adjust to specific situations (such as unresolved GRA proceedings) or changes in circumstances related to swings in fuel prices (that may negate the requirement for a Rider change)."[52] The Board agrees that the Companies' need to retain the flexibility to efficiently augment changes to the Rider F policy.

However, the Board finds the DFPVA process itself to be lacking, considering that intervenors and the Board did not learn of the underlying reasons regarding a DFPVA balance swing[53] until later through a Board process. To mitigate the Board's concerns regarding swings in the balance of the DFPVA, the Board directs the Companies as follows: When the balance in the DFPVA approaches or reaches the $200,000 threshold, the Companies must inform the Board and interested parties of the Companies' intentions to implement a Rider F rate change to address the outstanding balance. Also, the Companies must include this information in the quarterly filings.

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49 Appendix A: Reasons for Decision
50 YUB-YEC/YECL-1-1(a).
51 YUB-YEC/YECL-1-2(b).
52 YEC-YECL Argument, page 4.
53 LE-YEC/YECL-1-10.

Therefore, the Board does not approve 2.1.7 of the Policy and directs the Companies to incorporate into the Policy these directions.

As a result, subject to directions contained in this section, the Board accepts the policy as reasonable and approves the Companies' policy.